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Assessment of Exchange Rate Instability and Tax Rates on the Entrepreneurial Orientations of Small and Medium Timber Businesses in Nigeria

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ABSTRACT

This abstract center on the evaluation of exchange rate volatility and tax rates and their influence on the entrepreneurial orientations of small and medium-sized timber enterprises in Nigeria. Exchange rate volatility and tax policies have a substantial impact on the business climate and entrepreneurial decision-making within the timber sector. The primary objective of this study is to investigate the correlation between exchange rate volatility, tax rates, and entrepreneurial orientations within the context of small and medium-sized timber enterprises in Nigeria. By employing a mixed-methods approach, this study integrates quantitative data analysis of information obtained from the National Bureau of Statistics (NBS), the Central Bank of Nigeria (CBN), and the Federal Ministry of Agriculture and Rural Development (FMANR) records. The collected data was subjected to analysis using linear regression. The results indicate that a statistical analysis was conducted to examine the relationship between exchange rate instability, tax rates, and the entrepreneurial orientations of small and medium timber businesses in Nigeria. The study's findings suggest that policy reforms should be implemented to enhance stability in exchange rates, streamline tax structures, and offer incentives to foster entrepreneurship within the timber industry. In addition, it is recommended that capacity-building initiatives, such as training programs and mentorship opportunities, be implemented in order to provide entrepreneurs with the essential skills and knowledge required to effectively manage exchange rate fluctuations and tax complexities.

Introduction

Small and medium enterprises (SMEs) are of great importance in the context of economic development and the overall growth of nations. The multifaceted contributions of industries to regional incomes and national economies encompass various aspects such as job creation, wealth generation, poverty reduction, the production of essential goods and services, and fostering the growth of rural economies (Gray, 2016). Given their substantial advantages, small and medium-sized enterprises (SMEs) have garnered growing attention from policymakers and scholars in various academic fields, such as strategic management and entrepreneurship (Zahra, 2012).

According to the National Survey of Micro, Small, and Medium Enterprises (2017), small and medium-sized enterprises (SMEs) in Nigeria constitute approximately 76.5% of the national workforce. These enterprises also make a significant contribution to the country's Gross Domestic Product (GDP), accounting for 49.78% of its total value. Additionally, SMEs in Nigeria contribute 7.64% of the country's export receipts. Small and medium-sized enterprises (SMEs) operating in the furniture industry, with a particular focus on timber businesses, are widely recognized as significant contributors to the Nigerian economy. The aforementioned sector exhibits significant potential in terms of its capacity to make substantial contributions to both domestic and international trade. Being a labor-intensive sector, it has contributed substantially to the employment of the general population.

The timber industry in Nigeria, similar to other countries, holds considerable importance in the socio-economic advancement of the nation, yielding significant benefits for human well-being (Usman & Adefalu, 2010). The advantages encompass a wide range of applications, including both interior and exterior decorative purposes in residential and industrial settings. Additionally, it is utilized in the manufacturing of electric poles, plywood, pulpwood, veneers, and planks, which are essential materials for the building and construction industries (Adebara, Hassan, Shitu, & Anifowose, 2014). The timber industry plays a significant role in the overall economy by providing essential raw materials for various sectors, including construction, furniture manufacturing, and packaging (Larinde, 2010). Due to its close proximity to rural areas and access to raw material sources, the industry facilitates the transfer of technical expertise from a subsistence economy to an industrialized economy. These benefits have the potential to be maintained through the implementation of efficient methods in production, distribution, and utilization. The implementation of effective distribution and utilization strategies has the potential to decrease wastage, thereby alleviating the strain on forests and mitigating their rate of depletion.

The timber industry in Nigeria has made substantial contributions to the country's socio-economic development, emerging as one of the leading sectors in terms of revenue generation and employment opportunities (FAO, 2007). Additionally, Ofoegbu (2014) asserts that it has played a significant role in the overall national gross domestic product (GDP). According to Kalu C. Okojie (2009), it was observed that during the 1970s, the forestry sector made a significant contribution of at least two-thirds to the Gross Domestic Product (GDP) of Nigeria while also serving as a source of employment for a substantial number of individuals in the country. According to Bichi (2011), it is argued that the timber trade can be a lucrative industry and therefore has the potential to effectively address poverty reduction efforts. Timber products encompass various forms of processed wood, including industrial round wood, saw-wood, wood-based panels, and pulp and paper. The forest estate in Nigeria encompasses approximately 10% of the country's total land area, with approximately 75% of these forests located in the savannah zone and the remaining 25% in the high forest zone (Bichi, 2011). The primary source of round wood production in Nigeria is predominantly derived from the natural high forest zone of the country, with a specific emphasis on the Southern states of Nigeria (World Bank, 1992).

Throughout the course of human history, individuals have heavily depended on wood as a

versatile resource, fulfilling a wide range of necessities such as agricultural implements, construction materials, energy sources, and even instruments of hunting and warfare. According to Douglas (2005), wood continued to be the primary material utilized for construction and energy production until the latter half of the 19th century. Timber was utilized in the construction of various structures such as houses, barns, fences, and bridges, as well as in the crafting of furniture items and musical instruments. In the present era, timber continues to be extensively utilized for construction purposes. Furthermore, it possesses significant value as an industrial raw material in various sectors such as pulp and paperboard production, rayon and cellophane manufacturing, photographic film development, tannin extraction, as well as the production of methanol, ethanol, wood adhesives, and chemical derivatives. The widespread presence of timber has rendered it a valuable resource throughout various periods of human progress, resulting in mankind's reliance on timber from birth until death (Douglas, 2005).

The timber-based industries in Nigeria have made significant contributions to the country's economy by generating employment opportunities and income through various timber marketing activities, such as loading, transportation, and processing. Adeyoju (2001) highlighted that in 1963, these industries employed 17.5% of the national labor force and accounted for 17.4% of both skilled and unskilled indigenous workers. Furthermore, within the South-South region of the country, timber businesses engage in marketing activities while the harvesting of industrial timber is conducted by mill operators, independent registered loggers, and individuals involved in illegal logging activities. Sawn timber exhibits a high degree of diversification and serves as a primary source material for the manufacturing of furniture and furniture components, floor parquets, and various other secondary wood products. This wood product trade continues to hold the highest level of prominence. Many individuals are involved in the activities of production and trade due to the potential for rapid financial gains with minimal risk, in contrast to the comparatively lower profitability and higher risk associated with secondary processing for export. According to Izekor and Izekor (2011), this particular product serves as the primary source of raw materials for the secondary processing sector, with the specific aim of catering to the demands of the international export market.

Although timber businesses have made significant contributions to the national economy, there has been a noticeable rise in business competition. A study conducted by Aroso, Kuje, and Popoola (2016) and referenced by Babalola (2018) identified several challenges commonly encountered by small and medium-scale timber business operators in Kwara State. These challenges encompass inadequate funding, costly tools, an unreliable power supply, excessive taxation, fluctuating exchange rates, the undervaluation of timber products, limited demand for locally manufactured allied products, and elevated transportation expenses due to poor road conditions. The aforementioned challenges have rendered the timber industry in a precarious state within the South-South region of Nigeria, including various areas within Nigeria. In order to navigate the challenging and unpredictable landscape of the business environment, operators of small and medium-sized enterprises (SMEs) must equip themselves to confront a progressively competitive global sphere, characterized by constraints in terms of capital, physical assets, and knowledge resources. The extent to which they are able to effectively address challenges in business environments is undeniably influenced by their approach to engaging in entrepreneurial behaviors.

The role of entrepreneurship in driving the performance and growth of small and medium-sized enterprises (SMEs) has been widely acknowledged (Aloulou & Fayolle, 2005). This phenomenon has been found to have significant positive implications for the overall economy (Van Praag & Versloot, 2007). The existing body of knowledge, both theoretical and based on observation and experimentation, has indicated that engaging in entrepreneurial activities has the potential to bolster and improve the overall effectiveness of enterprises, with a particular focus on small and medium-sized enterprises (Covin, Green, & Slevin 2006). Entrepreneurial

orientation (EO) has emerged as a prominent subject of academic inquiry in various global contexts, garnering significant scholarly interest in recent years (Covin & Wales, 2012). This concept pertains to the entrepreneurial activity undertaken by individuals engaged in entrepreneurship. The term "EO" refers to the process of strategy-making that offers organizations a foundation for entrepreneurial decision-making and implementation (Rauch et al., 2009).

Aside from multiple taxes influencing the performance and growth of timber businesses in the South-South region of Nigeria, foreign exchange fluctuation is seen to affect the growth rate of SMEs as it is described as the sensitivity of a firm's cash flows, real domestic currency value of assets, liabilities, or operating incomes to unanticipated changes in exchange rates. Generally, companies are exposed to three types of foreign exchange risk: accounting (translation) exposure, transaction (commitment) exposure, and economic (operational, competitive, or cash flow) exposure (Eiteman et al., 2006). The high volatility of exchange rates is a fact of life faced by every company engaged in international business, bringing uncertainties to their bottom line. In recent years, a variation in the value of Nigeria's currencies has been very impulsive and unpredictable. The exchange rate therefore plays an increasingly significant role in any economy as it directly affects domestic price levels, the profitability of traded goods and services, the allocation of resources, and investment decisions.

Increased and continuous product innovation is of significance in today's highly competitive environment. It involves SMEs capability to engage in and support new ideas, novelties, experimentation, and creative processes that may result in new products, services, or technological processes (Ojukwu, 2013). According to Adamu (2014), inventions and new ideas should be encouraged even when their gains are not directly known, because if the new idea becomes successful, it will lead to high market share and profits and propel SMEs to greater heights. Innovation demands that firms do away with current technologies and practices and take on new ways of doing things (Osabuohien & Efobi, 2014).

Literature Review

Concept of Entrepreneurial Orientation

The notion of entrepreneurial orientation (EO) has gained significance in the sustenance of small and medium-sized enterprises (SMEs) during the last twenty years (Etim, Adabu, & Ogar, 2017). The concept of entrepreneurial orientation refers to the set of processes and decision-making activities employed by entrepreneurs to initiate and sustain business endeavors. It also encompasses the strategic processes that enable organizations to make entrepreneurial decisions and take corresponding actions (Mwangi & Ngugi, 2014). Entrepreneurial orientation, as conceptualized by Etim, Adabu, and Ogar (2017), refers to a comprehensive framework encompassing decision-making styles, processes, practices, rules, and norms that guide a firm's strategic choices aimed at augmenting its innovativeness, pro-activeness, and risk-taking propensity. According to Omisakin, Nakhid, Littrell, and Verbitsky (2016), there is an argument that entrepreneurial orientation pertains to the inclination of small and medium-sized enterprises (SMEs) to engage in innovation, actively seek out risks, take autonomous actions, and exhibit a proactive and assertive approach in comparison to competitors when it comes to pursuing new opportunities in the marketplace. According to Brettel, Chomik, and Flatten (2015), the concept of entrepreneurial orientation (EO) involves the identification, assessment, and utilization of opportunities for the introduction of novel products or services in the marketplace. Conversely, Asad, Sharif, and Hafeez (2016) provided a definition of EO as the established principles and standards employed in the process of making decisions. Small and medium-sized enterprises (SMEs) with an entrepreneurial orientation have the ability to engage in investments that involve uncertainty and risk. By taking proactive measures to enter markets before their competitors, these SMEs can achieve significant financial gains. This phenomenon is of great importance as it

enables businesses to align themselves with market demands and improve their overall performance. In their study, Okeyo, Semrau, Ambos, and Kraus (2016) provided a definition of entrepreneurial orientation as the organizational inclination to prioritize and enhance entrepreneurial activities and performance.

Exchange Rate Instability and SMEs Growth

The exchange rate refers to the valuation of one country's currency in relation to another country's currency. As an illustration, the Nigerian Naira exhibits an exchange rate in relation to the United States dollar and various other currencies. The concept can be denoted either as the nominal exchange rate or the real exchange rate. The nominal exchange rate is a monetary concept that quantifies the relative price between two currencies, such as the Naira in relation to the dollar (N/$). On the other hand, the real exchange rate is a concept grounded in real economic factors, which assesses the relative price or value of products across different countries. The exchange rate system can be categorized as either fixed or flexible, depending on whether it is pegged or allowed to vary.

According to Iziliein and Okoh (2015), it can be argued that the exchange rate in Nigeria experienced a period of relative stability subsequent to the introduction of the structural adjustment programme (SAP) in 1986. Nevertheless, the persistent devaluation of the currency left a lasting impact on the overall performance of the country's real sector. In 1985, the exchange rate between the Nigerian naira and the United States dollar was N0.935 = $1.00. However, over time, the naira experienced a depreciation, resulting in an exchange rate of N2.413 = $1.00 by an unspecified subsequent period. This depreciation continued, leading to a further decline in the exchange rate to N7.901 against the US dollar in 1990. The official Autonomous Foreign Exchange Market (AFEM)/Dutch Auction System (DAS) recorded an average exchange rate of N148.31 for the Nigerian naira to the US dollar in the year 2010. Subsequently, in 2011, there was a depreciation in the exchange rate, resulting in a value of N151.82. The years 2012, 2013, and 2015 witnessed exchange rates of N155.45, N155.25, and N156.48 respectively. The exchange rate exhibited a state of relative stability until the date of February 18, 2015. According to the Central Bank of Nigeria (CBN) in 2015, the Retail Dutch Auction System (RDAS) segment observed an average exchange rate of N169.68/US$ until mid-February. In comparison, the interbank and Bureau De Change segments experienced a depreciation of 6.5% and 7.9% respectively, resulting in exchange rates of N194.48/US$ and N213.03/US$ relative to January 2015. The onset of the 2017 economic recession occurred in the initial quarter of 2016, as evidenced by a negative growth rate of -3.36% in the Gross Domestic Product (GDP). This negative trend continued into the second quarter, with a recorded GDP growth rate of -2.06%. According to Ayoka (2017), there was a 0.5 percent decline in the Gross Domestic Product (GDP) in the first quarter of 2017, compared to a previously reported contraction of 1.7 percent in the preceding period. The increased volatility of the exchange rate appears to have induced greater fluctuations within a recessionary economy such as Nigeria. The Naira's exchange rate has reached a concerning level due to its ongoing depreciation in the foreign exchange market.

A fixed exchange rate refers to a monetary system wherein the exchange rate of a country's currency remains stable or experiences minimal fluctuations within a narrow range around a predetermined par value. Conversely, the focus of this study pertains to the floating exchange rate, which is a system of exchange rates characterized by the absence of government or central bank intervention aimed at maintaining stability (Black, 2003). According to Pugel (2007), the implementation of floating exchange rates can mitigate the disruptive effects of external shocks, particularly those related to foreign trade. Additionally, this monetary policy approach enhances the effectiveness of influencing aggregate demand, ultimately leading to the attainment of economic growth. Economic growth refers to a sustained upward trend in an economic indicator over consecutive time periods. The variable in question can be classified as either real or

nominal. The expansion of real economic indicators, such as Gross Domestic Product (GDP), over brief time periods or at a modest pace can be attributed to the amplification of comparable activities of a significant magnitude. The occurrence of rapid or persistent growth is anticipated to be associated with favorable transformations in the characteristics of economic activity, whereas fluctuations in exchange rates may potentially serve as a catalyst.

The exchange rate refers to the valuation of a nation's currency in relation to another currency. The exchange rate plays a crucial role in determining the comparative prices of domestic and foreign goods as well as assessing the level of external sector involvement in international trade. The discussion surrounding exchange rate regimes and interest rates continues to be a significant topic in the field of international finance as well as in developing countries. This is particularly relevant as more economies recognize trade liberalization as a necessary condition for achieving economic growth (Obansa, Okoroafor, Aluko, & Millicent, 2013). In the context of Nigeria, the exchange rate has undergone a transition from regulated to deregulated regimes over a specific period of time. According to Ewa (2011), it was observed that the exchange rate of the Nigerian currency, the naira, remained relatively stable from 1973 to 1979. This period coincided with the oil boom era and a time when agricultural products constituted over 70% of the country's gross domestic product (GDP).

Multiple Taxation and Small and Medium Timber Businesses

The utilization of tax policy in Nigeria primarily focuses on generating substantial government revenue, while the objectives of optimal resource allocation and income redistribution have been overlooked. According to Anyanwu (1997), the tax authority in Nigeria has primarily focused on manipulating tax rates and tax bases as a means of generating sufficient revenue for the government. Consequently, tax authorities have implemented various forms of taxes and levies. The taxes discussed in this study, which could have been categorized as a single overarching tax but are instead divided into various forms, are referred to as "multiple taxes.".

Tomlin (2008) posits that economists contend that the allocation of resources by smaller companies towards tax compliance represents a diversion of resources that could otherwise be utilized for reinvestment, thereby facilitating future growth. Consequently, a prevailing viewpoint suggests that smaller businesses bear an inequitable burden due to taxes and the intricate nature of the tax system. Small taxpayers within the framework of the conventional taxation system face discriminatory treatment as they are subject to identical compliance obligations, compliance costs, and tax rates as their larger counterparts. The profit margin of small enterprises can be enhanced through the reduction of compliance costs and the tax rate. Furthermore, it is worth noting that the implementation of simplified provisions for microenterprises has been observed to have a positive impact on the Government's tax revenue. This is primarily due to the historical reduction in the size of the shadow economy and the decrease in the number of registered taxpayers who do not comply with tax regulations (Vasak, 2008).

According to Shahroodi (2010), the efficiency of a tax system is contingent upon the design of the tax policy, which should incorporate appropriate and rational tax rates, lower exemptions, enhanced efficiency of tax authorities, lighter tax burdens for indigent individuals, and strengthened efforts to combat corruption and tax evasion. Tax policies can be formulated in a manner that not only has a direct impact on small and medium-sized enterprises (SMEs) but also indirectly fosters their expansion. A notable illustration of this approach is observed in China, where tax policies have been devised to incentivize SME financing. This is achieved through the provision of exemptions from business tax for financial institutions that offer guarantees for loans to SMEs. Additionally, tax deductions are granted to market entities and venture capitalists who invest in high-tech SMEs, amounting to 70% of the investment value. An alternative approach involves the formulation of tax policies that incentivize the development of human

capital through training initiatives. According to Yaobin (2007), the implementation of special tax regimes for small and medium-sized enterprises (SMEs) could be considered a suitable policy approach for reducing the expenses associated with tax collection. It is imperative to acknowledge that there has been an increase in awareness regarding the perils associated with insufficient attention to the taxation of small and medium-sized enterprises (SMEs). Uneven tax enforcement can result in distortions of competition, leading to incentives for limiting international growth and engaging in tax avoidance through the artificial splitting of enterprises (International Tax Dialogue, 2007). Moreover, it is recommended that the government implement policy incentives, such as tax rebates, specifically targeted towards small and medium-sized enterprises (SMEs) that prioritize the utilization of locally sourced raw materials. Additionally, these incentives should encourage the enhancement of value-added processes for exported commodities and the adherence to ethical business practices. In a similar vein, the government has the potential to augment financial resources for the advancement of the sub-sector by means of direct allocation of funds in the budget while concurrently improving investment prospects for the private sector. These investments should be targeted at specific domains that aim to enhance the capacity of the sub-sector. Furthermore, it is imperative to continuously streamline tax legislation for several key reasons. Firstly, this measure aims to decrease both the financial burden and administrative expenses associated with tax compliance. Secondly, simplifying tax laws serves to alleviate the uncertainty experienced by taxpayers. Lastly, this endeavor seeks to enhance the overall levels of voluntary compliance among taxpayers (Kasipilai, 2005). Tax regimes and enforcement that are supportive of businesses, particularly small and medium-sized enterprises (SMEs), should prioritize simplicity, consistency, and predictability.

Moreover, small and medium-sized enterprises (SMEs) often encounter challenges in navigating a complex regulatory landscape characterized by numerous regulatory agencies, multiple tax obligations, intricate importation procedures, and substantial port charges. These factors consistently impose significant burdens on the operational activities of SMEs. Numerous small and medium-sized enterprises (SMEs) are confronted with a multitude of agencies, resulting in significant expenses. As previously mentioned, these SMEs exhibit heterogeneity, which consequently leads to variations in their size and structure. These differences, in turn, impose diverse requirements for record-keeping, thereby influencing the costs incurred by enterprises in adhering to various tax obligations. Additionally, these variations in tax obligations also impact the administrative burden on revenue authorities. According to the International Tax Dialogue (2007), it is often observed that public corporations tend to have more stringent accounting requirements compared to sole proprietorships. Additionally, enterprises that employ individuals may be obligated to comply with a comprehensive set of regulations pertaining to the withholding of labor income taxes and social contributions.

Theoretical Framework

Schumpeter's Innovation Theory

Schumpeter (1942), a seminal figure in the field of innovation, emphasized the significance of innovation in the context of entrepreneurial advancement. According to Schumpeter (1942), the phenomenon of "creative destruction" occurs when the introduction of new goods and services disrupts existing market structures, leading to the transfer of resources from established businesses to emerging ones. This process ultimately generates wealth through the establishment of new firms. Schumpeter asserts that innovation serves as the distinctive tool of entrepreneurship, enabling entrepreneurs to leverage change in order to generate business opportunities by offering novel products and delivering unique services. Schumpeter emphasized the crucial part that entrepreneurs play in fostering creative destruction in his seminal work, which appeared in 1942. He underscored the imperative for entrepreneurs to actively seek out the origins of innovation and identify the key attributes that signify opportunities for successful

innovation. Furthermore, Schumpeter emphasized the importance of effectively implementing these innovations to achieve the desired outcomes.

Subsequent academics and researchers (Drucker, 1985; Lumpkin, 1996; Shane, Covered, & Westhead, 1991) have advanced the Schumpeterian school of thought. According to Drucker (2005), entrepreneurs consistently seek out and respond to changes in their environment, leveraging them as opportunities through purposeful innovation. According to Lumpkin (1996), the implementation of creative destruction by entrepreneurs serves as a crucial determinant of innovation within entrepreneurial organizations (EO). Furthermore, the findings of Westhead (1991) provide empirical evidence that substantiates the relationship between innovativeness and entrepreneurship. The researchers discovered that innovation is a crucial factor among the motivating factors for initiating a business.

According to the Schumpeterian theory, entrepreneurship-driven technological advancement is a major factor in fostering innovation. In essence, every instance of innovation engenders novel products and processes, thereby conferring a competitive advantage upon the innovator vis-à-vis their business competitors within the marketplace. According to Schumpeter (1934), this phenomenon renders prior innovations obsolete and is expected to be replicated in the future through the introduction of newer innovations.

According to Osaze (2006), pro-activity can be understood as the process of establishing personal goals and expectations and successfully attaining them as intended. It involves a mindset and determination, primarily driven by an individual's awareness, to uphold a vision, accomplish a mission, reach a challenging objective, and achieve a specific goal. Pro-activity also entails envisioning the future and strategically planning the necessary parameters to influence, impact, and reshape the environment in order to align with that vision. It is driven by the aspiration to excel in one's chosen domain and to pursue and accomplish self-defined objectives. Entrepreneurial pro-activeness can be conceptualized as a manifestation of heightened business alertness. Barney (2002) defines entrepreneurial pro-activeness as the organizational ability to anticipate and identify market gaps where goods and services are either unavailable or where new offerings have gained value among consumers. Additionally, it involves recognizing opportunities for implementing novel industrialization processes that are not yet known to others but have become feasible. According to Osaze (2003), a proactive business strategically aligns its future trajectory by considering both its present circumstances and past experiences. By leveraging its historical knowledge, the business is able to critically assess its current situation and proactively shape its own future.

Innovation plays a crucial role in the realm of entrepreneurship, serving as a fundamental driver of economic growth within nations. According to Ling (2008), there is a correlation between nations with the most substantial economies and a strong commitment to innovation and research. According to Currie (2008), it has been determined that in a dynamic external environment, innovation and entrepreneurial behavior are comprehensive, dynamic processes that are crucial for the long-term viability and achievement of a business.

METHODOLOGY

Research Design

The survey method was utilized for this study. This approach was considered most appropriate because it helped the researcher describe, examine, record, analyze, and interpret the variables that were found in the study. It is also useful because of the relatively large population from which the information was collected.

Sources and Nature of Data

Data for the study were derived from both primary and secondary sources for the purposes of

objectives one and two. Information was derived from secondary sources, including small and medium-scale timber businesses, the Bureau of Statistics, the Ministry of Forestry and Environment, Plywood industries, wood-allied industries, etc. The data required for analysis for the period 2000–2019 are as follows:

- Data on profitability of timber businesses for year 2000 to 2022
- Data on multiple taxation on timber businesses for 20 years
- Data on inflationary rate on price of timber product for 20 years
- Data on exchange rate instability for 20 years
- Data on technology proxied for innovation for 20 years
- Data on import at a particular point in time for 20 years
- Data on export at a particular point in time
- Data on Agricultural sector where timber is a major product for 20 years
- Data on turnover of timber product for 20 years
- Data on turnover of Non Timber product for 20 years
- Data on market share of timber /sub-sector of the economy 20 years

Model Specification

In order to compliment the study, model is specified for entrepreneurial Orientation and the growth of small scale timber business with particular reference to South-South region of the country. In specific terms the study concentrates on variables in respect of multiple taxation equation such as taxation, profitability, inflation, import, export, exports, agricultural sector, and turnover of timber product (TNOTP) and timber of non-timber products (TNONTP) and market share.

In the case of exchange rate instability in respect of timber business, the variables captured in this study include but are not by extension limited to profitability of timber business (PRTTB), exchange rate (ECHR) inflation (INFLA) import at a particular point in time (IMP_{t-1}) export at a particular point in time (EXP_{L-I}), innovation proxied for technology (TECHINN), Asset Base (ASSB), turnover of timber product (TNOTP), turnover of Non Timber product (TNONTP), market share (MKTSH) revenue derivable from fuel wood.

Econometrically the model is stated thus:

Multiple Taxation Equation

$$TAXM\ f\ (PRT_{LI\ \&\ FL} + INFL + Exchr + Techino + IMP_{t-1} + EXP_{t-1} + AGR + TNOTP) + a_a\ TNONTP + MKTSH + e_t \quad - - - - - - - - \quad (i)$$

Econometrically the model is stated thus:

$$a_0 + a_1\ LPRT + a_2 LINFL + a_3 LEXCHR + a_4 LTECHNO + a_5 LIMP_{t-1} + a_6\ LEXP_{t-1} + a_7 + LAGR + a_8 LTNOTP + a_9 LTNOTP + a_{10} LMKTSH + e_t \quad - - - - \quad (ii)$$

Where:

LPRT: = Profitability of timber business

$a_0 - a_{10}$ = Parameter structure/estimate of timber equation

e_t = Error term or disturbance term

LTAXM = Log of multiple taxation on timber business

LIBLA = Log of inflationary rate on price of timber product

LEXCHR = Log of exchange rate in stability

LTECHIN = Log of technology proxied for innovation

$LIMP_{t-1}$ = Log of import at a particular point in time

$LEXP_{t-1}$ = Log of export at a particular point in time

LAGG = log of Agricultural sector where timber is a major product

LTNOTP = Log of turnover of timber product

LTNONTP = Log of turnover of Non Timber product

LMKSH = Log of market share of timber /sub-sector of the economy

Exchange Rate Instability and Timber Business

$PRTB = b (EXCHR_{LI} + INFL + IMP_{t-1} + EXP_{t-1} + Techino + ASSB + TNOTP + TNONTP + MKTSH + REVFW + e_t$ - - - - - - - (iii)

Econometrically we have:

$PRTTP\ b_0 + b_1\ LEXCHR + b_2 LINFL + b_3 LIMP_{t-1} + b_4 LEXP_{t-1} + b_5\ LTechino + b_6 LASSB + b_7 LTNOTP + b_8 LTNONTP + b_9 LMKTSH + b_{10}\ LREVFW + e_t$ - - - (iv)

Where:

PRTB: = Profitability arising from timber products businesses in Nigeria

$b_0 - b_{10}$ = Parameter structure

LEXCHR = Log of exchange rate instability

LINFLA = log of inflation

$LIMP_{t-1}$ = Log of import of sawing machines at a particular point in time

$LEXP_{t-1}$ = Log of export at a particular point in time

LTECHIN = Log of technology/innovation in timber processing

LASSB = Log of asset Base

LTNOTP = Log of turnover (sales) of timber products

LTNONTP = Log of turnover (sales) of Non Timber product

LREVFW = Log of Revenue in respect of Fuel wood

LMKSH = Log of market share of timber /sub-sector of the economy

Summary of Complete Equation

$TAXAM = a_0 + a_1\ LPRT + a_2 LINFL + a_3 LEXCHR + a_4 LTECHNO + a_5 LIMP_{t-1} + a_6 LEXP_{t-1} + a7 + LAGGS + a_8 LTNOTP + a_9 LTNOTP + a_{10} LMKTSH + e_t$ - - - - - (i)

$PRTTB = b0 + b_1\ LEXCHR + b_2 LINFL + b_3 LIMP_{t-1} + b_4 LEXP_{t-1} + b_5\ LTechino + b_6 LASSB + b_7 LTNOTP + b_8 LTNONTP + b_9 LMKTSH + b_{10}\ LREVFW + e_t$ - - - - - - - (ii)

Summary of Parameter Structure

$a_0 - a_{10}$ =. Parameter Estimate/ Structure of Multiple Taxation Equation

$b_0 - b_{10}$ = Parameter estimate/structure of exchange rate instability in timber business equation.

Method of Data Analysis

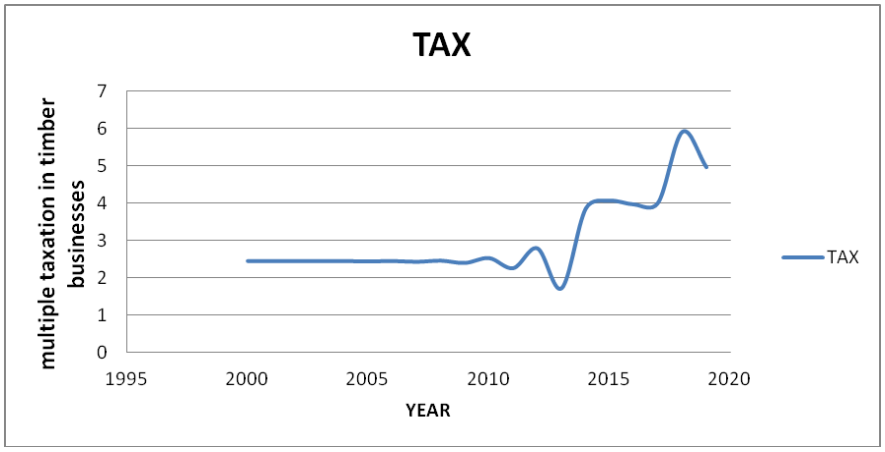
Data for this study were analyzed using descriptive and inferential statistics. Percentage analysis was use to answers research questions one and two, pearson products moment correlation statistics was used to test the formulated hypotheses (hypothesis one and two) to establish the relationship between variables.

For hypothesis three and four, multiple regression analysis was also employed to assess the extent of relationship between the variables while graphical representation was done on data extract from stylized fact of books of annals in central bank of Nigeria and Nigerian Bureaus of statistics regards timber.

RESULT AND DISCUSSION

Graphical Presentation of Trend of Variables from Stylized Table

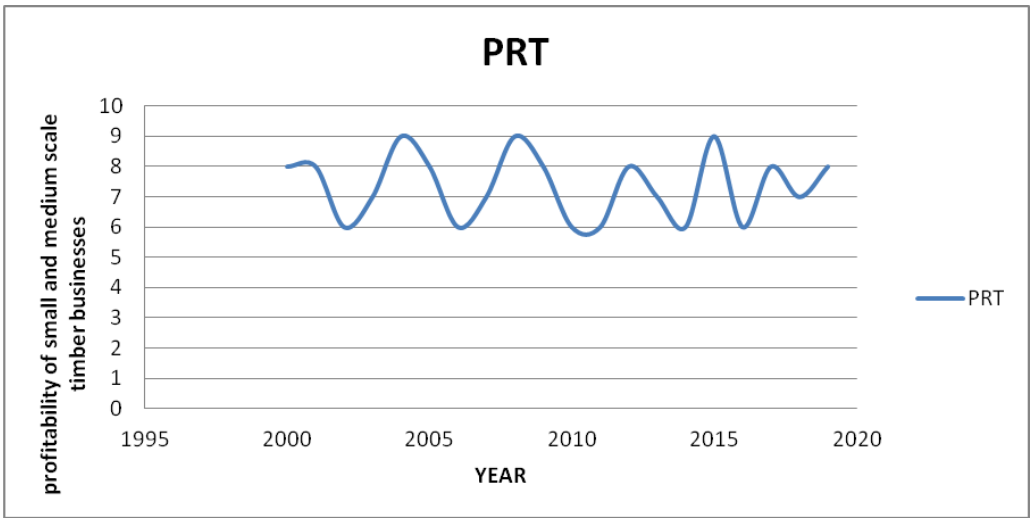
Figure 1: Trend analysis of multiple taxation in timber businesses



Source: Researcher's Extract From Stylized Fact (2023)

The above figure shows analysis of trend of multiple taxations in Nigeria. From the graph above, it can be observed that tax rate has been relatively steady from year 2000 to 2010 and has been on the increase since then. Multiple taxations affects the growth of small and medium scale timber businesses as well as the return on investment.

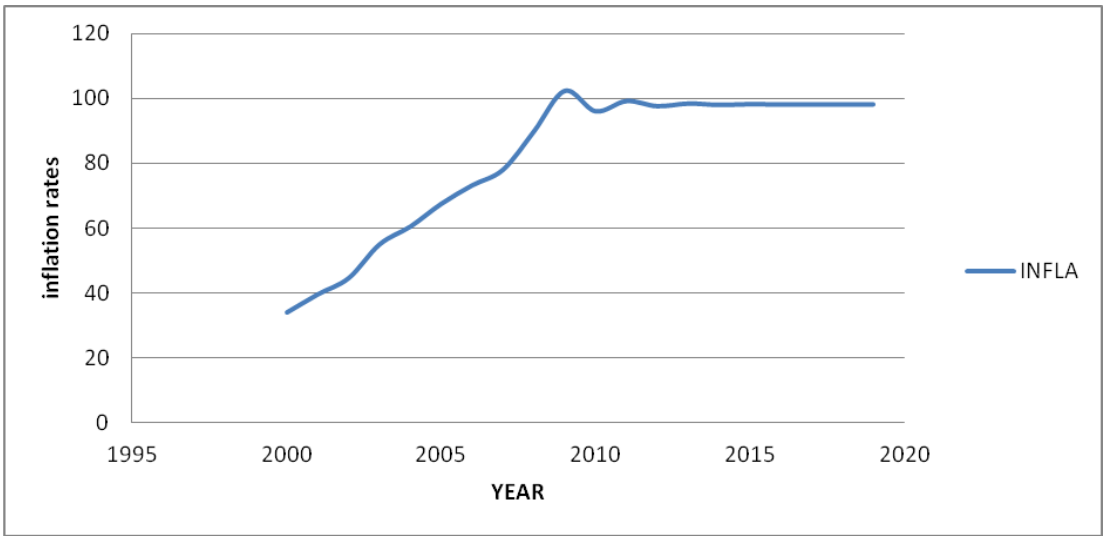
Figure 2: Trend analysis of profitability of small and medium scale timber businesses



Source: Researcher's Extract From Stylized Fact (2023)

The above graph shows the trend and pattern of profitability in small and medium scale timber businesses in South-South region of Nigeria. It can however be observed that profitability has been fluctuating for about three decades. This could be as a result of multiple taxation imposed by government and her agencies on small and medium scale timber business operators in the region.

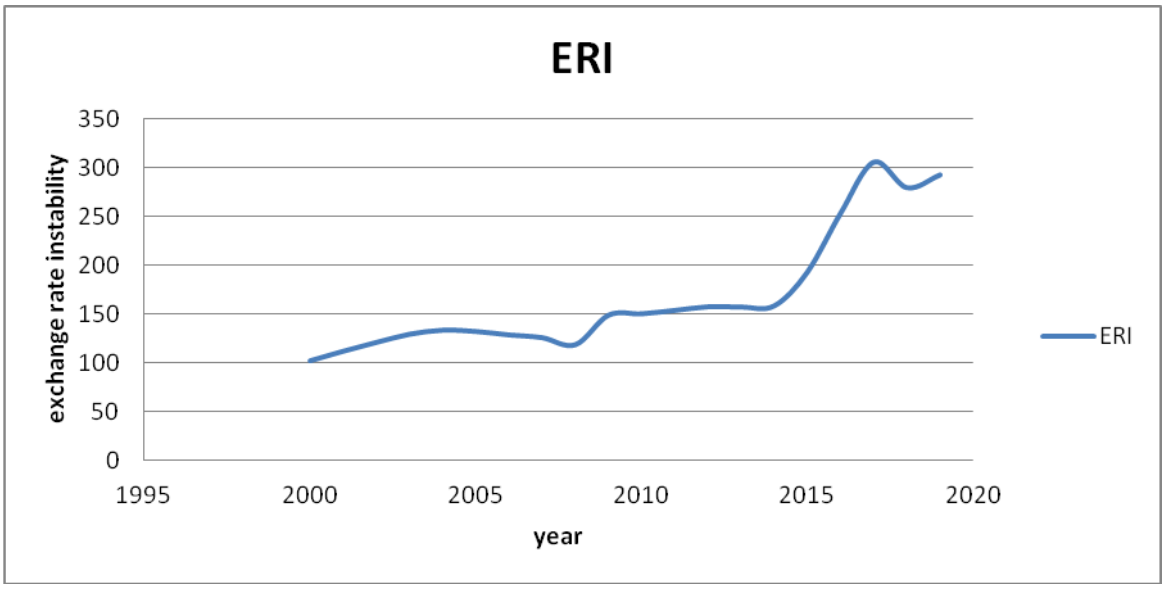
Figure 3: Trend analysis of inflation rates



Source: Researcher's Extract From Stylized Fact (2023)

Analysis of the above graph shows pattern of inflation rate over a period of time in Nigeria. It can also be observed that there is constant rise of inflation, which affects the general price of timber products and in turn, affects sales volume negatively and the growth of timber business in the region under study.

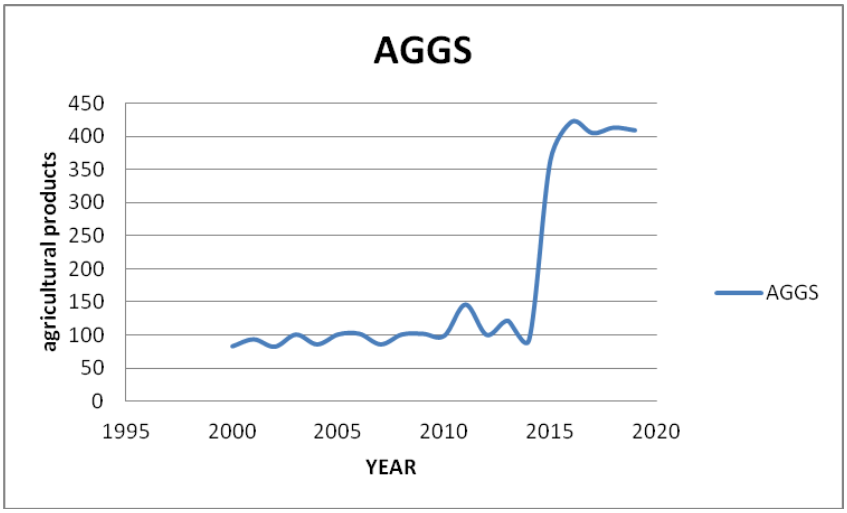
Figure 4: Trend analysis of exchange rate instability



Source: Researcher's Extract From Stylized Fact (2023)

Analysis of the above figures shows inelasticity of Nigerian currency either at the point of sales or purchase of timber products/allied inputs. This development affects negatively the growth of timber businesses in Nigeria.

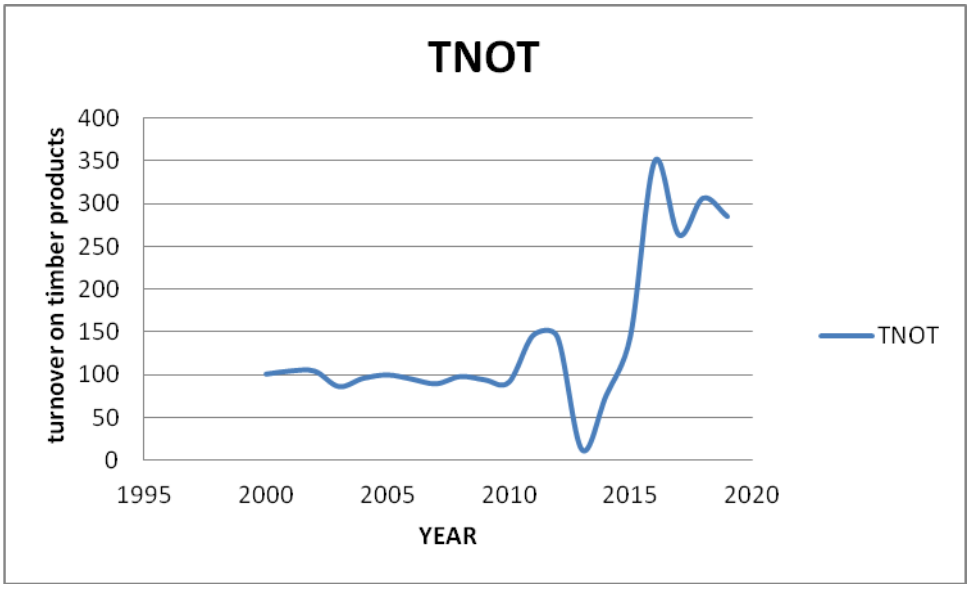
Figure 5: Trend analysis of agricultural products



Source: Researcher's Extract From Stylized Fact (2023)

Analysis of the above graph shows the trend and pattern of agricultural products where timber is the major sector. This show minimal rise in the volume of agric products due to effects of other variables like multiple taxation and exchange rate instability until the year 2013 that experienced relatively high rise due to favourable government policy on agriculture.

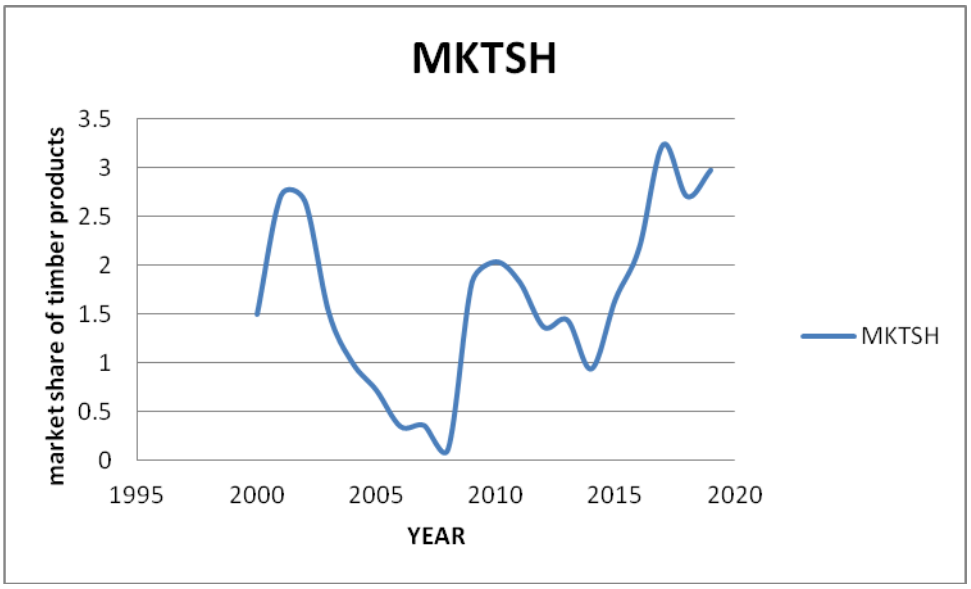
Figure 6: Trend analysis of turnover on timber products



Source: Researcher's Extract From Stylized Fact (2023)

Analysis of turnover of timber products in the graph above shows negligible increases over a good proportion of the time under review until 2014 that witness growth due to favourable government policy in the sector under study.

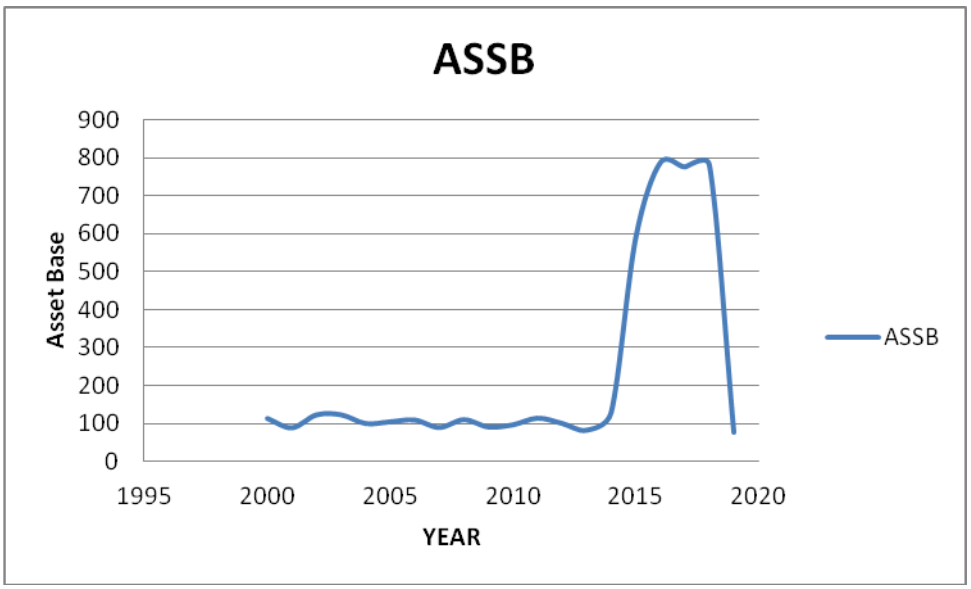
Figure 7: Trend analysis of market share of timber products



Source: Researcher's Extract from Stylized Fact (2023)

The above graph shows the market share as well as market leadership of timber businesses in Nigeria's economy. The graph shows inconsistent trends and patterns resulting negative impacts of variables like multiple taxation and exchange rate instability.

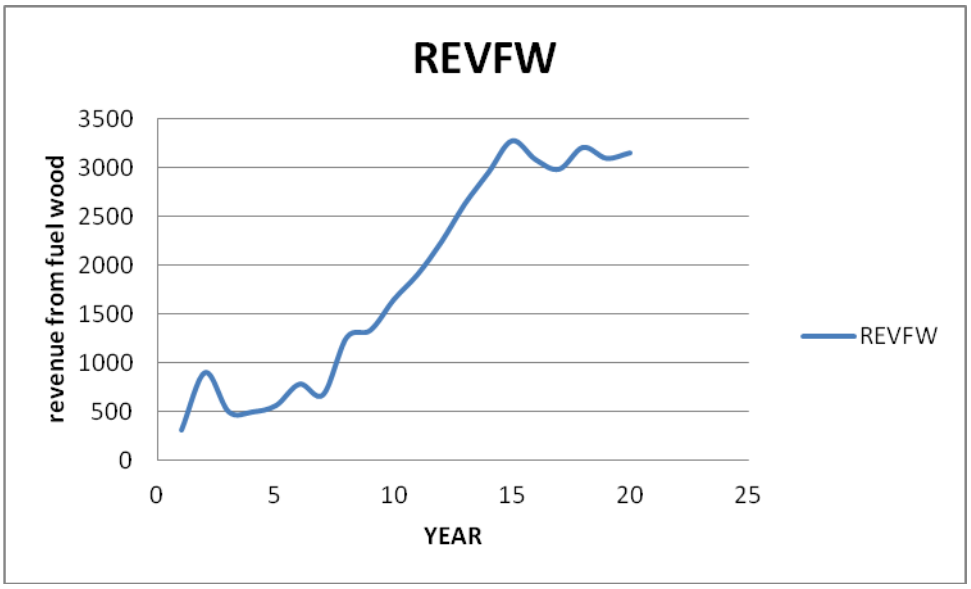
Figure 8: Trend analysis on asset base of small and medium scale timber businesses



Source: Researcher's Extract From Stylized Fact (2023)

Analysis of the above figure shows the asset base of timber. The graph also shows minimal rise of assets of timber businesses due to other variables like exchange rate instability and multiple taxation until the year 2013 that experienced relatively high rise due to some favourable government policies in the agricultural sector.

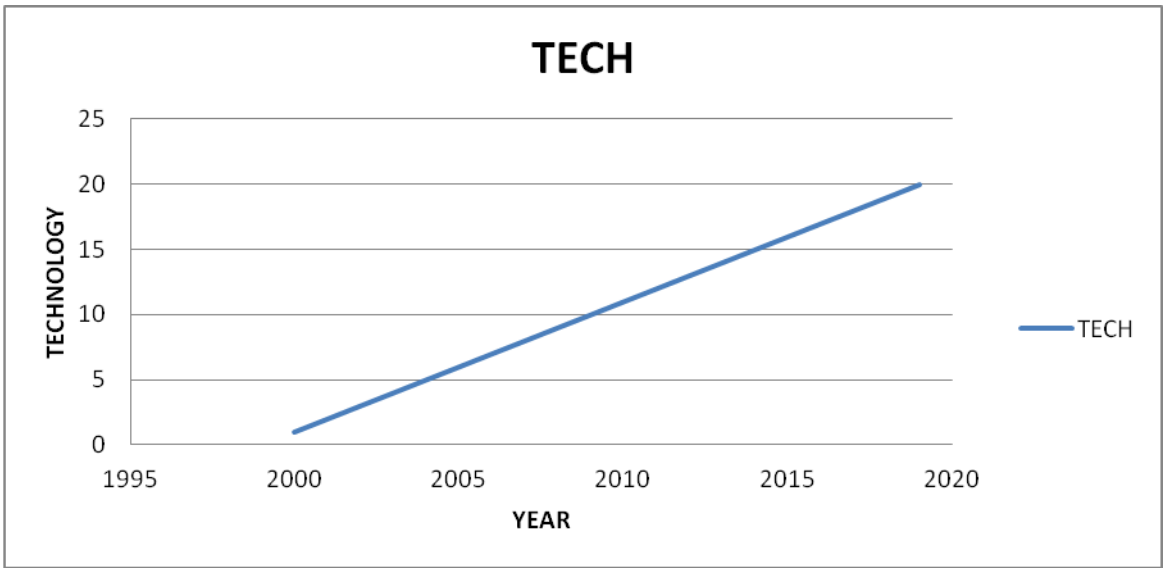
Figure 9: Trend analysis on revenue from fuel wood



Source: Researcher's Extract from Stylized Fact (2023)

Analysis of the above graph shows that revenue in respect of the fuel wood over time has risen. This is as a result of the presence of EO.

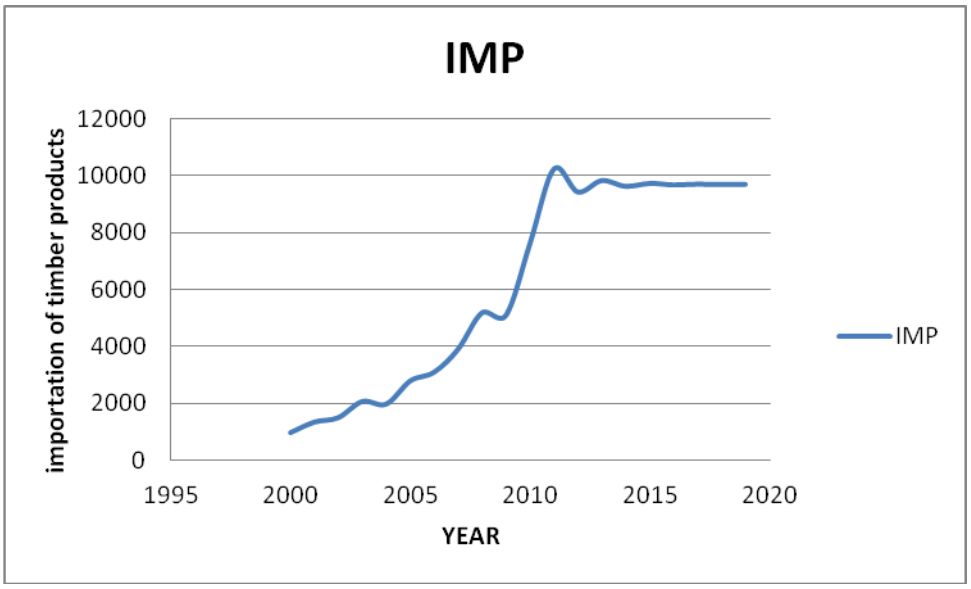
Figure 10: Trend analysis of technological innovation in timber businesses



Source: Researcher's Extract From Stylized Fact (2023)

Analysis of the above graph shows continuous growth pattern of technological innovation rate over a period of time in Nigeria. It can also be observed that there is constant rise and increase in technological innovation implementation of timber business in the region under study.

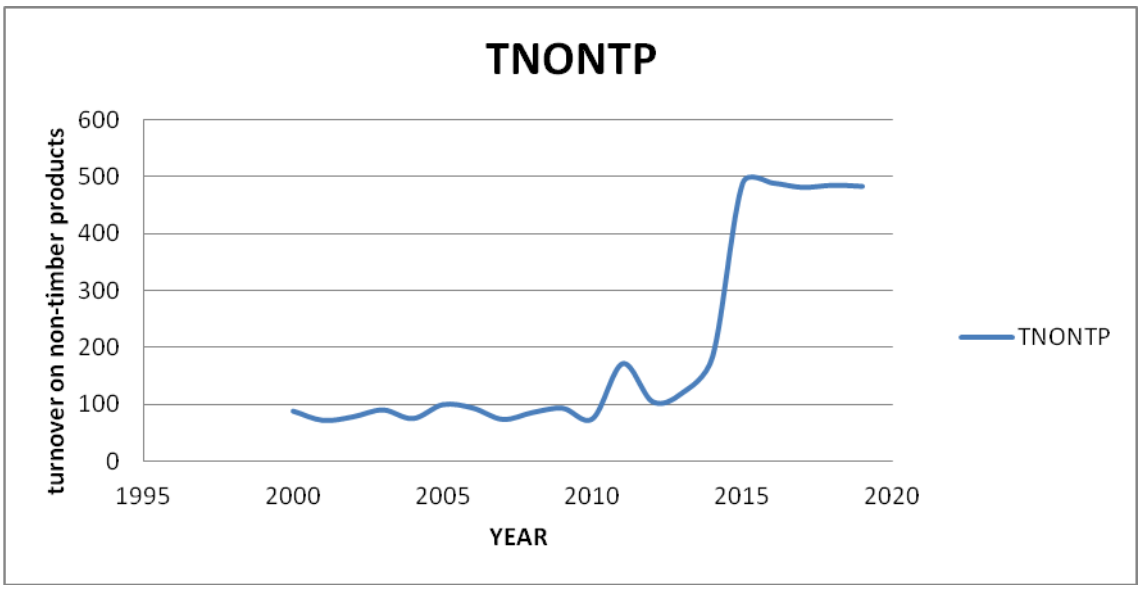
Figure 11: Trend analysis of importation of timber products



Source: Researcher's Extract from Stylized Fact (2023)

Analysis of importation of timber products in the graph above shows a good increase over a good proportion of the time under review until 2010 that witness stability in growth due to unfavorable government policy e.g. Border closure in the sector under study.

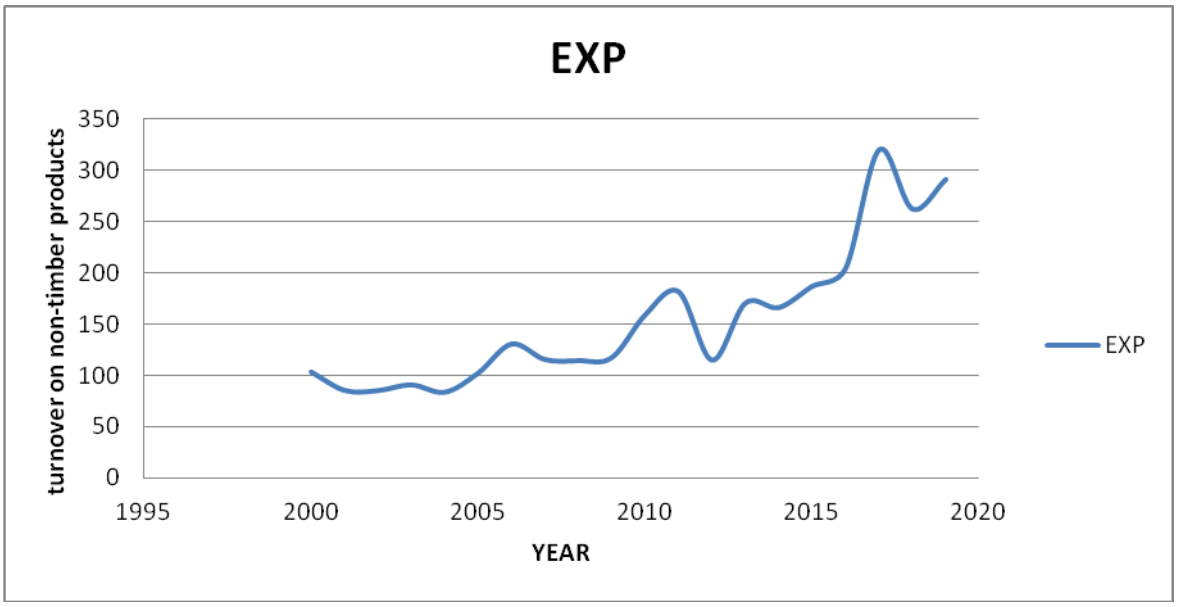
Figure 12: Trend analysis of turnover on non-timber products



Source: Researcher's Extract From Stylized Fact (2023)

Analysis of turnover of non-timber products in the graph above shows negligible increases over a good proportion of the time under review until 2014 that witness growth due to favourable government policy in the sector under study.

Figure 13: Trend analysis of export of timber products



Source: Researcher's Extract from Stylized Fact (2023)

Analysis of exports of timber products in the graph above shows negligible increases over a good proportion of the time under review until 2014 that witness growth due to favourable government policy in the sector under study.

Hypothesis One

There is no significant implication of multiple taxation on the performance of small and medium scale timber business South-South Nigeria. Regressional analysis was then used to analyze the data in order to determine the relationship between the two variables

Table 1 Regression result of the implication of multiple taxation on performance of taxation of SMEs timber businesses in Nigeria

Dependent Variable:	TAXM	
Current sample:	1990-2022	
Number of observations:	32	
Mean of Dep. Var:	= 9.55138	Jarque-Bera Test = 2.60401 (.272)
Sum of Squared Residuals	= 13.3457	Std. Dev. Of Dep. Var. =1.643754
Std. Error or Regression	=.716447	Variance of residuals = .513296
Adjusted R-Squared	=.810023	R-squared=.840664
Durbin Watson	=1.09514 (.000,045)	LM het. Tet. = 3.11649(.078)
Ramsey's Reset 2	= 8.02300(.009)	f (Zero slopes) = 27.4355(000)
Schwarz B.IC	=41.8106	Log Likelihood = -31.4134

VARIABLES	ESTIMATED COEFFICIENT	STANDARD ERROR	T-STATISTIC	P-VALUE
Δ C	14.5633	3.338629	4.30066	(.000)
Δ LEXCHR	-582913	.283081	-2.05918	(.050)
Δ LINFL	.645296	.048714	1.929842	(.316)
Δ $LEXP_{t-1}$	-83083E-02	.424216R-02	-2.617434	(.542)
Δ $LIMP_{t-1}$	4.336741	.124438	-2.52025	(.141)
Δ LTECHINN	.861513	.184599	4.66695	(.000)
Δ LASSB	-641324	.21782	1.998562	(.006)
Δ LTNOTP	.487582	.19678	-2.781436	(0.0314)
Δ LMKTSH	.556856	.21342	1.99914	(0.018)
Δ LTNONTP	.82325	.284537	2.672541	(0.001)
Δ REVFW	-771624	.18567	2.56422	(0.041)

Source: Gret-L package

The aforementioned outcome demonstrates the influence of multiple taxation on the expansion of small and medium-sized timber enterprises in the South-South region. Nigeria exhibits a decline in the profitability of timber businesses, as well as fluctuations in the export and import levels of timber products at specific time intervals. Additionally, the inflationary rate has an impact on the prices of timber products. The exchange rate and technological advancements, which serve as proxies for innovation, also influence the timber industry. Furthermore, the agricultural sector, where timber plays a significant role, affects the overall performance of the timber subsector. The turnover and sales of non-timber products, along with the market share of the timber subsector, contribute to the evaluation of the economy. Lastly, the revenue derived from fuel wood is an important factor to consider. The constant term coefficient, with a value of 14.5633, exhibits a positive relationship. However, it is deemed statistically insignificant at a significance level of 0.0 percent. This suggests that when the independent variables exhibit zero performance, the timber businesses will not experience an improvement of 14.5633 million naira. Moreover, the findings indicate that the coefficient of exchange rate volatility is statistically significant, with a magnitude of 0.5 percent. However, the t-values are not statistically significant at a level of -2.0 percent. The current analysis indicates that there exists a positive and statistically significant relationship between the coefficient of inflation and its impact on timber growth, with a coefficient of 0.3%. The coefficient of export at a specific moment exhibits a negative sine and possesses statistical significance at a level of 0.5%. This suggests that fluctuations in exchange rates have an impact on the exportation of timber products within the timber industry. The coefficient of import at a specific point in time exhibits a positive correlation, as indicated by statistical significance at the 0.2% level. This suggests that fluctuations in exchange rates have an impact on the importation of products for the timber industry. The coefficient representing technological innovation, as a proxy for innovation, exhibits a statistically significant positive effect, surpassing 0.9 percent. However, it is not statistically significant at the 0.0 percent level. The coefficient of the asset base exhibits a negative sine and demonstrates a statistically significant relationship at a level of 0.1%. The coefficient for turnover (sales) of timber products exhibits a positive sign and is found to be statistically significant at a level of 0.3 percent. This suggests that the turnover (sales) of timber products has a significant positive impact on the growth of the timber sector. The coefficient of

non-timber products exhibits a positive sine relationship and is found to be statistically significant at a significance level of 0.01%. This suggests that non-timber products from the agricultural sector do not contribute their share to the sustenance of the economy. The revenue coefficient associated with fuelwood exhibits a negative sine and is statistically significant at the 0.04% level. The Durbin-Watson (DW) statistic, with a value of 1.09514, exceeds the adjusted R-squared value of 0.810023. This indicates the absence of spurious regression.

The present study presents the data utilized for estimating the models, as outlined in equation one, to examine the impact of multiple taxation on the performance of small and medium-sized enterprises (SMEs) in the timber industry. This study examines the various factors that contribute to multiple taxation on timber businesses. These factors are considered as dependent variables, while the explanatory independent variable is presented as follows: inflationary rates affecting the price of timber products, instability in exchange rates, technological advancements as a proxy for innovation, import activities at a specific port during a given period, export activities at a specific point in time, the role of the agricultural sector where timber is a major product, turnover (sales) of timber products, turnover (sales) of non-timber products, and the market share of the timber sub-sector within the overall economy.

Hypothesis Two

There is no significant impact of exchange rate instability on the growth of small and medium scale timber business in south-south Nigeria. Regression analysis was then used to analyze the data in order to determine the relationship between the two variables.

Table 2 Regression result of the impact of exchange rate instability on the growth of small and medium scale timber business in south-south Nigeria

Dependent Variable:	PRTB	
Current sample:	1990-2022	
Number of observations:	20	
Mean of Dep.:	= 10.6159	Jarque-Bera Test = 14,26060 (.0010)
Sum of Squared Residuals	= 15.2738	Std. Dev. Of Dep. Var.=2.2’737
Std. Error or Regression	=.152128	Variance of residuals = 565696
Adjusted R-Squared	=.875648	R-squared=.978466
Durbin Watson	=2.15973 (.350, .907)	LM het. Tet. = .083897(.772)
Ramsey’s Reset 2	=.293879 (.592)	f (Zero slopes) = 60.6091(.000)
Schwarz B.IC	=42.2368	Log Likelihood = 33.5725

VARIABLES	ESTIMATED COEFFICIENT	STANDARD ERROR	T-STATISTIC	P-VALUE
Δ C	6.91534	3.60084	1.3619	(.183)
Δ LPRT	-743381	2.76488	-2.518581	(.608)
Δ LEXP t-1	.585298	1.75352	3.19728	(.037)
Δ LIMP t-l	-613046	.016981	-.768282	(.449)

Δ INFLA	.660997	.119042	4.55262	(000)
Δ LEXCHR	-347878	.18792	-1.98722	(.116)
Δ LTECHINN	.256671	.07672	2.25831	(.221)
Δ LAGG	.465135	.128153	1.94432	(.011)
Δ TNOTP	.8123481	2.01382	2.01833	(0.060)
Δ LTNONTP	.425384	1.82476	2.99341	(.028)
Δ LMKTSHR	.075264	1.25882	2.12432	(.017)

Source: Gret L Package

The aforementioned outcome demonstrates the impact of exchange rate volatility on small and medium-sized enterprises (SMEs) operating in the timber industry in Nigeria. The Price of Timber Products (PRTB) is examined in relation to various factors, including the exchange rate, inflation rate, export and import levels at a specific point in time, inflationary rate affecting timber product prices, exchange rate instability, technological advancements as a proxy for innovation, the agricultural sector where timber holds significant importance, turnover/sales of non-timber products, and the market share of the timber subsector within the overall economy. The coefficient of the constant term is 6.91534, and it exhibits statistical significance at the 0.2% level. This suggests that when the independent variables reach a performance level of zero, timber businesses are projected to experience an improvement of 6.91534 million naira. Upon further examination of the findings, it was discovered that the coefficient of profitability exhibited a negative value, indicating a negative correlation between multiple taxation and timber businesses. This is in contrast to the previous expectation held by management. However, the t-values indicate statistical significance at the 0.6% level. Specifically, the coefficient of export at a specific point in time demonstrates a positive relationship and is statistically significant at the 0.5% level. This suggests that exporting equipment for timber contributes to the growth of the timber industry. The coefficient of import at a specific moment in time exhibited a negative sign and demonstrated statistical significance at the 0.5% level. This suggests that the imposition of multiple taxes has an impact on the importation of products within the timber industry. The statistical analysis reveals that the coefficient of inflation exhibits a positive value, surpassing the threshold of 0.1 percent. Conversely, the coefficient of exchange rate demonstrates a negative relationship, signifying its significance at a confidence level of 0.1 percent. The coefficient of innovation, as represented by proxied technology, exhibits a positive correlation and is statistically significant at a level of 0.2%. This suggests that innovation within the timber industry plays a crucial role in fostering the growth and sustainability of timber businesses. The coefficient of the agricultural sector, with timber as a major product, exhibits a positive sine and demonstrates a reasonably significant level at 0.01 percent. This suggests that the presence of timber businesses within the agricultural subsector promotes the development of small and medium-sized timber enterprises, thereby contributing to the overall economic growth of the agricultural sector. The coefficient turnover (sales) of timber products exhibits a positive sine wave pattern and is statistically significant at a 0.1% level. This suggests that the turnover (sales) of timber products has a substantial positive impact on the growth of the timber sector. The coefficient of non-products exhibits a positive sine relationship and is statistically significant at a level of 0.03%. This suggests that non-timber products from businesses in the agricultural sector contribute to the survival of the economy in a distinct manner when compared to timber products. The coefficient of market share in the marketing model exhibits a positive sign and is found to be statistically significant at the 0.02% level. The Durbin-Watson (DW) statistic has a value of 2.15973, which exceeds the adjusted R-square value of 0.875648. This observation indicates the lack of spurious regression.

Discussion

The significance of the data analysis in table 1 arises from the observation that the Durbin Watson (DW) value of 2.15973 exceeds the adjusted R square value of .8875648, indicating the absence of spurious regression. This statement suggests that the presence of multiple taxation has a noteworthy impact on the operational efficiency and overall performance of small and medium-scale timber enterprises in the south-south region of Nigeria. The importance of this finding lies in its alignment with the viewpoint expressed by Akande and Ojokuku (2008), which posits that the key distinguishing factor between an entrepreneur and other professions is the primary component. In response to the importance of entrepreneurial orientation, Akande and Ojokuku argue that innovation and originality should be regarded as the primary dimensions to be explored.

The significance of the data analysis in table 2 can be attributed to the observation that the Durbin Watson (DW) value of 1.09514 exceeds the adjusted R square value of .810023, indicating the absence of spurious regression. This suggests that there is a notable impact of exchange rate volatility on the operational outcomes of small and medium-sized timber enterprises in the South-South region of Nigeria. The importance of this finding lies in its alignment with the viewpoint expressed by Black (2003) that an exchange rate system can be either fixed or flexible. A fixed exchange rate refers to a monetary system wherein the exchange rate of a nation remains stable or experiences minimal variations within a narrow range around a predetermined par value. In contrast, the focus of this study pertains to the floating exchange rate, which is a system of exchange rate wherein stability is not actively maintained by government or central bank intervention.

Conclusion

In summary, the evaluation of the impact of exchange rate instability and tax rates on the entrepreneurial orientations of small and medium timber businesses in Nigeria yields significant findings and implications.

The entrepreneurial orientations of small and medium timber businesses can be significantly impacted by the instability of exchange rates. Currency value fluctuations can introduce a level of uncertainty and risk for businesses, particularly those engaged in export-import operations or heavily dependent on imported raw materials and machinery. The presence of exchange rate volatility can potentially impede the capacity of individuals or organizations to effectively strategize, allocate resources, and enhance their business activities, consequently influencing their entrepreneurial mindset.

The entrepreneurial orientations of small and medium timber businesses can be influenced by high tax rates as well. The imposition of high tax burdens has the potential to diminish the financial resources at one's disposal for the purposes of investment and fostering economic expansion. Elevated tax rates have the potential to deter entrepreneurial activities and impede the growth of businesses, which may consequently result in a decline in entrepreneurial orientation within the timber industry.

Recommendations

There is a necessity for the government to assess the current tax policies and their effects on small and medium-sized timber enterprises. This analysis aims to evaluate the extent to which the existing tax rates and structures foster or impede entrepreneurial development.

Small and medium-sized timber businesses should implement risk management strategies in order to effectively navigate the challenges posed by exchange rate fluctuations and tax burdens. This study aims to analyze the impact of entrepreneurial orientations, specifically proactiveness and adaptability, on the adoption of risk management techniques.

The objective is to facilitate the development of small and medium-sized timber business owners' entrepreneurial orientations and capabilities through the implementation of capacity building initiatives. These initiatives encompass training programs, workshops, and mentorship opportunities that specifically target areas such as financial management, risk assessment, market intelligence, and strategic decision-making.

Participate in advocacy endeavors aimed at exerting influence on policies that have implications for small and medium-sized timber enterprises. Engage in partnerships with industry associations, chambers of commerce, and pertinent stakeholders in order to enhance understanding and knowledge regarding the difficulties arising from the volatility of exchange rates and the imposition of elevated tax rates.

This inquiry aims to investigate potential avenues for international cooperation in order to effectively mitigate the issue of exchange rate instability. We should explore opportunities for establishing partnerships or engaging in knowledge-sharing platforms with nations that have effectively navigated currency fluctuations.

Continuous monitoring and evaluation of the impact of exchange rate instability and tax rates on entrepreneurial orientations in the timber industry is necessary. Monitor fluctuations in currency exchange rates, modifications in tax policies, and shifts in indicators of entrepreneurial behavior across a period of time. It is imperative to consistently evaluate and revise assessments in order to tailor recommendations to the changing economic conditions and policy environments.

By adhering to these suggestions, policymakers, industry associations, and stakeholders can acquire a more profound comprehension of the correlation between exchange rate volatility, tax rates, and entrepreneurial orientations within small and medium-sized timber enterprises. This comprehension can provide insights for the formulation of policies and interventions aimed at fostering entrepreneurial expansion, mitigating risks, and facilitating sustainable development within the timber sector in Nigeria.

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