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Global economic meltdown and its effects on human capital development in Nigeria: Lessons and way forward

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A B S T R A C T

Global economies around the world have experienced the most traumatic moments in the last one-decade. The crisis has been described by scholars, as perhaps been the worst financial crisis since the great economic depression of the 1930s. This paper lucidly examines the effects of global economic recession on the development of human capital with reference to Nigeria nation. The objectives of the paper among others are (i) To establish the level of the impact of global economic recession on development of skills of human capital in Nigeria (ii) To examine if there is any significant relationship between global economic recession and the motivation of human capital development in Nigeria among others. The paper uses survey method with two research hypotheses. Questionnaires were administered among academic staff of two Nigerian universities in the southwest part of Nigeria. Findings showed that the global economic recession has great impact on the development of skills of human capital in Nigeria. Findings also revealed that there exists a positive relationship between global economic recession and training and development of human capital in Nigeria. The paper offers useful policy recommendations, which include the need for government and appropriate agencies to put in place policies such as enabling environment that will lead to the growth and development of human capital in Nigeria. Government needs to put forward policies that minimize cost at all levels, maximize efficiency of output, training and retraining of goods hands; and that there is need to encourage better motivation of workers at every sector of the economy amongst others.

1. Introduction

The issue of global economic meltdown has generated much controversy in modern literature. However, it is imperative to review how the issue took most economic watchers by surprise. The global economies round the world have experienced the most traumatic moments in many decades. The crisis itself has been described as perhaps the worst financial crisis since the great depression of the 1930s (Akingbola, 2009.b). The world economy has witnessed stagnation or minimal growth since more than seven decades. At the root of the recent financial crisis was practically a search for better yield by financial institutions and investors.

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It was also established through research that the increase of financial markets and stability in advanced countries for example moderate inflation, high saving ratio, stable exchange rate, growing private sector employment, etc led investors to begin to search for profitable investment opportunities (Akingbola 2009). This resulted to over optimism, speculation, and leverage. Banks began to exceed credit massively to borrowers in the mortgage market. Individuals began to take advantage of this leverage and borrowed money from banks to speculate on asset prices and because of the need to gain market share and competitive position, banks started loosening their credit standard and did not monitor the credit worthiness of borrowers. Also commercial banks changed their business models in which they initiated loans to borrowers and subsequently packaged and sold these loans as securities to investors in search of higher yields. The World Bank asserts in December 2008 that the global economy will enter a recession for the first time since 1982. International trade was predicted to decline from 2007 levels. The bank believes it expects global GDP growth to decline to 0.9% in 2009 and 2.5% in 2008. The implications of the financial meltdown were far-reaching, the crisis was not limited to the financial markets, and the real economies at the national and international levels, its institutions, its productive structures, and human capital were seriously negatively affected. The financial meltdown inevitably back leashed on consumer market and on the process of investment in the production of goods and services.

Nigeria has indeed, experienced the effect of global financial meltdown and the effect continues due to the inability to respond appropriately to global economic impacts. The capital market was hitherto widely regarded as the barometer for gauging the economic and financial performance of the nation's private and public sector was in disarray and has been finding it difficult to recover. The total market capitalization was about N15 trillion in May 2008. A year later it crashed to N4 trillion, a colossal decline of over 73 per cent. The withdrawal of overseas funds from the money market has impacted negatively on lending to the real sectors of the Nigerian economy. Sustainable economic growth and development cannot strive under these circumstances.

2. Statement of research problem

The global economic recession has far-reaching implications on global economies. These are not limited to the financial markets, the real economies at the national and international levels, its institutions; its productive structures and human capital were in daring serious challenges. Scholars are of the opinion that a major challenge now is to establish the level of impact of global economic recession on the development of skills of human capital in Nigeria. Industry and analyst are faced with the challenge of knowing what could centrally enhance the growth of human capital in Nigeria.

Apart from the challenge of global economic recession, there is also the issue of growth rate of unemployment along all demographic lines. With global economic recession and the growing unemployment rate along all demographic lines, there is the question of what effect will the global economic recession have on human capital development in Nigeria, (Adamu, 2009). Scholars are also worried on whether there is any relationship between global economic recession and training & development of human capital in Nigeria. A number of studies have been carried out on the global economic meltdown. Fewer of these, if any, have really attempted to explore the effect of global economic meltdown on human capital development in a developing nation. This proposed research intends to fill that strategic intellectual gap.

2.1 Objectives of the study

The general objective of this research is to examine the effects of global economic recession on human capital development in Nigeria. However, the specific objectives of the research are to;(i) establish the level of impact of global economic recession on development of skills of human capital in Nigeria. (ii) Investigate the effect of global economic recession on training & development and as it affects human capital development in Nigeria. (iii) Examine, if there is any significant relationship, between global economic recession and motivation of human capital development in Nigeria. (iv) Clearly identifies what enhances the growth of human capital development in Nigeria.

2.2 Research hypotheses

The paper makes two propositions in the form of research hypotheses based on the above objectives of the study, which are: (i) global economic recession has an impact on the development of skills of human capital in Nigeria. (ii) there is a relationship between global economic recession and training & development of human capital in Nigeria.

3. Literature review

The global economies have recently experienced the most traumatic moments in many years. Many scholars believe that the roots of the current global economic recession go beyond the collapse of the sub-prime housing mortgage market in the USA in 2007, it is the collapse of that market that has created economic difficulties for both developed and developing countries. They asserted that the difficulties experienced in the USA housing market spilled over into the financial markets in the USA and Europe because of the interconnectedness of large financial institutions on a global scale. The housing and financial crisis in the USA sent the nation's economy into a recession in late 2007. The contagion effects to other financial markets in the developed economies led to a global financial crisis in late 2008. This financial crisis then spilled over to the real sector as reductions in income, wealth and credit resulted in a reduced demand for goods and services and subsequently inventory decumulation and production cutbacks. Since many developing nations are tied and are either directly or indirectly linked to their former colonial masters and other allied nations of the world, the effects of the global economic crisis have spilled over to these developing nations.

Generally, a recession is defined in the field of formal neoclassical microeconomics to be a reduction in terms of gross domestic products of a countries production for two or more clearly defined periods, (Downes, 2008). In the United States, however, the private group of economist organised under the 'national bureau of economic research' officially defines when a recession starts and when it finishes.

Financial analyst's advisors, researchers and those closely involved with the stock market suggest that recessions can be entirely predicted by the performance of the stock market. This is often correlated with those who believe in the Efficient Market Theory, the economic theory that all prices in a market should be absolutely perfectly right, because if they are not, a sufficient number of rational agents will bid their prices up until they are. In this case, analyst say that the recessions are predicted by falls in general stock market performance (as investors predict that future profits will be lower than the once predicted, and that prediction is the factored in to the price).

3.1 Causes of economic recession

A number of reasons have been canvassed. However, scholars believe that it can be attributed to a number of factors in both the housing and credit markets, which developed over an extended period. Some of these include: the inability of homeowner to make their mortgage payments, poor judgment by the borrower and/or lender, speculation and overbuilding during the boom period, risky mortgage products, high personal and corporate debt levels, financial innovation that distributed and concealed default risks, central bank policies, and regulation.

Downes (2008) names the causes of economic recession as: breakdown in underwriting standards for subprime mortgages; flaws in credit rating agencies' assessments of subprime mortgages; residential mortgage backed securities (RMBS), other complex structured credit.

Verick and Hener (2009) name five negative items that could cause an economic recession or even worse a depression. These are**:**

- **Dollar collapse** - there is a growing concern for the United States ability to attract foreign capital to finance both private and public investments. The reason for this is that the effect of high budget deficit subtracts from domestic savings, which means investing in general. Not to mention that the huge trade deficit also adds to financing needs. Something else to keep in mind with the dollar collapse is that the dependence on foreign financing is actually reducing the confidence in the United States economy.

- **Oil rise -** if the price of crude oil were to rise that would be harmful to the economy because of the fact that other prices would rise as well.
- **Inflation -** this can happen if both the dollar starts to fall and oil prices start to rise. The reason that this happens and is connected to oil prices and the falling dollar is that these factors make it to where consumer goods are more expensive, producers have to increase the prices of their products to make up for the increase in oil prices and to make the same profit that they were making before the dollar fell.
- **Global economy -** this is where you are going to need to look at other economies other than your own to see if they are showing signs of a recession because in some cases other countries recessions can greatly impact the other countries depending on how much they rely on imports.

3.2 Characteristics of a recession

According to Downes (2008), the following are characteristics of a recession;

- Declining demand for output leading to higher levels of spare productive capacity,
- Rising unemployment as firms lay-off workers to control their cost,
- A sharp fall in business confidence and profits,
- Decrease in fixed capital investment spending because there is insufficient demand to justify new capital projects,
- De-stocking and heavy price discounting,
- Reduced inflationary pressure in the labour market as unemployment rises,
- Falling demand for imports,
- Increased government borrowing.

It must be noted that recessions are normally short-lived as production is adjusted to lower demand until machines eventually need replacing and demand for capital goods gets the business cycle moving on an upward track, optimism about the future increases and the virtuous circle of growth leads to a boom again.

3.3 Effects of economic recession

The evidence from different markets suggests that the consequences of the crisis around the globe are credit crunch, currency dislocations, job losses, reduction in wages, unemployment, retrenchments and falling demand. International Monetary Fund Managing Director Dominique Strauss-Kahn recently stated that as the crisis spills over into developing countries, millions will be pushed into poverty and unemployment, and, for many countries, this will be at the roots of social unrest, some threat to democracy, and for some cases may also end in armed conflict. (Emeka, 2009). The global financial crisis is also causing mass deportations or voluntary exodus by many immigrant workers who no longer can find employment abroad. As these workers return to their home countries, they may join the many already unemployed and become targets for recruitment by militant groups and insurgent movements. During economic downturns, however, migrant workers are often the most vulnerable category of workers, in terms of job losses and treatment in the workplace, and while some may well choose to return home, policies aimed solely at sending migrant workers home are not the solution and could have potentially disastrous consequences for development. (Adamu, 2009).

3.4 The concept of human capital and its development

Any effort to increase human knowledge, enhance skills and productivity and stimulate resourcefulness of individuals is an effort in human capital development. (Akingbola, 2009a). Definitional human capital development is described as the end or object of development. It is a way to fulfil the potential of people by enlarging their capabilities and this is necessarily implies the empowerment of people enabling them to participate actively in their own development. Thus, human capital development is the people centred strategy and not goods centred or production strategy of development (Akingbola, 2009a). Human capital development as a process should be systematic, sustainable and strategic. The process should be systematic to the extent that there should be a plan for which previous activities will provide support for upcoming activities while facilitating the attainment of set goals. The process should be sustainable since the human capital must make desired and ensuring impact on the organisation or society. The process should be strategic to the extent that there are well defined goals and targets whose attainments are time bound. It should be dynamic, responsive, and result oriented continually evolving and also proactive to address emerging challenges there should therefore be an effective monitoring system to inform further necessary improvements in the process (Akingbola, 2009b).

It is that intangible factor of the production that brings human intellect, skills and competences in the production and provision of goods and services. It is that human capability and productivity engendered through knowledge and skills acquired from education, training and experience and facilitated by an enabling environment. Human capital is the stock of accumulated expertise that values a workers' productivity. It is the result of the past investment in workers. It enhances their productivity and thus their current and future incomes. Education and training involve current sacrifices both direct cost and given up opportunities to earn immediate income but yields the benefit of higher future incomes because productivity is higher. Human capital can also be accumulated when people leave organisations and get another job. In any country there can be no meaningful economic growth without adequate human and natural resources.

Elements of human capital would include knowledge, skills, attitude and motivation belonging to an enterprise or society and engaged in the development of that enterprise or society to fulfil its objective. The meaning of human capital refers to the abilities and skills of human resource of a country, while human capital formation refers to the process of acquiring and increasing the number of persons who have these skills, education and experience that are critical for economic development and development of a country.

Generally, investments in human capital depend on the costs of acquiring the skills and the returns that are expected from the investment. Families can influence these variables. Wealthier families, for example, can lower the costs of human-capital acquisition for their children by subsidizing their education and training costs. In addition, wealthier and better-educated parents can shape the tastes and preferences of their children by putting in them a high regard for education and a desire to perform well in school. This translates into a higher rate of return on knowledge and skills relative to that of children from less-advantaged families. Thus, parents and guardians play an essential role in creating advantages for their children by encouraging them to acquire substantial stocks of human capital. Akingbola (2009.a) posits on some factors that could cause economic recession. These according to him include: (i) the believe by some people that each recession has a unique cause, while others think those recessions usually only have a single cause. (ii) Recessions and depressions, like that of the Great Depression, are caused by stock market crashes (iii) Factors that stunt short term growth in the economy, such as a sharp increase in oil prices or even going to war (iv) Globalisation has changed the nature of the business cycle.

Regardless of which theory you believe, many scholars believe that there is no definite answer to what causes a recession. But in most cases there is ample proof that a recession is caused by numerous factors, meaning that various events took place and the end result was a recession.

3.5. Meeting the challenges of economic recession on human capital development

Experts are of the opinion that the major challenges facing business organisations during recessions is how to develop critical human capital required taking them through the turbulent period. According to Adamu (2009), only business organisations that give premium to human capital development will be able to withstand the meltdown.

There is a need to emphasise the importance of human resources at this time. The companies that will come out faster from this economic recession are those whose employees are creative, innovative and willing to commit them emotionally. An organisation can only get to retain this type of employee if the employees can see a connection between their needs and interests as well as those of the organisation. Human resource managers are professionally trained to help and manage human capital to generate those kinds of results. As a matter of fact, it is in the time of recession that companies should invest more in human capacity development in terms of training and appropriate remuneration. This will help them bring new ideas that will pull their companies out of recession.

Philip, (2010) believes that business managers do not and cannot have all the answers to the increasing complex and rapidly changing problem facing the firms. In such situations, employees constitute the core resource in surviving the turbulent period. During recession, human resource managers face a lot of serious challenges developing and managing human capital. They have to make a lot of difficult choices based on ‘gut feeling’ mainly as the real data will not be sufficient to support the clear and standard business solution. There are far too many changes in the business world, as the current recession seems to be one of the worst recessions ever. And for business managers, the way the business was done in the past will be discontinued and new business ethics and new business rules will be born’.

Scholars exert the need for managers of human resource to be flexible, as the initiatives of the organisational change will demand a different kind of service provided by human resources. The human resource organisational structure should also fit the needs of the internal and external clients. Alo (2009) assets further that organisations should convert their businesses into symphony orchestra, where difficult players could play their different instruments and tunes in line with creating opportunities for winning. They should emphasise the acceleration of learning to build new competitive advantage faster than the competition and the rate of change in the film industry, or field of business. They should concentrate on developing people to be the best they can be, and getting the best people to work together.

3.6 The effect of the recession on Nigerian economy

The Nigerian economy is facing serious challenges as a result of the recession. In addition to the falling-Naira exchange rate are the inflation rate put at 14.8 percent as of last December and usurious interest rates which are as much as 25%. To tackle this crisis, there must be strong infrastructure base that will provide enabling atmosphere for business. But when the government made huge fortune from the oil boom there was nothing to show for this in terms of infrastructural development along with improved standard of living for the vast majority of Nigerians, let alone now that the revenue is going down. The problem of infrastructure such as erratic of power supply has forced many factories and businesses to close down. Michelin, the tyre manufacturer, has shut down its factories in Nigeria while its counterpart; Dunlop has been forced to scale down operation in the country. The textile industry, which used to be the second employer of labour after government has almost become a carcass of itself. All this has led to high rate of job losses.

Talking of job losses, the global economic recession has added more challenges to unemployment in Nigeria. Cadbury Nigeria Plc has retrenched 300 workers while Vehicle maker Peugeot Automobile Nigeria (PAN) has sent home over 500 of its 753 workers and placed the rest on half salary due to the recession (The Nation, February 9, 2009). The plans by some banks to reduce their workforce have also been reported. Then Yar'Adua government resolved to rely on private initiative for infrastructure financing. International financial institutions have not only cut credit line, they also rely on public funds as lifeline to remain in the business. The Compass newspaper reported, the former Managing Director of UBA, stating that there is a limit to which the banks can provide finance for infrastructure development, as they can only provide short-term facilities, if the banking sector will not plunge down.

Already, the exchange and interest rates have compounded the cost of doing businesses thereby further worsening the inflation. Most manufacturers import the raw materials used in production. The banks consider it too risky to lend money to the real sector. For instance, in absence of public power supply, alternative energy contributes about 45% to the cost of production. Banks are in business to make super profit and not to aid development of the economy as against one of the major reasons advanced for the storied banking consolidation exercise. In fact, inflation rose from 6.6% to 15.1% in just 12 months from January to December 2008. Rather, the exercise has only ended up gifting out public funds as returns/interest to the banks on the idle funds they have refused to lend to the real sector but kept in their vaults. According to the Revenue Mobilization Allocation and Fiscal Commission (RMAFC) Nigeria earned N30.78 trillion (about $257bn) in eight years from May 1999 and June 2008. Out of these earnings, N13.63 trillion, representing 44.3 percent was transferred to the Excess Revenue Account, which is not only illegal but also fraudulent and unaccountable (Punch, October 31 2008). The excess revenues, the difference between the market price of crude oil and budget benchmark, are shared between federal, state, and local governments without appropriation in addition to statutory monthly allocation. There has been nothing to show for this huge revenue in terms of infrastructure development, social welfare, jobs creation and improved standards of living for the ordinary Nigerians. The thieving ruling elite in government at all levels has been looting the treasury in addition to jumbo pay package to its over-bloated top functionaries.

4. Tips for Nigerian managers in Meeting the challenges of the global economic recession

Scholars gave a number of tips for meeting with the challenges created by economic recession. These according to Akingbola (2009a), Emeka (2009), Philip (2010) and Akingbola (2009b) include:

4.1 Downsize with dignity

Downsizing is used sparing and with planning it can be an organisations lifesaver, but when used repeatedly without a thoughtful strategy it can destroy an organisation’s human capital morale and ultimately its effectiveness and bottom-line. Care must be taken during the exercise to identify the best hands for quick restoration of value. Managers should understand what the downsizing process must achieve and what it must avoid. Good managers of resources must adhere strictly to the laid down objectives and action plans otherwise unintended outcomes will overshadow and derail the gains.

4.2 Response ability

Adversity in business is increasing especially accentuated by the present global recession. Today, managers must be truly responsible. The manager’s responsibility is response-ability: the ability to respond optimally to whatever happens the moment it strikes. The most important variable is unleashing and building human capital is how people respond to growing levels of adversity, or put differently, how the workforce can sustain productivity level admits adversities such as the global economic meltdown.

4.3 Raising the bar during the meltdown

There will be increasing demands on managers which results in increasing demands on the entire workforce for higher productivity. Setting goals often produce higher or better results. The environment is a dynamic one and the work life shifts and changing technology complicate the issue of productively and often they have the conflict side of labour management. Hence in some settings the manager has resistance to increase in productivity targets. But such targets must be effective in order to yield desired result.

4.4 Matching pay to productivity

During the period of recession one of the most latent controversy in industries is placement of values on labour output. While some may argue that salary cuts would be acceptable and fair response to dwindling revenue, at least it is better than other possibilities such as downsizing, others believe it is a disincentive to productivity and survival of the business.

4.5 Empowerment of the employees

This requires the tapping of the best, bringing out the best in every employee. Empowerment should be seen, not as one-off event, but rather as climate, atmosphere and cultural way in which responsibility and accountability for the job rest with the individual doing it.

4.6 Infrastructural development

The various tiers of government in Nigeria need to take bold steps in order to improve infrastructure in the country, such as good roads, regular supply of power (energy), water and transportation. Improvement in infrastructure has a way of serving as catalyst to economic development.

4.7 Methodology

A sample of 100 Academic staff was drawn from two universities in southwest Nigeria (one public and the other private university) fifty questionnaires were sent to each of the two universities. Eighty-three questionnaire were returned. Out of these six questionnaires were not properly filled. The researchers thereafter used the seventy-seven duly and properly filled questionnaires. Analysis of this study is based on the seventy-seven duly and properly filled questionnaires.

4.8 Test of hypothesis

4.8.1 Hypothesis 1

Global economic recession has an impact on the development of skills of human capital in Nigeria. Here, we seek to determine the impact of global economic recession has on human capital development. This is in line with the first hypothesis of this study. Table 1 and Table 2 summarize the results of our analysis of model summary and ANOVA test, respectively. In our study, investment in development of human capital is the dependent variable and global economic recession is the predictor.

Table 1

The summary of the results

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.585(a)	.342	.315	.87665

Table 2

ANOVA test results

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	29.145	3	9.715	12.642	.000(a)
Residual	56.101	73	.769		
Total	85.247	76			

The result shows that there is less investment in training and development, a positive change in skills and the development of skills during economic recession for 0.342. It can be adduced from this analysis that since the global economic recession, less investment in industrial training and development has led to less investment in the development of human capital in general. The regression (R^2 is 0.342) between global economic recession and the development of skills of human capital in Nigeria is significant at 0.000 level, thus we reject the null hypothesis and accept the alternate hypothesis (H_1). Global economic recession has an impact on the development of skills of human capital in Nigeria.

4.8.2 Hypothesis 2

There is a relationship between global economic recession and training and development of human capital in Nigeria. Here we seek to determine the relationship between global economic recession and training and development of human capital in Nigeria. This is in line with the second hypothesis of this study. From the Pearson product moment correlation coefficient analysis, correlation table were obtained as shown in Table 3.

Table 3
Simple Correlation coefficient for global economic recession and training & development

		A	B
A	Pearson Correlation	1	.576(**)
	Sig. (2-tailed)		.000
	N	77	77
B	Pearson Correlation	.576(**)	1
	Sig. (2-tailed)	.000	
	N	77	77

** Correlation is significant at the 0.01 level (2-tailed).
A: Training and development has led to high motivation during the global recession
B: The global economic recession has increased productivity in the organization

The coefficient of determination is also calculated by $r^2 \times 100$ where r is the Pearson correlation. Therefore, the correlation ratio where the significant level is 0.01 is calculated as $(0.576)^2 \times 100 = 33.18\%$.

The correlation r = 0.576 means that 33.18% shared variance between global economic recession and training & development. The strength of the relationship is high, which implies that the method of training and development helps to explain 33.18% of the variance in the respondent's scores. It can be seen from the table that the simple coefficient correlation between training and development, which led to high motivation during the global recession and the global economic recession, which increased productivity in the organization, recorded a 0.576 value indicating a large relationship with a 0.01 level of significance. Since the training and development, which led to high motivation during the global recession, is positively related to the global economic recession, which increased productivity in the organization, we therefore accept the alternative hypothesis. This implies that there is a positive relationship between global economic recession and training and development of human capital in Nigeria. We also recommend the following,

- There is a need for the government and appropriate agencies to put in place policies that will lead to growth and development of human capital in Nigeria such as enabling environment with better infrastructures such as light, good roads etc; proper training of workers, good renumeration and better working conditions, among others.
- Since the global economic recession has an impact on the development of skills of human capital, it is recommended that employers should develop more training plan that takes into consideration current economic conditions. Educating the individuals and corporate organisation of the effects of the global recession can develop human capital and fashion the way forward to minimize cost at all levels and maximize efficiency in output, Training and retaining good hands.
- Better motivation of workers must be encouraged at every sector of the economy either in government or private sector.

- Organisations could leverage an in-house human capital training/development to reduce or cut cost, also research should be conducted into areas of capital inadequacy as a result of this fall out of the recession and human capital development should be directed at areas directed.
- Both the private and public sectors of the economy must encourage training and periodic seminars/workshop.
- Organisation should base the payment or salary scale on the performance of their staff, also effective communication & career counselling, and motivation of employees through training and development.
- It is recommendation that employers should make efficient use of time, by implementation of daily targets and maintaining a strong influence on labour force and discovering primary needs e.g. health, recreation etc to enhance optimum productivity on the part of citizenry.

5. Conclusion

The paper concludes that global economic meltdown has great impact on the development of skills of human capital in Nigeria. It believes that there exists a positive relationship between global economic recession and training and development of human capital in Nigeria. The study also concludes that the development of skills of human capital in Nigeria is influenced by the level of economic recession that is in operation at the particular period. The paper believes that industrial training and development would be a major factor that can enhance the growth of human capital development. The paper further advocates for the motivation of human capital development in Nigeria, as it believes that the level of economic recession in a country influences the highest of motivation given to employees.

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