Various Factors Influence Strategies of Multinational

Effect of Trustworthiness Expansion and Redefinition

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Institutionalism and Culture in Strategies of Multinational Firms: The Case of Johnson Controls Inc.

By José G. Vargas-Hernández & Zayda Anahí Naranjo Martínez

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Abstract - The aim of this paper is to analyze both internal and external aspects that may pose a risk to the operations of the subsidiaries of the multinational Johnson Controls Inc. in U.S. and Mexico from the point of view based on institutions; the main challenge to initiate the investigation is do have some impact in the culmination of the goals both of workers and of the same organization?, how to influence the institutions in the organizational environment, for the decommissioning of some branch/subsidiary. The method used was Analytics to evaluate all the information obtained from the company and thus achieve the objectives required for this research, applied the theory based on the vision of institutions in multinational companies. For results of the analysis, we first had to get to know the real development of multinational enterprises, and then focus on the enterprise objective Johnson Controls Inc.

Keywords : Institutionalism, Johnson Controls Inc., multinational firm, theory based on the institutionalism.

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Institutionalism and Culture in Strategies of Multinational Firms: The Case of Johnson Controls Inc.

José G. Vargas-Hernández & Zayda Anahí Naranjo Martínez

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Resumen - El objetivo de este trabajo es analizar los aspectos tanto internos como externos que representan un riesgo en la operación para la multinacional Johnson Controls en sus filiales en Estados Unidos y México desde el punto de vista basado en instituciones; el principal cuestionamiento que se hace para iniciar la investigación es ¿se tiene alguna repercusión en la culminación de los objetivos tanto de los trabajadores como de la misma organización?, ¿cómo influyen las instituciones en el ambiente organizacional, para el cierre definitivo de alguna sucursal/filial? El método que se utilizó fue el analítico para evaluar toda la información obtenida de la empresa y así obtener los objetivos requeridos para esta investigación, se aplicó la teoría basada en la visión de las instituciones en empresas multinationales. Para resultados del análisis, primero se tuvo que conocer el verdadero desarrollo de empresas multinacionales, y después enfocarse en la empresa objetivo Johnson Controls Inc.

Palabras clave : Institucionalismo, Johnson Controls Inc., firmas multinacionales, teoría basada en el institucionalismo.

Keywords : Institutionalism, Johnson Controls Inc., multinational firm, theory based on the institutionalism.

I. Introduction

The aim of this paper is to analyze the internal and external issues that pose a risk in the operation for the multinational Johnson Controls Inc. in its subsidiaries in the United States and Mexico from the point of view based on institutions. Also to analyze whether this point of view has any impact at the height of the aims of both workers and the same organization as the company presents organizational communication problems because of the diversity of cultures that have in their human resources. Thus, subcultures are identified as parts of the multinational firms, each one with congruent systems of assumptions and values, although opposite cultural patterns.

Note that these problems are not at all branches, and seeks to determine which factor is the one having the most influence on this event occurs. The issue of multinationals has a higher power of influence and attract the same problems of these organizations because the larger the company the greater the communication and organizational conflicts.

II. Background

It is thought that a multinational firm must be both effective and efficient company in every way, as it does achieve competition in the economic globalization processes in which everybody lives today. Therefore, always it is believed that a company as big as Johnson Controls Inc. should work perfectly in either the organization or in the production area, but it does not usually asks about why these companies come to close their plants? Or what is it really failed? Do you have a social factor that may influence the decision to close? To answer these questions, it must first focus with what kind of human resources the company has to understand the type of organizational culture diversity that has Johnson Controls and whether it influences the communication barriers faced by the company.

Multinational companies (Encyclopedia of Economics, 2009) were born after World War II when private direct investment in third countries began to be associated with the expansion of big business and the creation of subsidiaries; this was aimed for spatial diversification and establishment of an extension of the diversifying strategy sector, only to reduce risks and uncertainties that enterprises always carry.

The multinational firm developed rapidly in the United States during the 1950s and 1960s while were developed agreements or inter-enterprise collaboration and the processes of horizontal and vertical integration multiplied. These companies are of type H with highly
The multinational firm developed rapidly in the United States during the 1950s and 1960s while being developed agreements or inter-enterprise collaboration and the processes of horizontal and vertical integration multiplied. These companies are of type H with highly decentralized structures that invest heavily in direct investment. Although the term is relatively recent, multinationals are economic organizations that have been the basis of the capitalist system from its origins as they have always been in constant change and growth, adapting to historical variations of both the economy and the market. The term multinational (Encyclopedia of Economics, 2009) or transnational refers to that firm which has companies with operations in several countries.

Each multinational firm has its own power of decision and control but is regularly monitored by the headquarters at the home country. The headquarters may be registered in one country and be just part of foreign ownership. At the same time, the multinational firm has the ownership, management and control of productive assets in more than one country depending on what it needs. Multinational companies install their different manufacturing processes, marketing or provisioning, as well as having a functional capacity, decentralized management by objectives or divisional organization. Multinational firms are also the paradigmatic institutions of the capitalist system, its symbol since they are the main representatives of globalization. Globalization (Beck, 2008) is the continued expansion of the market; consequently, the multinational firm is an adaptation of a current business to the same global expansion.

The organizational structure of multinational firms, as sustained by Hymer (1972), is about the distribution of economic activity worldwide. This means that the activity of multinationals is divided into different processes like any company, just for the sake of transacting in a world market, and have the appropriate organization for success as desired. Therefore, in this theory Hymer (1972) reveals the inadequacy and imperfection of market transactions as the reason for the internal growth of the firm, or a combination of economy of scales and comparative advantages of the coordination of production through internal hierarchies vs. coordination of the entire market.

III. How to Handle the Institutionalism in the Renowned Multinational Company Johnson Controls Inc.

Institutionalism and evolutionary economics approaches consider firms as dynamic economic agents of economic and social institutional networks. The theory based on institutions suggests that companies make their strategic choices based on the interaction between institutions and the organization, seeking institutional legitimacy regarding the normative, policy and regulatory systems of the country. This perspective has emerged in recent years as one of the most appropriate theoretical frameworks for analyzing strategic decisions of companies from developed economies (Peng, 2010). However, in certain destinations, multinational firms face institutional barriers higher than those faced by companies from other countries.

The theory of the multinational firm handles items of a vision based on the institutionalism of business strategies (Peng, 2010) It had been mentioned about how companies when facing strong international competition have to implement different strategies are needed, so it has to be in every place where is to become consolidated, as it not only takes into account the state and society, but all possible factors that may influence the success of it and implement appropriate strategies.

References to the theory of strategy based on empirical research on a number of Asian countries (Scott, 1995, p. 146), considers four substantive areas: 1) strategies for providers, 2) business strategies, 3) diversification strategies, and 4) growth strategies. All this to get an understanding of the theories with a view based on the institutions of the business strategy, in order to achieve that a company has the right strategies to make the right decisions, and then it should consider these areas substantive as described above.

Now it could be questioned what are the institutions? Institutions are simply the rules of the game, i.e., they are limitations designed to shape human interactions (Scott, 1995, p. 33). In addition there is a reference to the institutional framework of how to provide stability and meaning to social behavior. A representative figure of the theories of institutionalism is Douglass North, who has its antecedents in American institutionalism in the early decades of the last century. As such, it should be noted that between these two intellectual movements there is neither clear evolutionary sequence of ideas, nor between them and neo-institutional approaches that are spoken today (North, 1990).

The transaction costs were developed by Coase (1937). The transaction costs refer to rationalize why multinationals prefer to reduce their transaction or negotiation costs (Coase, 1937) at the expense of employing workers not as focused or experienced in the area needed to achieve the desired goals for the company. It is usually much easier to hire employees from different countries who do not require the corresponding salary to the level of preparation that employees have, just for the need to work. Then, actually boasts the least value of their work.
An application of ideas based on the interpretation of the phenomenon of multi-nationalization of firms has been made by McManus (1972) and Rugman (1981). This theoretical framework is leading to analyze that the existence of transaction costs is the key for multinational companies to stabilize the foreign subsidiaries. Multinational firms operate directly under the central control (vertical integration) as opposed to operating through the market. This situation results in that workers are discouraged by Johnson Controls through all the existing communication barriers and also by the devaluation of labor. The multinational firm based on its home country try to minimize these costs as much as possible in their affiliates operating abroad in other host countries, but without considering the consequences that could have the company by not perfectly monitoring these contracts.

Nowadays, it dominates the view that the multinational firm operates primarily the ownership of knowledge and information. Economies of scale encourage concentration of global production in a few locations and discourage multinational operations. Knowledge, however, is an asset easily transferable internationally and this favors the multi-nationalization.

a) Organizational structure

In his research on the administration of large U.S. firms, Chandler (1961) identify three levels of work, three levels of decision-making and three levels of policies. Level III, the minimum, refers to the administration of the daily operations of the company. Level II is responsible for the coordination of managers working in Level III. The I-level functions of top management and senior management are targeting and planning. This level sets down the framework within which low levels operate. Then the flow of communication always fluctuates in these three levels. Therefore, one must be very careful about any barriers arising, as it provides inadequate communication.

Making and adequate emphasis on strategies and firm performance are determined by the same organizations and covering institutions, cultures and ethics as they are supported by the 3 pillars: Regulatory, educational and cognitive (Peng, 2010) All this emphasis on institutions is just to reduce the uncertainty given by the markets that are generated to the company or made them by the firm. North (2005) argues that institutions are socially embedded. Institutions generate different scenarios where they face uncertainty in every way.

North (2005, 36) tries to explain what the mechanism for achieving a good institution is: Cultural heritage provides a structure of artifacts that not only plays a key role in shaping our decisions as social players, but also provides clues about the dynamic success or failure over time. In essence, the richer the structure of artifacts, the greater is the reduction of uncertainty for decision making. In time, while the richer is the context in terms of providing creative experimentation and competition, the more likely is the survival of a society (North, Understanding the Process of Economic Change, 2005, p. 36).

Then to the conclusion that Arellano (2009) comes about regarding what is needed for a good institution, is that a country's cultural heritage and how it provides a set of beliefs, tools and institutions define our role as players on the social scene. The more rich than this, the lower the uncertainty, which generates a kind of experimentation and creative competition (Arellano, 2009), which creates some chance for survival in society.

Institutions become good because they generate fair and loyal competition and experimentation, enabling long-term deal with the uncertainties that come to emerge. Therefore, it is evaluated the potential of institutions in developed countries such as Johnson Controls to create some context and cultural factors as they do to develop the competence and adequate experimentation and testing for each country, making the consolidation and adaption according to their interests.

It is questionable to wonder if it really the institutions can be designed or are effects of interactions. As mentioned by North (2005), the institutions are difficult to control rationally, making difficult to know in advance how society can react, as these are organized by a group of people in a particular generation. The institutions are related to a direct form of power, which is competition. Thus, when a multinational corporation at the time of wanting to build and consolidate its position in a specific market, generates strong competition. There are evidences that some competitors will be better prepared and better able to adapt to a local environment and dominate that market as the weight that gives the experience gives the multinational firms a certain comparative advantages.

Competition leads to the inequality of capabilities, opportunities, skills, intelligence, all to achieve differentiation. One of the disadvantages that may result being a multinational firm is the diversity of all these factors of local differentiation. At the time of adding diversification which is counted in human resources can become abysmal and of concern, or may have the opposite effect, depending directly from the company. This outcome depends either from the characteristics of people in the place where such branch is located or simply the ethical challenges available to each person to carry out the objectives of the multinational firm (Table 1).
<table>
<thead>
<tr>
<th>Region/Country</th>
<th>Plants</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States and Canada</td>
<td>Headquarters in Milwaukee.  Technology Centers in Plymouth and Milwaukee.  Seven integrated plants  Four distribution centers</td>
</tr>
<tr>
<td>South America</td>
<td>Technology Center in Sorocaba  2 Plants  3 Centers of distribution in Brazil, Argentina and Venezuela</td>
</tr>
<tr>
<td>México</td>
<td>Headquarters in Monterrey  Technology Center in Monterrey  5 plants in</td>
</tr>
<tr>
<td>Europe</td>
<td>Headquarters in Hanover  Technology Center in Hanover  8 Plants</td>
</tr>
<tr>
<td>Asia</td>
<td>3 plants in South Korea (Kumi)  China (Shangai)  India (Amara Raja)  Sales offices in Japan</td>
</tr>
</tbody>
</table>

Source: (Johnson-Controls, 2010), Sucursales, johnson controls. Obtenido http://www.johnsoncontrols.es/content/es/es/sobre_la_empresa/nuestra_empresa/premios_y_reconocimientos.html

So the institution is not only a result of any set of interactions, but also a product of competition for power among the factors that are necessary for decision making over time, allowing them to go on with an advantage over others. But given time, the atmosphere is so flawed that it cannot really do that the workers become loyal to the company. Therefore, this atmosphere affects the acceptance of responsibility of employees (Peng, 2010) and conformed to social capital. Putnam (1993) conducted an empirical study that refers to the degree of trust in any given society, and it also influences the process of making decisions.

Thus, it is important to know what kind of employees are integrated into the company and focused on the mission, vision and objectives of the multinational firm, but a really decisive factor is the drama of development of the people due to lack of trust. Much of trust enhancement depends on social work to local societies conducted by business. Strategic planning and building trust are needed to make the proper observance of the multinational firm Johnson Controls Inc. and get to know the reasons for which the company has successes or failures.

IV. Implications of Culture in Strategy of Multinational Firms

Culture is defined from the point of view of different perspectives (Jenks, 1993; Stohl, 2001; Ting-Toomey, 1999). “Culture is a set of values shared by a group of people frequently used to distinguish one group from another.” (Gibson & Gibbs, p.284). “Culture is the set of deep level values associated with societal effectiveness, shared by an identifiable group of people” (Gibson & Gibbs, p. 474). Culture is “a history of experiences and concomitant expectations that shape their encounters” (Gibson & Gibbs, p. 37). Culture is “broadly defined as characteristic ways of thinking,
feeling, and behaving shared among members of an identifiable group” (Gibson & Gibbs, 2006, p. 460). Culture is defined as a “patterned ways of thinking, feeling, and reacting,” which “Both national and professional cultures come into play.” (Gibson & Gibbs, p.114).

Conceptualization of culture is related to salience and how consequential it is (Brannen, 2003; Osland & Bird, 2000). Conceptualization of culture may include multiple nationalities, demographic features, multiple teams and organizational cultures. Culture has a complex multifaceted nature (Erez & Gati, 2004) modeled as a cultural mosaic (Chao and Moon, 2005) suggesting a complex pattern of geographic, demographic, ethnographic and associative facets making up an individual’s cultural identity. Culture is a multilayered construct that includes several markers such as nationality and citizenship, national culture, ethnicity, religion, language, etc.

Culture may be looked at as the degree of heterogeneity and diversity among team member members. Cultural diversity and cultural heterogeneity may strengthen teams if the team members are capable to respect other languages and cultures. Cultural diversity is represented by differences in backgrounds, life, philosophies, norms, social identity, language, etc. Culture creates differences in group behaviors and communication. Diversity of team members involves the composition of different cultural backgrounds, unit affiliations, skills, etc.

Culture encompasses broad national differences to include ethnic, genetic, racial, gender, religion, associations and collectivities, and other demographic characteristics. Cultural differences among individuals from different nationalities assessed by the cultural dimension (Hofstede, 1980) may affect team effectiveness processes and outcomes. The cultural dimensions depicted by Hofstede (1980) can explain cultural differences and subtleties of culture among individuals from various nation-states, so nationality is an indicator of culture. Rao (2009b) analyze national cultural dimensions adopting normative equivalences strategies to identify relationship-building with survey-response strategies and their significance.

The GLOBE cultural project as a theoretical framework on culture identifies the national cultural dimensions of power distance, in-group collectivism, uncertainty-avoidance, and performance-orientation and gender egalitarianism. Cultural differences are conceived as ideologies and attitudes influence trust of multinational multicultural differentiated teams (Cogburn & Levinson, 2003). Baba et al. (2004) uses this framework based on cultural differences to sustain the ethno history of global virtual teams.

National culture has been depicted as the software of the mind by Hofstede (1980) to explain the different behaviors and logics of people. National culture is related to communication, trust and context as it was found on Hofstede’s dimensions. National cultures influence organizational culture related to teams (Lee & Barnett, 1997; Lindsley, 1999). Rigid classification based on the nature of national cultures does not explain movements and relocations of populations.

Multinational firms identify global knowledge relevant to management across national borders despite the values embedded in national cultures that push for knowledge and expertise operationalized with local adaptation (Sparrow et al., 2004: 110). Contrary to traditional multinational firms from developed economies, new multinational firms originated from emerging economies are more dynamic and away from path dependence without deeply ingrained organizational culture, values and structure. The new multinational firms from emerging economies follow some patterns of development and expansion consist with the staged theories of internationalization and product life cycle theory besides the tendency to expand in foreign markets that have similar culture.

In the global and transnational context, transnational learning structures are relevant for the global learning outcomes related to the assignment of tasks and collaborative generation of organizational knowledge among formed committees, project groups, development and diffusion of global and national policies and capabilities, capture and sharing of global organizational culture and best practices. Culture affects the way “information and knowledge is conveyed and learned” (p. 17). Transnational learning structures are more significantly to diffuse developing know-how, best practices and core competencies, development of a global organizational culture and in a lesser extent in development and adaptation of global policy (Tregaskis, Edwards, Edwards, Ferner, and Marginson, 2010).

Transnational learning structures through global policy, global culture and best practices, may contribute to global integration using mechanisms based on person to person (Sparrow et al., 2004). One form of tacit embedded organizational knowledge is cultured knowledge based on the assumptions, beliefs and norms of organizational practices and determined by the globalization priorities. Variations in cultured knowledge in multinational firms are high across the borders in different national settings. As a mechanism, socialization of cultured knowledge facilitates shared communication and understanding through the surfacing of norms and assumptions (Senge, 1990).

The role of distribution and culture of individuals have influence on team processes and outcomes. Individuals work in multinational and multicultural diverse and distributed teams have diverse national and cultural backgrounds. Multinational multicultural diverse distributed teams have become the norm prevalence in organizational settings of business and governments (Rasters, Vissers, & Dankbear, 2002, Wright and
Institutionalism and Culture in Strategies of Multinational Firms: The Case of Johnson Controls Inc.

Drewery, 2006). Multinational multicultural distributed teams focus on the geographic facet to frame national cultural differences to equate nationality and culture. This approach neglects the dynamic multiplicity of culture. Goodwin and Halpin (2006) found resistance in multinational and multicultural distributed teams to the development of one culture where there are several pre-existing cultures.

Multinational multicultural distributed teams may have different purposes: to conduct future research (Maruping & Agarwal, 2004), to advice practical recommendations (Harvey et al., 2005).

Cultural distance presents two boundaries, distance and culture that presents critical discontinuities to manage for effectiveness of global organizational contexts (Cogburn & Levinson, 2003, Watson-Manheim, Chudoba, & Crowston, 2002), and constraints to be overcome (Yuan & Gay, 2006). Under the assumption that the economy gains from labor division, differentiation and collective efficiency on firms of one sector cluster between each other developing specialized knowledge reinforced through a common organizational culture (Young, 1928). Organizational learning as a dynamic process of the individual knowledge moves through learning structures knowledge from the individual, group and organizational levels captured within the organizational processes, competences and culture (Huber, 1991).

The enactment of the North American Free Trade Agreement (NAFTA) and the lack of policies focusing to support and encourage entrepreneurship were two important causes that triggered the development of a new entrepreneurial culture. This new entrepreneurial culture led to the emergence of business more oriented to international markets. Davila, Pérez y Habermann (2005) use organizational culture theory to analyze the basic assumptions, shared values and behaviors of organizational members employed in Mexican multinational corporation’s subsidiaries.

One relevant case is the Mexican multinational firm CEMEX. Perez Chavarría (2001) analyzes the creation of common meanings—culture—through formal communication in a Multinational Mexican company (CEMEX). Perez Chavarría (2001) has study the way organizational culture is formally communicated in a Multinational Mexican company (CEMEX assuming that the organizational culture is composed essentially of cultural substance and forms (Harrison and Beyer, 1993; Bantz,1993) to reach the inference of meanings that can be taken as the basis or support of its culture. The findings reflect a possible interpretation of the culture that sustains that symbolic reality of the organization.

Multinational corporations have to foster a culture of corporate social responsibility strategy involving all stakeholders to improve the effectiveness of strategic alliances (Weyzig, 2006). Advancement of CSR in Mexican multinationals requires a commitment on a strong regulatory culture capacity building instead of taking a voluntary approach, more involvement with civil society actors and more public pressure to address specific barriers. Stakeholders of Mexican multinational firms lack engagement in a strategy of CSR due to a no ideal chaotic environment framed by historical confrontational attitudes and the lack of alliance culture, although sometimes firms may be inclined to make some philanthropic actions.

Grupo Vitro the Mexican glass multinational firm has implemented the CSR strategy in community service activities such as recycling, environmental protection and the promotion of art and culture, supporting schools, development programs and the glass museum in its founding city Monterrey (Paul et al., 2006). The strategy CSR followed by Grupo Bimbo is part of the natural activities immersed in its culture with internal and external, economic, social and environmental aims. The environmental internal purpose is to create a more environmental friendly awareness culture among its associates and use resources in the most efficient way (Grupo Bimbo, 2009, pp. 1)

Rao (2009a) examines the dimensions of national culture influencing the staffing practices in México. Rao (2009a) identifies the cultural dimensions in the Mexican culture as predictors for predominant staffing practices associated with, and proposes a model for staffing practices related to cultural dimensions. An initiative focused on Mexican culture, the Business Culture in Latin America (BUCLA) provides a solution through e-learning.

Culture may be constructed as barriers that divide individuals. Business community suffers from lacking business culture skills and understanding others cultures.

Human beings must be aware of our capabilities to assimilate, contribute, share an experience the new opportunities offered by the exchange of cultures. Cultural intelligence is the capability that a person has to adapt to new cultures and be effective to bridge activities and issues between two or more cultures. Full development of human potentialities requires participating actively in experiencing other cultures and ideologies of economic, political and social systems to become more cosmopolitan citizen of the world.

V. An institutional Analysis of the Multinational Structure

a) Case study: Johnson Controls Inc.

All the questions and issues rose above can be applied it to the company Johnson Controls Inc. (JCI) to identify what are their problems and to know the causes and result. The company Johnson Controls (Johnson-Controls, 2010) is a diversified global technology
industry leader serving customers in over 150 countries (Figure 1)

Figure 1: The Global presence of Johnson Controls, Inc.


Its 162,000 employees provide quality products, services and solutions to optimize energy and operational efficiency of buildings and lead-acid batteries for cars, advanced batteries for hybrid and electric vehicles, and interior systems for cars. The firm has the commitment to sustainability, and going back to basics and origins in 1885, with the invention of the first electric environmental thermostat. Through its strategies for growth and increased market shares, the firm is committed to providing values to shareholders and the success of its customers.

JCI’s values support a set of strategic objectives to manage its businesses and achieve long-term success. They expect to remain the company's values at all times at Johnson Controls. The commitment that JCO has with its employees is: "As we grow, so will do our people. We foster a culture that promotes excellent performance, teamwork, non-discrimination, leadership and growth. Our diversity of employees and leaders reflect our markets and global population"(Johnson Controls, 2010).

The company Johnson Controls Inc. continues to quantifying and managing the active participation of employees in the Global Survey for employees, along with subsequent action plans of the company, creating a cycle of continuous improvement in all strategies for staff (Tables 2 and 3).

Table 2: Levels of employee participation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Blue sky involve projects</th>
<th>Employee participation</th>
<th>Hours of work volunteer</th>
<th>Level of employee participation in the survey</th>
<th>Level of active employee participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>930</td>
<td>14,500</td>
<td>115,600</td>
<td>91%</td>
<td>71%</td>
</tr>
<tr>
<td>2009</td>
<td>650</td>
<td>12,500</td>
<td>105,00</td>
<td>90%</td>
<td>67%</td>
</tr>
<tr>
<td>2008</td>
<td>530</td>
<td>11,00</td>
<td>97,000</td>
<td>86%</td>
<td>61%</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td>82%</td>
<td>56%</td>
</tr>
</tbody>
</table>

Table 3: Health and safety.

<table>
<thead>
<tr>
<th>Year</th>
<th>Index of labor accidents registered</th>
<th>Index of labor accidents with firing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>0.79</td>
<td>0.32</td>
</tr>
<tr>
<td>2009</td>
<td>0.92</td>
<td>0.35</td>
</tr>
<tr>
<td>2008</td>
<td>1.09</td>
<td>0.42</td>
</tr>
<tr>
<td>2007</td>
<td>1.36</td>
<td>0.49</td>
</tr>
<tr>
<td>2006</td>
<td>1.46</td>
<td>0.56</td>
</tr>
</tbody>
</table>

Accidents registered by Occupational Safety and Health Administration (OSHA) U.S. American X 200,000 worked hours.


Leadership awards: Although all data obtained by the company and the awards, always have problems in any of the plants, because you cannot have ultimate control of each and every one of them working properly (Figure 2).

- Inclusion on the list of 2010 of Global Outsourcing 100 (The best suppliers of externalization services.
- Award to the industrial excellence CoreNet Global Industry Excellence Award (2009).
- Award to the manager of the European real state of year 2008
- Award to the automation of Central Europe of the Society of Plastic Engineers Association of specialized engineers in plastics (SPE).
- Inclusion on the list “100 Best Corporate Citizens of the Business Ethics review.
- The leader business of the category “Auto parts suppliers” within the list “America Most Admired Companies of Fortune review.
- One of the “100 best-Managed Companies of Industry Week.
- One of the “50 Best Manufacturing Companies” of Industry Week review.
- One of the most adequate for stockholders of North America of Institutional Investors.

Figure 2: Awards to leadership.


b) Analysis of the case

Johnson Controls in Mexico is one of the largest independent manufactures of seating and interior systems for automobiles. It has three plants in Puebla, Mexico and produces seats and seat parts, mainly for the Volkswagen assembly plant in Puebla and for Chrysler, Ford, Mercedes Benz and Nissan. The case study is the company Johnson Controls Inc., reference is made in Mexico by the fact that some branches have been flawed in the way of communication and the use to employees, to the extent that this entails has been had to make tough decisions as to close some of its plants as the case of Puebla (Table 4)
Table 4: Branches and affiliates of Johnson Controls, Inc. that have closed.

<table>
<thead>
<tr>
<th>Country</th>
<th>Address &amp; contact</th>
<th>type of production source incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>Johnson Controls Automotive (Pty) Ltd :</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>Cybertron Systems Pty. Ltd :</td>
<td></td>
</tr>
<tr>
<td>Argentina</td>
<td>Johnson Controls Automotive Systems SRL :</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>Johnson Controls do Brazil Automotive Ltda :</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>Beijing Johnson Controls Co. Ltd :</td>
<td></td>
</tr>
<tr>
<td>Hong-Kong</td>
<td>Johnson Controls Hong Kong Ltd :</td>
<td>Fiscal heaven, banking, judicial or free zone</td>
</tr>
<tr>
<td>Hong-Kong</td>
<td>Johnson Controls Hong Kong Ltd :</td>
<td>Fiscal heaven, banking, judicial or free zone</td>
</tr>
<tr>
<td>India</td>
<td>Johnson Controls (India) Private Limited :</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>Johnson Controls (M) Sdn Bhd :</td>
<td></td>
</tr>
<tr>
<td>Malaysia</td>
<td>Ikeda IOM Holdings :</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>Sistemas Automotrices Summa SA de CV :</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>Controles Reynosa SA de CV :</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>Maquiladora :</td>
<td>Human Right Watch</td>
</tr>
<tr>
<td>Philippines</td>
<td>Johnson Controls IFM Phils Corp :</td>
<td>Fiscal heaven, banking, judicial or free zone</td>
</tr>
<tr>
<td>Republica Checa</td>
<td>Johnson Controls Automobilove Soucastky s.r.o :</td>
<td>Fiscal heaven, banking, judicial or free zone</td>
</tr>
<tr>
<td>Singapur</td>
<td>Johnson Controls (s) Pte. Ltd :</td>
<td>Fiscal heaven, banking, judicial or free zone</td>
</tr>
<tr>
<td>Eslovaquia</td>
<td>Johnson Controls International spol s.r.o :</td>
<td>Fiscal heaven, banking, judicial or free zone</td>
</tr>
<tr>
<td>Suiza</td>
<td>Johnson Controls Systems A.G :</td>
<td>Fiscal heaven, banking, judicial or free zone</td>
</tr>
<tr>
<td>Tailandia</td>
<td>Johnson Controls &amp; Summit Interiors Ltd</td>
<td></td>
</tr>
</tbody>
</table>

** Plant closed in the year 2012.

Source: (Transnationale.org, 2009), Sucursales que han cerrado de Johnson Controls 2012. Obtenido de http://es.transnationale.org/empresas/johnson_controls.php

In Mexico, working for the multinational company Johnson Controls means for workers endure bullying, abuse and violations of labor rights, which also exert Mexican Regional Federation of Labor (CROM), head of the collective bargaining agreement (Jaimes, 2008). Therefore, the company decided to close the plant (Closes Johnson Controls plant in Puebla and dismissed 600 workers, 2012) as it is being said that "the labor problem in Johnson Controls, began in August 2010 when the union in turn was reported by workers to protect the interests of the company also overlapping bullying and increased working hours without additional remuneration". So the social and ethical environment has great influence on the development of a company, whether as a multinational Johnson Controls is so, so bad dealings.
with its human capital was declining outcome yields and loyalty of employees in the company, which unfortunately happened that no company wants to happen, to close its facilities in spite of all investments already made.

Another case is happening in one of the plants in the United States, which has had many problems and has made that its complications affects organizational stability and growth, to the point that had to halt production. At the same time, this situation of the plant is affecting some other plants of suppliers for this error because lack of care in its handling and decision making that has not been the best. All this happens at the moment when problems are detected within the company and wholly disclaim liability to the extent that other plants and suppliers are always shifting their responsibility between each others. The fact within the country that there is no well-structured and delimited the responsibility of each post.

It is not possible to give the name, the source or the plant because there are some confidential and ethical issues, cannot be given more data. This information is only obtained from trusted individuals who carry out their activities in the Johnson Controls Inc. company. The company makes very free the development of its workers, which is not bad, but the workers see it as an outlet to relax during working hours, as the company does not give much importance by the fact that while they meet the goals in terms of outcomes, nothing happens. The fact that a company of this size denotes this type of communication problems highlights the fact that it assumes that each worker is responsible for, and ultimately their good work and achieving the goals that the company needs to continue its operation.

The reason why the company left with so many liberties the employee is because it considers that the most important values are to act with "honesty, fairness, respect and security" (Johnson Controls, 2010) and thus fostering a culture of unquestioned integrity. This pose strengthens the relationships in all businesses and functions, although these values have not had the desired result that the company needs. So to give an example, when people leave at 4 pm some employees do not take advantage of all their hours, and as elsewhere are avoiding entirely their duties and obligations as there are always workers of all kinds of different personalities and taking ethical challenges applied to each personality.

A really important factor is that the company works with a variety of cultures and consequently resulting in the emergence of communication problems. Here is important to emphasize that while the company sets standards for the benefit and comfort of workers, not always have the assurance that it meets fully the later, causing simply to discourage workers with conflictive work situations (Table 5).

**Table 5**: Social impact of conflictive work situations on workers at Johnson Controls, Inc.

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees</th>
<th>Social Impact: Country</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-4000</td>
<td>Internal restructuring: Johnson Control closes 10 plants in the world.</td>
<td>Reuters</td>
</tr>
<tr>
<td>2009</td>
<td>-9300</td>
<td>Internal restructuring: Johnson Control plans to close 21 plants and cut 9300 jobs. In addition, it is freezing new hiring and salaries, eliminating annual bonuses for executives and considering four-day work week schedules, mostly in the automotive business</td>
<td>Reuters</td>
</tr>
<tr>
<td>2800</td>
<td>-280</td>
<td>Internal restructuring: Johnson Controls close its plants of batteries Grand-Quevilly, near of Rouen, due to diminishing the European market.</td>
<td>Les Echos</td>
</tr>
<tr>
<td>2007</td>
<td>140 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>-3900</td>
<td>Johnson Controls close 12 of its industries</td>
<td>Bloomering</td>
</tr>
<tr>
<td>2006</td>
<td>-5000</td>
<td>The company will close 16 plants as part of its plan to help counter rising raw-materials costs. The cutbacks include 3,900 jobs in the auto-interiors unit and 1,080 others in the Milwaukee-based company’s building. The cuts at the auto-interiors unit involve 2,200 jobs in North America, 1,450 in Europe and 250 in Asia. The building services unit is eliminating 200 jobs in North America, 600 in Europe and 280 elsewhere. Twenty jobs are</td>
<td>Bloomering</td>
</tr>
</tbody>
</table>
being trimmed from the company’s battery-making unit.

<table>
<thead>
<tr>
<th>Year</th>
<th>Action</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>-331 Closure/bankruptcy</td>
<td>Les Echos</td>
</tr>
<tr>
<td>2005</td>
<td>-231 Internal restructuring</td>
<td>Reuters</td>
</tr>
<tr>
<td>2004</td>
<td>-224 Closure/bankruptcy</td>
<td>Les Echos</td>
</tr>
<tr>
<td>2003</td>
<td>118,000</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>111,000</td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>Violation OIT 87, 98: Johnson Controls close its plant in Milwaukee, Wisconsin. Production is dislocated in México.</td>
<td>Documentary</td>
</tr>
<tr>
<td>1998</td>
<td>89000</td>
<td>Corporate Responsibility Magazine</td>
</tr>
</tbody>
</table>

Corporate Responsibility Magazine recognized Johnson Controls as number one among the ‘100 Best Corporate Citizens’ in the United States, while the Ethisphere magazine said Johnson Controls among the ‘World’s Most Ethical Companies' for the fifth consecutive year. “We have received recognition from many of the social indicators most prestigious investors as the Dow Jones Sustainability Index World and North America” (Johnson Controls, 2010).

Obviously all this talking does not happen in every branch of Johnson Controls. For example one of the most important plants and recognized by the administration of Barack Obama in 2011, is Johnson Controls, Inc. in Holland, Michigan. Even though that the economy is going through one of the worst recessions in the U.S., this Johnson Controls, Inc. plant has shown otherwise, and it has done on the effort required to carry out all the crises and problems as quickly and shortest possible time, all thanks to the efforts made by both the corporate and employees who have worked together to get ahead of this severe crisis.

In Mexico, Johnson Controls, Inc. there has not had the great development that was expected, because when making a comparison of how many foreign companies account in Mexico and the United States the differences of these plants is enormous. In the United States, Johnson Controls, Inc. has 500 branches while in Mexico has only 5 plants (see Annex E). Yet despite all that happened during the past year, the firm has recorded a growth in global headcount of 25,000 to 162,000 employees worldwide, while most of this progress comes from organic growth.

Though significantly, Johnson Controls has generated annual revenue growth in 64 of the last 65 years. It has posted gains in 20 of the last 21 years and continues developing a long history of consecutive dividends since 1887. This is why, for employees of the company to have their own conclusions that the company only cares about the financial aspect regardless of the labor conditions of its employees.

VI. Conclusion and Recommendations

Multinational economic organizations have been understood as the basis of the capitalist system because they have always been in constant change and growth, adapting to historical variations of both the economy and the market. It is well know beforehand, that the crisis has been quite hard, as it has seriously affected the activities of all enterprises of all kinds, yet the prevention measures have had to close many of its subsidiaries and branches.

The carry all this pressure, corporations should worry about other factors that are that personnel management in large multinational companies, becomes complicated communication flows, such as the case of Johnson Controls (US-Mexico). Because the mismanagement of the company, it had not been aware of all that certain factors such as the society in is developing the company’s facilities is of vital importance to the achievement and success of their production, because if the company is really satisfied, it will be achieved working as a team together with senior management of the company and its workers. Therefore, the firm may well get the most benefit for both parties.

It also reinforces the idea that a firm from a developed country has certain competitive advantages, and as fits its strategy to enter a developing economy, just to get lower transaction costs and promote further work in these emerging economies. Only it is important for the multinational firms to have to evaluate and analyze what kinds of ethical challenges are handled in society, what kind of values are distinguished in the population and something very important, the monitoring that applies to perfection each and every one...
of the benefits, regulations and safety standards for employees to have job satisfaction needed for the proper organizational environment and, consequently, the success of the plant efficacy and production efficiency.

One of the biggest mistakes the company could make is not having more precise control of enterprise development in the standards of workers and also the profiles of each position occupied by the persons most appropriate and qualified for the job as well as seamlessly check the schedules to perfection for each of them.

References Références Referencias


Institutionalism and Culture in Strategies of Multinational Firms: The Case of Johnson Controls Inc.

José G. Vargas-Hernández & Zayda Anahí Naranjo Martínez

Abstract - The aim of this paper is to analyze both internal and external aspects that may pose a risk to the operations of the subsidiaries of the multinational Johnson Controls Inc. in U.S. and Mexico from the point of view based on institutions; the main challenge to initiate the investigation is do have some impact in the culmination of the goals both of workers and of the same organization?, how to influence the institutions in the organizational environment, for the decommissioning of some branch/subsidiary. The method used was Analytics to evaluate all the information obtained from the company and thus achieve the objectives required for this research, applied the theory based on the vision of institutions in multinational companies. For results of the analysis, we first had to get to know the real development of multinational enterprises, and then focus on the enterprise objective Johnson Controls Inc.

Resumen - El objetivo de este trabajo es analizar los aspectos tanto internos como externos que representan un riesgo en la operación para la multinacional Johnson Controls en sus filiales en Estados Unidos y México desde el punto de vista basado en instituciones; el principal cuestionamiento que se hace para iniciar la investigación es ¿se tiene alguna repercusión en la culminación de los objetivos tanto de los trabajadores como de la misma organización?, ¿cómo influyen las instituciones en el ambiente organizacional, para el cierre definitivo de alguna sucursal/filial?. El método que se utilizó fue el analítico para evaluar toda la información obtenida de la empresa y así obtener los objetivos requeridos para esta investigación, se aplicó la teoría basada en la visión de las instituciones en empresas multinacionales. Para resultados del análisis, primero se tuvo que conocer el verdadero desarrollo de empresas multinacionales, y después enfocarse en la empresa objetivo Johnson Controls Inc.

Palabras clave : Institucionalismo, Johnson Controls Inc., filias multinacionales, teoría basada en el institucionalismo.

Keywords : Institutionalism, Johnson Controls Inc., multinational firm, theory based on the institutionalism.

I. Introduction

The aim of this paper is to analyze the internal and external issues that pose a risk in the operation for the multinational Johnson Controls Inc. in its subsidiaries in the United States and Mexico from the point of view based on institutions. Also to analyze whether this point of view has any impact at the height of the aims of both workers and the same organization as the company presents organizational communication problems because of the diversity of cultures that have in their human resources. Thus, subcultures are identified as parts of the multinational firms, each one with congruent systems of assumptions and values, although opposite cultural patterns.

II. Background

It is thought that a multinational firm must be both effective and efficient company in every way, as it does achieve competition in the economic globalization processes in which everybody lives today. Therefore, always it is believed that a company as big as Johnson Controls Inc. should work perfectly in either the organization or in the production area, but it does not usually asks about why these companies come to close their plants? Or what is it really failed? Do you have a social factor that may influence the decision to close? To answer these questions, it must first focus with what kind of human resources the company has to understand the type of organizational culture diversity that has Johnson Controls and whether it influences the communication barriers faced by the company.

Multinational companies (Encyclopedia of Economics, 2009) were born after World War II when private direct investment in third countries began to be associated with the expansion of big business and the creation of subsidiaries; this was aimed for spatial diversification and establishment of an extension of the diversifying strategy sector, only to reduce risks and uncertainties that enterprises always carry.

The multinational firm developed rapidly in the United States during the 1950s and 1960s while were developed agreements or inter-enterprise collaboration and the processes of horizontal and vertical integration multiplied. These companies are of type H with highly
diversifying strategy sector, only to reduce risks and uncertainties that enterprises always carry.

The multinational firm developed rapidly in the United States during the 1950s and 1960s while were developed agreements or inter-enterprise collaboration and the processes of horizontal and vertical integration multiplied. These companies are of type H with highly decentralized structures that invest heavily in direct investment. Although the term is relatively recent, multinationals are economic organizations that have been the basis of the capitalist system from its origins as they have always been in constant change and growth, adapting to historical variations of both the economy and the market. The term multinational (Encyclopedia of Economics, 2009) or transnational refers to that firm which has companies with operations in several countries.

Each multinational firm has its own power of decision and control but is regularly monitored by the headquarters at the home country. The headquarters may be registered in one country and be just part of foreign ownership. At the same time, the multinational firm has the ownership, management and control of productive assets in more than one country depending on what its needs. Multinational companies install their different manufacturing processes, marketing or provisioning, as well as having a functional capacity, decentralized management by objectives or divisional organization. Multinational firms are also the paradigmatic institutions of the capitalist system, its symbol since they are the main representatives of globalization. Globalization (Beck, 2008) is the continued expansion of the market; consequently, the multinational firm is an adaptation of a current business to the same global expansion.

The organizational structure of multinational firms, as sustained by Hymer (1972), is about the distribution of economic activity worldwide. This means that the activity of multinationals are divided into different processes like any company, just for the sake of transacting in a world market, and have the appropriate organization for success as desired. Therefore, in this theory Hymer (1972) reveals the inadequacy and imperfection of market transactions as the reason for the internal growth of the firm, or a combination of economy of scales and comparative advantages of the coordination of production through internal hierarchies vs. coordination of the entire market.

III. HOW TO HANDLE THE INSTITUTIONALISM IN THE RENOWNED MULTINATIONAL COMPANY JOHNSON CONTROLS INC.

Institutionalism and evolutionary economics approaches consider firms as dynamic economic agents of economic and social institutional networks. The theory based on institutions suggests that companies make their strategic choices based on the interaction between institutions and the organization, seeking institutional legitimacy regarding the normative, policy and regulatory systems of the country. This perspective has emerged in recent years as one of the most appropriate theoretical frameworks for analyzing strategic decisions of companies from developed economies (Peng, 2010). However, in certain destinations, multinational firms face institutional barriers higher than those faced by companies from other countries.

The theory of the multinational firm handles items of a vision based on the institutionalism of business strategies (Peng, 2010) It had been mentioned about how companies when facing strong international competition have to implement different strategies are needed, so it has to be in every place where is to become consolidated, as it not only takes into account the state and society, but all possible factors that may influence the success of it and implement appropriate strategies.

References to the theory of strategy based on empirical research on a number of Asian countries (Scott, 1995, p. 146), considers four substantive areas: 1) strategies for providers, 2) business strategies, 3) diversification strategies, and 4) growth strategies. All this just to get an understanding of the theories with a view based on the institutions of the business strategy, in order to achieve that a company has the right strategies to make the right decisions, and then it should consider these areas substantive as described above.

Now it could be questioned what are the institutions? Institutions are simply the rules of the game, i.e. they are limitations designed to shape human interactions (Scott, 1995, p. 33). In addition there is a reference to the institutional framework of how to provide stability and meaning to social behavior. A representative figure of the theories of institutionalism is Douglass North, who has its antecedents in American institutionalism in the early decades of the last century. As such, it should be noted that between these two intellectual movements there is neither clear evolutionary sequence of ideas, nor between them and neo institutional approaches that are spoken today (North, 1990).

The transaction costs were developed by Coase (1937). The transaction costs refer to rationalize why multinationals prefer to reduce their transaction or negotiation costs (Coase, 1937) at the expense of employing workers not as focused or experienced in the area needed to achieve the desired goals for the company. It is usually much easier to hire employees from different countries who do not require the corresponding salary to the level of preparation that employees have, just for the need to work. Then, actually boasts the least value of their work.
An application of ideas based on the interpretation of the phenomenon of multi-nationalization of firms has been made by McManus (1972) and Rugman (1981). This theoretical framework is leading to analyze that the existence of transaction costs is the key for multinational companies to stabilize the foreign subsidiaries. Multinational firms operate directly under the central control (vertical integration) as opposed to operating through the market. This situation results in that workers are discouraged by Johnson Controls through all the existing communication barriers and also by the devaluation of labor. The multinational firm based on its home country try to minimize these costs as much as possible in their affiliates operating abroad in other host countries, but without considering the consequences that could have the company by not perfectly monitoring these contracts.

Nowadays, it dominates the view that the multinational firm operates primarily the ownership of knowledge and information. Economies of scale encourage concentration of global production in a few locations and discourage multinational operations. Knowledge, however, is an asset easily transferable internationally and this favors the multi-nationalization.

a) Organizational structure

In his research on the administration of large U.S. firms, Chandler (1961) identify three levels of work, three levels of decision-making and three levels of policies. Level III, the minimum, refers to the administration of the daily operations of the company. Level II is responsible for the coordination of managers working in Level III. The I-level functions of top management and senior management are targeting and planning. This level sets down the framework within which low levels operate. Then the flow of communication always fluctuates in these three levels. Therefore, one must be very careful about any barriers arising, as it provides inadequate communication.

Making and adequate emphasis on strategies and firm performance are determined by the same organizations and covering institutions, cultures and ethics as they are supported by the 3 pillars: Regulatory, educational and cognitive (Peng, 2010) All this emphasis on institutions is just to reduce the uncertainty given by the markets that are generated to the company or made them by the firm. North (2005) argues that institutions are socially embedded. Institutions generate different scenarios where they face uncertainty in every way.

North (2005, 36) tries to explain what the mechanism for achieving a good institution is: Cultural heritage provides a structure of artifacts that not only plays a key role in shaping our decisions as social players, but also provides clues about the dynamic success or failure over time. In essence, the richer the structure of artifacts, the greater is the reduction of uncertainty for decision making. In time, while the richer is the context in terms of providing creative experimentation and competition, the more likely is the survival of a society (North, Understanding the Process of Economic Change, 2005, p. 36).

Then to the conclusion that Arellano (2009) comes about regarding what is needed for a good institution, is that a country's cultural heritage and how it provides a set of beliefs, tools and institutions define our role as players on the social scene. The more rich than this, the lower the uncertainty, which generates a kind of experimentation and creative competition (Arellano, 2009), which creates some chance for survival in society.

Institutions become good because they generate fair and loyal competition and experimentation, enabling long-term deal with the uncertainties that come to emerge. Therefore, it is evaluated the potential of institutions in developed countries such as Johnson Controls to create some context and cultural factors as they do to develop the competence and adequate experimentation and testing for each country, making the consolidation and adaption according to their interests.

It is questionable to wonder if it really the institutions can be designed or are effects of interactions. As mentioned by North (2005), the institutions are difficult to control rationally, making difficult to know in advance how society can react, as these are organized by a group of people in a particular generation. The institutions are related to a direct form of power, which is competition. Thus, when a multinational corporation at the time of wanting to build and consolidate its position in a specific market, generates strong competition. There are evidences that some competitors will be better prepared and better able to adapt to a local environment and dominate that market as the weight that gives the experience gives the multinational firms a certain comparative advantages.

Competition leads to the inequality of capabilities, opportunities, skills, intelligence, all to achieve differentiation. One of the disadvantages that may result being a multinational firm is the diversity of all these factors of local differentiation. At the time of adding diversification which is counted in human resources can become abysmal and of concern, or may have the opposite effect, depending directly from the company. This outcome depends either from the characteristics of people in the place where such branch is located or simply the ethical challenges available to each person to carry out the objectives of the multinational firm (Table 1).
Table 1: Branches and plants of Johnson Controls.

<table>
<thead>
<tr>
<th>Region/Country</th>
<th>Plants</th>
</tr>
</thead>
</table>
| United States and Canada | Headquarters in Milwaukee.  
Technology Centers in Plymouth and Milwaukee.  
Seven integrated plants  
Four distribution centers |
| South America | Technology Center in Sorocaba  
2 Plants  
3 Centers of distribution in Brazil, Argentina and Venezuela |
| México | Headquarters in Monterrey  
Technology Center in Monterrey  
5 plants in |
| Europe | Headquarters in Hanover  
Technology Center in Hanover  
8 Plants |
| Asia | 3 plants in South Korea (Kumi)  
China (Shanghi)  
India (Amara Raja)  
Sales offices in Japan |

Source: (Johnson-Controls, 2010), Sucursales, johnson controls. Obtenido http://www.johnsoncontrols.es/content/es/es/sobre_la_empresa/nuestra_empresa/premios_y_reconocimientos.html

So the institution is not only a result of any set of interactions, but also a product of competition for power among the factors that are necessary for decision making over time, allowing them to go on with an advantage over others. But given time, the atmosphere is so flawed that it cannot really do that the workers become loyal to the company. Therefore, this atmosphere affects the acceptance of responsibility of employees (Peng, 2010) and conformed to social capital. Putnam (1993) conducted an empirical study that refers to the degree of trust in any given society, and it also influences the process of making decisions.

Thus, it is important to know what kind of employees are integrated into the company and focused on the mission, vision and objectives of the multinational firm, but a really decisive factor is the drama of development of the people due to lack of trust. Much of trust enhancement depends on social work to local societies conducted by business. Strategic planning and building trust are needed to make the proper observance of the multinational firm Johnson Controls Inc. and get to know the reasons for which the company has successes or failures.

IV. Implications of Culture in Strategy of Multinational Firms

Culture is defined from the point of view of different perspectives (Jenks, 1993; Stohl, 2001; Ting-Toomey, 1999). “Culture is a set of values shared by a group of people frequently used to distinguish one group from another.” (Gibson & Gibbs, p.284). “Culture is the set of deep level values associated with societal effectiveness, shared by an identifiable group of people” (Gibson & Gibbs, p. 474). Culture is “a history of experiences and concomitant expectations that shape their encounters” (Gibson & Gibbs, p. 37). Culture is “broadly defined as characteristic ways of thinking,
feeling, and behaving shared among members of an identifiable group” (Gibson & Gibbs, 2006, p. 460). Culture is defined as a “patterned ways of thinking, feeling, and reacting,” which “Both national and professional cultures come into play.” (Gibson & Gibbs, p.114).

Conceptualization of culture is related to salience and how consequential it is (Brannen, 2003; Osland & Bird, 2000). Conceptualization of culture may include multiple nationalities, demographic features, multiple teams and organizational cultures. Culture has a complex multifaceted nature (Erez & Gati, 2004) modeled as a cultural mosaic (Chao and Moon, 2005) suggesting a complex pattern of geographic, demographic, ethnographic and associative facets making up an individual’s cultural identity. Culture is a multilayered construct that includes several markers such as nationality and citizenship, national culture, ethnicity, religion, language, etc.

Culture may be looked at as the degree of heterogeneity and diversity among team member members. Cultural diversity and cultural heterogeneity may strengthen teams if the team members are capable to respect other languages and cultures. Cultural diversity is represented by differences in backgrounds, life, philosophies, norms, social identity, language, etc. Culture creates differences in group behaviors and communication. Diversity of team members involves the composition of different cultural backgrounds, unit affiliations, skills, etc.

Culture encompasses broad national differences to include ethnic, genetic, racial, gender, religion, associations and collectivities, and other demographic characteristics. Cultural differences among individuals from different nationalities assessed by the cultural dimension (Hofstede, 1980) may affect team effectiveness processes and outcomes. The cultural dimensions depicted by Hofstede (1980) can explain cultural differences and subtleties of culture among individuals from various nation-states, so nationality is an indicator of culture. Rao (2009b) analyze national cultural dimensions adopting normative equivalences strategies to identify relationship-building with survey-response strategies and their significance.

The GLOBE cultural project as a theoretical framework on culture identifies the national cultural dimensions of power distance, in-group collectivism, uncertainty-avoidance, and performance-orientation and gender egalitarianism. Cultural differences are conceived as ideologies and attitudes influence trust of multinational multicultural differented teams (Cogburn & Levinson, 2003). Baba et al. (2004) uses this framework based on cultural differences to sustain the ethno history of global virtual teams.

National culture has been depicted as the software of the mind by Hofstede (1980) to explain the different behaviors and logics of people. National culture is related to communication, trust and context as it was found on Hofstede’s dimensions. National cultures influence organizational culture related to teams (Lee & Barnett, 1997; Lindsley, 1999). Rigid classification based on the nature of national cultures does not explain movements and relocations of populations.

Multinational firms identify global knowledge relevant to management across national borders despite the values embedded in national cultures that push for knowledge and expertise operationalized with local adaptation (Sparrow et al., 2004: 110). Contrary to traditional multinational firms from developed economies, new multinational firms originated from emerging economies are more dynamic and away from path dependence without deeply ingrained organizational culture, values and structure. The new multinational firms from emerging economies follow some patterns of development and expansion consist with the staged theories of internationalization and product life cycle theory besides the tendency to expand in foreign markets that have similar culture.

In the global and transnational context, transnational learning structures are relevant for the global learning outcomes related to the assignment of tasks and collaborative generation of organizational knowledge among formed committees, project groups, development and diffusion of global and national policies and capabilities, capture and sharing of global organizational culture and best practices. Culture affects the way “information and knowledge is conveyed and learned” (p. 17). Transnational learning structures are more significantly to diffuse developing know-how, best practices and core competencies, development of a global organizational culture and in a lesser extent in development and adaptation of global policy (Tregaskis, Edwards, Edwards, Fenn, and Marginson, 2010).

Transnational learning structures through global policy, global culture and best practices, may contribute to global integration using mechanisms based on person to person (Sparrow et al., 2004). One form of tacit embedded organizational knowledge is cultured knowledge based on the assumptions, beliefs and norms of organizational practices and determined by the globalization priorities. Variations in cultured knowledge in multinational firms are high across the borders in different national settings. As a mechanism, socialization of cultured knowledge facilitates shared communication and understandings through the surfacing of norms and assumptions (Senge, 1990).

The role of distribution and culture of individuals have influence on team processes and outcomes. Individuals work in multinational and multicultural diverse and distributed teams have diverse national and cultural backgrounds. Multinational multicultural diverse distributed teams have become the norm prevalence in organizational settings of business and governments (Rasters, Vissers, & Dankbear, 2002, Wright and
Drewery, 2006). Multinational multicultural distributed teams focus on the geographic facet to frame national cultural differences to equate nationality and culture. This approach neglects the dynamic multiplicity of culture. Goodwin and Halpin (2006) found resistance in multinational and multicultural distributed teams to the development of one culture where there are several pre-existing cultures.

Multinational multicultural distributed teams may have different purposes: to conduct future research (Maruping & Agarwal, 2004), to advice practical recommendations (Harvey et al., 2005).

Cultural distance presents two boundaries, distance and culture that presents critical discontinuities to manage for effectiveness of global organizational contexts (Cogburn & Levinson, 2003, Watson-Manheim, Chudoba, & Crowston, 2002), and constraints to be overcome (Yuan & Gay, 2006). Under the assumption that the economy gains from labor division, differentiation and collective efficiency on firms of one sector cluster between each other developing specialized knowledge reinforced through a common organizational culture (Young, 1928). Organizational learning as a dynamic process of the individual knowledge moves through learning structures knowledge from the individual, group and organizational levels captured within the organizational processes, competences and culture (Huber, 1991).

The enactment of the North American Free Trade Agreement (NAFTA) and the lack of policies focusing to support and encourage entrepreneurship were two important causes that triggered the development of a new entrepreneurial culture. This new entrepreneurial culture led to the emergence of business more oriented to international markets. Davila, Pérez y Habermann (2005) use organizational culture theory to analyze the basic assumptions, shared values and behaviors of organizational members employed in Mexican multinational corporation’s subsidiaries.

One relevant case is the Mexican multinational firm CEMEX. Perez Chavarría (2001) analyzes the creation of common meanings—culture—through formal communication in a Multinational Mexican company (CEMEX). Perez Chavarría (2001) has study the way organizational culture is formally communicated in a Multinational Mexican company (CEMEX assuming that the organizational culture is composed essentially of cultural substance and forms (Harrison and Beyer, 1993; Bantz, 1993) to reach the inference of meanings that can be taken as the basis or support of its culture. The findings reflect a possible interpretation of the culture that sustains that symbolic reality of the organization.

Multinational corporations have to foster a culture of corporate social responsibility strategy involving all stakeholders to improve the effectiveness of strategic alliances (Weyzig, 2006). Advancement of CSR in Mexican multinationals requires a commitment on a strong regulatory culture capacity building instead of taking a voluntary approach, more involvement with civil society actors and more public pressure to address specific barriers. Stakeholders of Mexican multinational firms lack engagement in a strategy of CSR due to a no ideal chaotic environment framed by historical confrontational attitudes and the lack of alliance culture, although sometimes firms may be inclined to make some philanthropic actions.

Grupo Vitro the Mexican glass multinational firm has implemented the CSR strategy in community service activities such as recycling, environmental protection and the promotion of art and culture, supporting schools, development programs and the glass museum in its founding city Monterrey (Paul et al., 2006). The strategy CSR followed by Grupo Bimbo is part of the natural activities immersed in its culture with internal and external, economic, social and environmental aims. The environmental internal purpose is to create a more environmental friendly awareness culture among its associates and use resources in the most efficient way (Grupo Bimbo, 2009, pp. 1).

Rao (2009a) examines the dimensions of national culture influencing the staffing practices in México. Rao (2009a) identifies the cultural dimensions in the Mexican culture as predictors for predominant staffing practices associated with, and proposes a model for staffing practices related to cultural dimensions. An initiative focused on Mexican culture, the Business Culture in Latin America (BUCLA) provides a solution through e-learning.

Culture may be constructed as barriers that divide individuals. Business community suffers from lacking business culture skills and understanding others cultures.

Human beings must be aware of our capabilities to assimilate, contribute, share an experience the new opportunities offered by the exchange of cultures. Cultural intelligence is the capability that a person has to adapt to new cultures and be effective to bridge activities and issues between two or more cultures. Full development of human potentialities requires participating actively in experiencing other cultures and ideologies of economic, political and social systems to become more cosmopolitan citizen of the world.

V. AN INSTITUTIONAL ANALYSIS OF THE MULTINATIONAL STRUCTURE

a) Case study: Johnson Controls Inc.

All the questions and issues rose above can be applied it to the company Johnson Controls Inc. (JCI) to identify what are their problems and to know the causes and result. The company Johnson Controls (Johnson-Controls, 2010) is a diversified global technology
industry leader serving customers in over 150 countries (Figure 1).

**Figure 1:** The Global presence of Johnson Controls, Inc.

![Global Presence Map](http://www.johnsoncontrols.com/content/dam/WWW/jci/corporate/sustainability/bsr2010/SPE_hires.pdf)


Its 162,000 employees provide quality products, services and solutions to optimize energy and operational efficiency of buildings and lead-acid batteries for cars, advanced batteries for hybrid and electric vehicles, and interior systems for cars. The firm has the commitment to sustainability, and going back to basics and origins in 1885, with the invention of the first electric environmental thermostat. Through its strategies for growth and increased market shares, the firm is committed to providing values to shareholders and the success of its customers.

JCI’s values support a set of strategic objectives to manage its businesses and achieve long-term success. They expect to remain the company's values at all times at Johnson Controls. The commitment that JCO has with its employees is: "As we grow, so will do our people. We foster a culture that promotes excellent performance, teamwork, non-discrimination, leadership and growth. Our diversity of employees and leaders reflect our markets and global population" (Johnson Controls, 2010).

The company Johnson Controls Inc. continues to quantifying and managing the active participation of employees in the Global Survey for employees, along with subsequent action plans of the company, creating a cycle of continuous improvement in all strategies for staff (Tables 2 and 3).

**Table 2:** Levels of employee participation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Blue sky involve projects</th>
<th>Employee participation</th>
<th>Hours of work volunteer</th>
<th>Level of employee participation in the survey</th>
<th>Level of active employee participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>930</td>
<td>14,500</td>
<td>115,600</td>
<td>91%</td>
<td>71%</td>
</tr>
<tr>
<td>2009</td>
<td>650</td>
<td>12,500</td>
<td>105,00</td>
<td>90%</td>
<td>67%</td>
</tr>
<tr>
<td>2008</td>
<td>530</td>
<td>11,000</td>
<td>97,000</td>
<td>86%</td>
<td>61%</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td>82%</td>
<td>56%</td>
</tr>
</tbody>
</table>

Table 3: Health and safety.

<table>
<thead>
<tr>
<th>Year</th>
<th>Index of labor accidents registered</th>
<th>Index of labor accidents with firing</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>0.79</td>
<td>0.32</td>
</tr>
<tr>
<td>2009</td>
<td>0.92</td>
<td>0.35</td>
</tr>
<tr>
<td>2008</td>
<td>1.09</td>
<td>0.42</td>
</tr>
<tr>
<td>2007</td>
<td>1.36</td>
<td>0.49</td>
</tr>
<tr>
<td>2006</td>
<td>1.46</td>
<td>0.56</td>
</tr>
</tbody>
</table>

Accidents registered by Occupational Safety and Health Administration (OSHA) U.S. American X 200,000 worked hours.


Leadership awards: Although all data obtained by the company and the awards, always have problems in any of the plants, because you cannot have ultimate control of each and every one of them working properly (Figure 2).

- Inclusion on the list of 2010 of Global Outsourcing 100 (The best suppliers of externalization services).
- Award to the industrial excellence CoreNet Global Industry Excellence Award (2009).
- Award to the manager of the European real state of year 2008
- Award to the automation of Central Europe of the Society of Plastic Engineers Association of specialized engineers in plastics (SPE).
- Inclusion on the list “100 Best Corporate Citizens of the Business Ethics review.
- The leader business of the category “Auto parts suppliers” within the list “America Most Admired Companies of Fortune review.
- One of the “100 best-Managed Companies of Industry Week.
- One of the “50 Best Manufacturing Companies” of Industry Week review.
- One of the most adequate for stockholders of North America of Institutional Investors.

Figure 2: Awards to leadership.


b) Analysis of the case

Johnson Controls in Mexico is one of the largest independent manufactures of seating and interior systems for automobiles. It has three plants in Puebla, Mexico and produces seats and seat parts, mainly for the Volkswagen assembly plant in Puebla and for Chrysler, Ford, Mercedes Benz and Nissan. The case study is the company Johnson Controls Inc., reference is made in Mexico by the fact that some branches have been flawed in the way of communication and the use to employees, to the extent that this entails has been had to make tough decisions as to close some of its plants as the case of Puebla (Table 4).
Table 4: Branches and affiliates of Johnson Controls, Inc. that have closed.

<table>
<thead>
<tr>
<th>Country</th>
<th>Address &amp; contact: type of production source incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>Johnson Controls Automotive (Pty) Ltd :</td>
</tr>
<tr>
<td>South Africa</td>
<td>Cybertron Systems Pty. Ltd :</td>
</tr>
<tr>
<td>Argentina</td>
<td>Johnson Controls Automotive Systems SRL :</td>
</tr>
<tr>
<td>Brazil</td>
<td>Johnson Controls do Brazil Automotive Ltda :</td>
</tr>
<tr>
<td>China</td>
<td>Beijing Johnson Controls Co. Ltd :</td>
</tr>
<tr>
<td>Hong-Kong</td>
<td>Johnson Controls Hong Kong Ltd :</td>
</tr>
<tr>
<td></td>
<td>Fiscal heaven, banking, judicial or free zone</td>
</tr>
<tr>
<td>Hong-Kong</td>
<td>Johnson Controls Hong Kong Ltd :</td>
</tr>
<tr>
<td></td>
<td>Fiscal heaven, banking, judicial or free zone</td>
</tr>
<tr>
<td>India</td>
<td>Johnson Controls (India) Private Limited :</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Johnson Controls (M) Sdn Bhd :</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Ikeda IOM Holdings :</td>
</tr>
<tr>
<td>Mexico</td>
<td>Sistemas Automotrices Summa SA de CV :</td>
</tr>
<tr>
<td>Mexico</td>
<td>Controles Reynosa SA de CV :</td>
</tr>
<tr>
<td>Mexico</td>
<td>Maquiladora :</td>
</tr>
<tr>
<td></td>
<td>Human Right Watch</td>
</tr>
<tr>
<td>Mexico</td>
<td>PUEBLA CUAUTLANCINGO KM. 117 AUTOPISTA MEXICO-</td>
</tr>
<tr>
<td></td>
<td>PUEBLA NAVE 21 PARQUE INDUSTRIAL &amp; 22 490283 :</td>
</tr>
<tr>
<td></td>
<td>Information system of the Maquiladora industry</td>
</tr>
<tr>
<td>Mexico</td>
<td>TLAXCALA TEOLOCHOLCO PUEBLA SANTA ANNA</td>
</tr>
<tr>
<td>Philippines</td>
<td>Johnson Controls IFM Phils Corp :</td>
</tr>
<tr>
<td></td>
<td>Fiscal heaven, banking, judicial or free zone</td>
</tr>
<tr>
<td>República Checa</td>
<td>Johnson Controls Automobilove Soucastky s.r.o :</td>
</tr>
<tr>
<td>Singapur</td>
<td>Johnson Controls (s) Pte. Ltd :</td>
</tr>
<tr>
<td></td>
<td>Fiscal heaven, banking, judicial or free zone</td>
</tr>
<tr>
<td>Eslovaquia Eslovaquia</td>
<td>Johnson Controls International spol s.r.o :</td>
</tr>
<tr>
<td>Suiza</td>
<td>Johnson Controls Systems A.G :</td>
</tr>
<tr>
<td>Tailandia</td>
<td>Johnson Controls &amp; Summit Interiors Ltd</td>
</tr>
</tbody>
</table>

**Plant closed in the year 2012.

Source: (Trasnationale.org, 2009), Sucursales que han cerrado de Johnson Controls 2012. Obtenido de http://es.transnationale.org/empresas/johnson_controls.php

In Mexico, working for the multinational company Johnson Controls means for workers endure bullying, abuse and violations of labor rights, which also exert Mexican Regional Federation of Labor (CROM), head of the collective bargaining agreement (Jaimes, 2008). Therefore, the company decided to close the plant (Closes Johnson Controls plant in Puebla and dismissed 600 workers, 2012) as it is being said that "the labor problem in Johnson Controls, began in August 2010 when the union in turn was reported by workers to protect the interests of the company also overlapping bullying and increased working hours without additional remuneration".

So the social and ethical environment has great influence on the development of a company, whether as a multinational Johnson Controls is so, bad dealings
with its human capital was declining outcome yields and loyalty of employees in the company, which unfortunately happened that no company wants to happen, to close its facilities in spite of all investments already made.

Another case is happening in one of the plants in the United States, which has had many problems and has made that its complications affects organizational stability and growth, to the point that had to halt production. At the same time, this situation of the plant is affecting some other plants of suppliers for this error because lack of care in its handling and decision making that has not been the best. All this happens at the moment when problems are detected within the company and wholly disclaim liability to the extent that other plants and suppliers are always shifting their responsibility between each others. The fact within the country that there is no well-structured and delimited the responsibility of each post.

It is not possible to give the name, the source or the plant because there are some confidential and ethical issues, cannot be given more data. This information is only obtained from trusted individuals who carry out their activities in the Johnson Controls Inc. company. The company makes very free the development of its workers, which is not bad, but the workers see it as an outlet to relax during working hours, as the company does not give much importance by the fact that while they meet the goals in terms of outcomes, nothing happens. The fact that a company of this size denotes this type of communication problems highlights the fact that it assumes that each worker is responsible for, and ultimately their good work and achieving the goals that the company needs to continue its operation.

The reason why the company left with so many liberties the employee is because it considers that the most important values are to act with "honesty, fairness, respect and security" (Johnson Controls, 2010) and thus fostering a culture of unquestioned integrity. This pose strengthens the relationships in all businesses and functions, although these values have not had the desired result that the company needs. So to give an example, when people leave at 4 pm some employees do not take advantage of all their hours, and as elsewhere are avoiding entirely their duties and obligations as there are always workers of all kinds of different personalities and taking ethical challenges applied to each personality.

A really important factor is that the company works with a variety of cultures and consequently resulting in the emergence of communication problems. Here is important to emphasize that while the company sets standards to meet for the benefit and comfort of workers, not always have the assurance that it meets fully the later, causing simple to discourage workers with conflictive work situations (Table 5).

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees</th>
<th>Social Impact: Country</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-4000</td>
<td>Internal restructuring: Johnson Control closes 10 plants in the world.</td>
<td>Reuters</td>
</tr>
<tr>
<td>2009</td>
<td>-9300</td>
<td>Internal restructuring: Johnson Control plans to close 21 plants and cut 9300 jobs. In addition, it is freezing new hiring and salaries, eliminating annual bonuses for executives and considering four-day work week schedules, mostly in the automotive business</td>
<td>Reuters</td>
</tr>
<tr>
<td>2800</td>
<td>-280</td>
<td>Internal restructuring: Johnson Controls close its plants of batteries Grand-Quevilly, near of Rouen, due to diminishing the European market.</td>
<td>Les Echos</td>
</tr>
<tr>
<td>2007</td>
<td>140 000</td>
<td>Johnson Controls close 12 of its industries</td>
<td>Bloomering</td>
</tr>
<tr>
<td>2006</td>
<td>-3900</td>
<td>The company will close 16 plants as part of its plan to help counter rising raw-materials costs. The cutbacks include 3,900 jobs in the auto-interiors unit and 1,080 others in the Milwaukee-based company's building. The cuts at the auto-interiors unit involve 2,200 jobs in North America, 1,450 in Europe and 250 in Asia. The building services unit is eliminating 200 jobs in North America, 600 in Europe and 280 elsewhere. Twenty jobs are eliminated</td>
<td>Bloomering</td>
</tr>
</tbody>
</table>
being trimmed from the company’s battery-making unit.

<table>
<thead>
<tr>
<th>Year</th>
<th>Change</th>
<th>Cause</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>-331</td>
<td>Closure/bankruptcy</td>
<td>Les Echos</td>
</tr>
<tr>
<td>2005</td>
<td>-231</td>
<td>Internal restructuring</td>
<td>Reuters</td>
</tr>
<tr>
<td>2004</td>
<td>-224</td>
<td>Closure/bankruptcy</td>
<td>Les Echos</td>
</tr>
<tr>
<td>2003</td>
<td>118,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>111,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td>Violation OIT 87, 98: Johnson Controls close its plant in Milwaukee, Wisconsin. Production is dislocated in México.</td>
<td>Documentary</td>
</tr>
<tr>
<td>1998</td>
<td>89000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Corporate Responsibility Magazine recognized Johnson Controls as number one among the ‘100 Best Corporate Citizens’ in the United States, while the Ethisphere magazine said Johnson Controls among the ‘World’s Most Ethical Companies’ for the fifth consecutive year. “We have received recognition from many of the social indicators most prestigious investors as the Dow Jones Sustainability Index World and North America” (Johnson Controls, 2010).

Obviously all this talking does not happen in every branch of Johnson Controls. For example one of the most important plants and recognized by the administration of Barack Obama in 2011, is Johnson Controls, Inc. in Holland, Michigan. Even though that the economy is going through one of the worst recessions in the U.S., this Johnson Controls, Inc. plant has shown otherwise, and it has done on the effort required to carry out all the crises and problems as quickly and shortest possible time, all thanks to the efforts made by both the corporate and employees who have worked together to get ahead of this severe crisis.

In Mexico, Johnson Controls, Inc. there has not had the great development that was expected, because when making a comparison of how many foreign companies account in Mexico and the United States the differences of these plants is enormous. In the United States, Johnson Controls, Inc. has 500 branches while in Mexico has only 5 plants (see Annex E). Yet despite all that happened during the past year, the firm has recorded a growth in global headcount of 25,000 to 162,000 employees worldwide, while most of this progress comes from organic growth.

Though significantly, Johnson Controls has generated annual revenue growth in 64 of the last 65 years. It has posted gains in 20 of the last 21 years and continues developing a long history of consecutive dividends since 1887. This is why, for employees of the company to have their own conclusions that the company only cares about the financial aspect regardless of the labor conditions of its employees.

VI. Conclusion and Recommendations

Multinational economic organizations have been understood as the basis of the capitalist system because they have always been in constant change and growth, adapting to historical variations of both the economy and the market. It is well know beforehand, that the crisis has been quite hard, as it has seriously affected the activities of all enterprises of all kinds, yet the prevention measures have had to close many of its subsidiaries and branches.

The carry all this pressure, corporations should worry about other factors that are that personnel management in large multinational companies, becomes complicated communication flows, such as the case of Johnson Controls (US-Mexico). Because the mismanagement of the company, it had not been aware of all that certain factors such as the society in is developing the company’s facilities is of vital importance to the achievement and success of their production, because if the company is really satisfied, it will be achieved working as a team together with senior management of the company and its workers. Therefore, the firm may well get the most benefit for both parties.

It also reinforces the idea that a firm from a developed country has certain competitive advantages, and as fits its strategy to enter a developing economy, just to get lower transaction costs and promote further work in these emerging economies. Only it is important for the multinational firms to have to evaluate and analyze what kinds of ethical challenges are handled in society, what kind of values are distinguished in the population and something very important, the monitoring that applies to perfection each and every one.
of the benefits, regulations and safety standards for employees to have job satisfaction needed for the proper organizational environment and, consequently, the success of the plant efficacy and production efficiency.

One of the biggest mistakes the company could make is not having more precise control of enterprise development in the standards of workers and also the profiles of each position occupied by the persons most appropriate and qualified for the job as well as seamlessly check the schedules to perfection for each of them.

References Références Referencias


The Role of Small and Medium-Size Enterprises in Socio-Economic Sustainability in Pakistan

By Jawed Ahmed Qureshi
Indus University Karachi, Pakistan

Abstract - The report is based on an exploratory research on an assessment of the problems and constraints faced by small and medium-sized enterprises (SMEs) in Pakistan with regard to access to financing. The purpose of this report is to identify the core constraints in financing of SMEs in Pakistan that impede their growth and even undermine their liquidity and financial position. The research methodology includes qualitative data and quantitative data. A survey was undertaken from a sample group of 500 respondents of SMEs in Karachi from whom various questions were asked through a structured questionnaire. In addition, one-on-one formal and informal interviews were taken from various businessmen and bankers. Samples were selected conveniently. A conceptual model/framework was devised to test and ascertain the statistical validity. It includes dependent variable SME financing and independent variables, financing constraints, functional/internal barriers, government support and incentives, and SMEs growth and development.

Keywords: SME Financing in Pakistan; Barriers to Growth for SMEs; Growth & Development of SMEs.

GJMBR-B Classification: FOR Code: 150307, 150306 JEL Code: L32, L53

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The Role of Small and Medium-Size Enterprises in Socio-Economic Sustainability in Pakistan

Jawed Ahmed Qureshi

Abstract - The report is based on an exploratory research on an assessment of the problems and constraints faced by small and medium-sized enterprises (SMEs) in Pakistan with regard to access to financing. The purpose of this report is to identify the core constraints in financing of SMEs in Pakistan that impede their growth and even undermine their liquidity and financial position. The research methodology includes qualitative data and quantitative data. A survey was undertaken from a sample group of 500 respondents of SMEs in Karachi from whom various questions were asked through a structured questionnaire. In addition, one-on-one formal and informal interviews were taken from various businessmen and bankers. Samples were selected conveniently. A conceptual model/framework was devised to test and ascertain the statistical validity. It includes dependent variable SME financing and independent variables, financing constraints, functional/internal barriers, government support and incentives, and SMEs growth and development. The findings discovered that most SMEs feel reluctant to borrow from banks and financial institutes because of stringent collateral requirements, high mark up, lengthy and convoluted documentary process, and somehow hanky-panky or mal practices at banks and financial institutes. The preference of the lending institutions is to finance the large-scale corporate sector. The results of the data analysis confirmed profound relation of dependent and independent variables and accepted the hypotheses. The conclusion drawn was that a substantial portion of SMEs possess great potential of growth and there exists unending opportunities to tap. The banking and financial system in the country enjoys enough liquidity but SMEs are unable to enjoy financial leverage because of various financial constraints, lack of support by government institutions and policy makers, and somehow the internal weaknesses and flaws of SMEs in managing their businesses. Finally, recommendations were suggested for the consideration of economic managers and government.

Keywords : SME Financing in Pakistan; Barriers to Growth for SMEs; Growth & Development of SMEs.

1. Introduction

The development of small and medium-sized enterprises plays a pivotal role in the growth and prosperity of nation. Although large-scale corporations, particularly industrial concerns contribute sizably/largely in gross domestic products (GDP) and other economic variables of prosperity but the significance of SMEs is widely recognized around the globe. SMEs make a substantial contribution toward GDP, revenue collection in the form of taxes, fostering entrepreneurship culture, employment opportunities, income generation, skills development of human resources, poverty alleviation, and improving the standard of living and quality of life (Qureshi 2010). Above all the prime economic benefits of SMEs development include encouraging perfect competition and fair distribution of wealth. If only large-scale corporations exist, there will be either a monopoly in an industry, with a single suppliers, or oligopoly with only few suppliers, or monopolistic competition with only some suppliers, while the major portion of national income and wealth will move around the hands of big capitalists. SME sector, however, begets fair competition and equitable distribution of wealth.

SMEs assist in regional and local development since SMEs accelerate rural industrialization by linking it with the more organized urban sector and help achieve fair and equitable distribution of wealth by regional dispersion of economic activities (SME Bank 2009). According to a report by State Bank of Pakistan (SBP 2004), the small and medium enterprises have played key role in development of economies like Japan. It has also been playing key role in providing impetus to the development of some of the world’s best economies like Taiwan, Korea, Hong Kong and China. Countries in South America and India have also been concentrating their efforts in developing the SME sector. Pakistan in not an exception to this as both the Government of Pakistan and the State Bank has been trying to give impetus to their efforts aiming to develop SME sector in Pakistan. In this regard government has restructured the key support institutions such as SMEDA and SME Bank. However, the problems of small businesses differ than that of medium size businesses. As stated by West (2010) by quoting in the Economist newspaper, ‘small business has a big problem that is access to finance.' Access to finance usually means access to bank finance, because small and medium size enterprises (SMEs) are usually too small to access bond and equity markets. Access to finance is one of the most significant challenges for the creation, survival, and growth of SMEs.

There appears a mushroom growth of SMEs throughout Karachi including the SMEs in leading industrial estates, cottage industrial areas, industrial parks, export process zones (EPZs), trade plazas, malls,
and small business units scattered in the city and its surrounding villages. Historically, many SMEs thrived in Pakistan because of appropriate entrepreneurial spirit and skills, managerial and labor skills, access to finance (as one the foremost salient success factor), access to technology, marketing skills, innovative products, dedicated customer services, and the drive and capability to meet the customer expectations and opportunities better than the competitors. But unfortunately, all the SMEs and micro enterprises in Pakistan are unable to enjoy access to finance and particularly the sufficient level of finance and not all of them possess appropriate level of managerial and technical skills to thrive and excel in the market place. Since the independence of Pakistan in 1947, the nation has witnessed the marvelous growth of thousands of micro, small, and medium enterprises in Karachi and all across the country.

a) SME Defined

Generally, SME means small and medium enterprises but one definition given by State Bank of Pakistan (SBP) refers SME sector as, the SME sector can itself be classified into micro, small, and medium enterprises (SBP 2010). As defined by State Bank of Pakistan - SME (Small and Medium Enterprise) means an entity, ideally not a public limited company, which does not employ more than 250 persons (if it is manufacturing concern) and 50 persons (if it is trading/service concern) and also fulfills the following criteria of either ‘a’ and ‘c’ or ‘b’ and ‘c’ as relevant:

a. A trading/service concern with total assets at cost excluding land and buildings up to Rs50 million.

b. A manufacturing concern with total assets at cost excluding land and buildings up to Rs100 million.

c. Any concern (enterprise) with net sales not exceeding Rs300 million as per latest financial statements.

b) Salience of SMEs

SMEs are considered the engine of economic growth in both developed and developing countries, these generate more employment opportunities than large-scale firms with relatively small investment; provide low cost/investment employment since the unit cost of persons employed is lower for SMEs than for large-size units; and they are more labor intensive than large-scale enterprises, since labor uses either manual, or semi automatic, and seldom uses automatic processes of production.

SMEs assist in regional and local development since SMEs accelerate rural industrialization by linking it with the more organized urban sector; help achieve fair and equitable distribution of wealth by regional dispersion of economic activities; contribute significantly to export revenues because of the low-cost, labor intensive nature of its products; have a positive effect on the trade balance since SMEs generally use indigenous raw materials; assist in fostering a self-help and entrepreneurial culture by bringing together skills and capital by linking various lending and skill enhancement schemes; impart the resilience to withstand economic upheavals and maintain a reasonable growth rate since being indigenous is the key to sustainability and self-sufficiency (SME Bank 2009).

The economic and social importance of the small and medium enterprise (SME) sector is well recognized in academic and policy literature (UN/ECE 2007). It is also recognized that these actors in the economy may be underserved, especially in terms of finance (OECD-APEC 2006). There have been numerous schemes and programs in different economies to build the SME sector. However, there are a number of distinctive recurring approaches to SME finance, as elaborated by Berger (2005).

- Collateral based lending offered by traditional banks and finance companies is usually made up of a combination of asset-based finance, contribution based finance, and factoring based finance, using reliable debtors or contracts. Information based lending usually incorporates financial statement lending, credit scoring, and relationship lending. Viability based financing is especially associated with venture capital.

c) Problem Statement

SMEs play the foremost important role in the development of an economy and these need funds and other support for growth, while as per the report of SBP (2009), the total financing to SMEs in Pakistan has been substantially declined by 20% from Rs437 billion to Rs348 billion from 2007 to 2009, due to slowing economy and loan defaults. The situation poses direct threats to the sustainable nourishment of the SMEs. That’s why the research topic has been selected as a problem for a detailed study as: “Role of Small and Medium-sized Enterprise (SME) Financing in the Socio-economic Sustainability in Karachi.”

d) Research Objectives

The research objectives are delineated below:

1. To identify core constraints in access to finance by SMEs in Pakistan and other pertinent obstacles in the growth and development of SMEs.

2. To identify the role of government incentives and support for the growth and development of SMEs and understand their significance.

e) The Benefit/Rationale of the Study

The benefit/rationale to conduct this study is to ascertain the wide gap in demand and supply of finance to SMEs in Pakistan, in a bid to offer proposals to overcome their growing needs for finance.
f) **Scope of the Study**

The scope of the analytical research work of this Thesis is to explore the following key points:

- The study will be helpful in pointing out the gaps in SME financing. The actions required to tackle SME financing constraints. The factors which create functional/ internal barriers to SME financing need to be addressed. The study intends to provide solutions to develop SME-friendly policies of the government for the growth and development of the SMEs.

**g) Research Limitations**

The key limitations of the research are portrayed hereunder:

- The time frame, financial resources, geographic scope, and sample size to undertake exploratory activities were limited. In conducting interviews, many bankers, the officials of lending institutions, the senior SME leaders, and other stakeholders showed reluctance to express their opinions and considered it as leakage of secrecy. Due to lack of higher educational background by many of the owners and top managers of various SMEs, it took a lot of difficulties and time to get them comprehend the questionnaire and get the answers during survey.

**h) Research Methodology**

The qualitative cum quantitative research techniques were utilized to discover innovated solutions for SME financing in Pakistan. The data collection methods used in this study included primary data collection techniques i.e. collecting data from unpublished and original sources including surveys. A survey was conducted and a structured questionnaire was framed, pretested, and filled by a sample of 500 respondents of SMEs in Karachi (males and females of varying ages and social classes, selected on the basis of convenience method) belonging to manufacturers, traders, importers, exporters, and service businesses. The measurement scale selected was 5-point Likert scale to know the amount of agreement or disagreement of respondents on a scale of five. Interviews from renowned high profile bankers were taken. One-on-one interviews were recorded on convenience basis from officials of State Bank of Pakistan (SBP), Small & Medium Enterprises Development Authority (SMEDA), National Bank of Pakistan (NBP), MCB, Habib Bank Limited (HBL), United Bank Limited (UBL), Allied Bank Limited (ABL), Standard Chartered Bank, Albarka Islamic Bank, micro credit banks, ORIX Leasing Pakistan Limited, and high ups of Federation of Pakistan Chambers of Commerce Industry (FPCCI, the apex body of trade and industry in Pakistan) were recorded to get acquainted with the latest developments and updates on SMEs. As a businessman, the personal observations and relevant experiences of the researcher also helped in compiling data.

In the secondary data collection method, data was traced from journals, books, magazines, newspapers, diaries, internet/online sources, etc. In particular, data was extracted from the publications of SBP, SMEDA, International Monetary Fund (IMF), World Bank (WB), Asian Development Bank (ADB), United Nations (UN agencies), World Trade Organization (WTO), European Union (EU), research papers, government websites, and other various authentic data sources. The data analysis was carried separately for a qualitative and quantitative assessment to know the relationships among variables and to test the hypotheses.

**i) Research Hypothesis**

Following hypotheses are developed to conduct a thorough study:

- **H1**: High cost of financing proves detrimental for SMEs and overall socio-economic development.
- **H2**: Low cost financing increases the demand for borrowing for SMEs and profitability of banks and creditors.
- **H3**: SME financing heavily depends on removal of financing constraints (i.e. functional/internal barriers of SMEs themselves and of financing agents).
- **H4**: The growth and development of SMEs is directly linked up with capacity building of SMEs and government incentives and support.

**j) Research Model**

On the basis of preliminary literature review, a conceptual framework is drawn. The figure 1.1 shows the relationship between various independent variables with dependant variables.
The figure 1.1 exhibits various kinds of constraints or issues that hamper the growth and development of SMEs in the country. The model exhibits SME financing as a dependant variable, while the independent variables include financing constraints, functional/internal barriers i.e. internal weaknesses, government incentives and support, and SMEs growth and development. The independent variables serve as obstructions to the growth and development of SME sector and eventually, if these constraints are removed, they will lead to the superb growth and development of the SMEs, which will ultimately lead to overall macro-economic development. Indeed the independent variables form constructs since they comprise of sub-variables as well, as portrayed below:

**Financing Constraints** contains various factors including Collateral based lending (making it difficult for SMEs to avail loans from financing institutes); Cumbersome and lengthy process of lending; Preference of financing (by banks and financial institutes) to large-scale enterprises; Lack of venture capital financing; and Lack of true Islamic financing (on the basis of profit and loss sharing among SME and financiers).

As per various studies, SMEs in Pakistan undergo various internal barriers (Bari et al. 2005; SBP 2008; SBP 2010).

**Functional/Internal Barriers** contains various factors including Dearth of skilled labor and human resources (to SMEs); Lack of management skills, marketing, accounting and finance, risk management technology and information technology, and poor work ethics; Lack of financial information (regarding financing options and facilities, especially to rural SMEs); and Lack of focus on innovation and value addition.

**Government Incentives and Support** are desperately required to remove a variety of constraints for SMEs in the country, which contains various factors including High cost of borrowing (on the directives of SBP to financial institutes); Ever-escalating cost of business (due to inflation); High rate of taxation; Poor infrastructure; Lack of good governance and transparency; Delayed judicial process (here, pertaining commercial cases only); and Undermined law and order situation (offering threats to SMEs as well).

**SMEs Growth and Development** contains various factors including Enhanced productivity (of SMEs); Increased employment (at SMEs); Improved income, prosperity, and quality of life; Reduced poverty (in society); Investment in family health and education (by SME employers and employees).
II. Literature Review

a) Emergence of SMEs in Pakistan

Since inception, Pakistan’s market evidence mushroom growth of small and medium enterprises. Banks and other financial institutes played central role in financing those entities. The concept of SMEs emerged in Pakistan since 1972 (in the regime of former premier, Mr Zulifquar Ali Bhutto). Small Business Finance Corporation (SBFC) was established by the Government of Pakistan through an Act of Parliament in 1972 with the broad objective to assist small entrepreneurs for self-employment and for setting up cottage industry. SBFC facilitated the masses of small entrepreneurs with disbursing funds on easy terms with reasonable mark up/ interest charges and without collateral. The pith of the financing schemes was focus on the self-employment schemes to generate maximum employment. The loan portfolio mostly comprised unsecured loans or with inadequate collateral (Tanveer 2001).

Unfortunately, SBFC could not accomplish its milestones because of lack of transparency, corruption, and malpractices by both SBFC employees and borrowers. Most of the borrowers obtained funds on the basis of political sources. Due to failures of SBFC, eventually, it was amalgamated into SME Bank Limited effective January 1, 2002 (SME Bank 2009).

In 1998, the government of Pakistan established Small and Medium Enterprises Development Authority (SMEDA) to support and promote small and medium scale companies. A snapshot of SMEDA’s business development services offered to SMEs through a nationwide network of help desks include (SMEDA 2009; Industrial Information Network 2010):

- Project Identification and Business Plan Development; Business Information (Library, Databases, Project Briefs, Pre-feasibility Studies); Sector Studies; Assistance in Raising Finance; Taxation – Sales Tax, Custom Duty, Excise Duty, etc.; Capacity Building (company incorporation, legal, technical, financial, accounting, marketing, export, etc.).

In recent two decades, both government and private sector have done appreciate-able work in the SME sector. SME bank was launched in Pakistan in the year 2001, as part of financial sector restructuring program of Government of Pakistan, Regional Development Finance Corporation (RDFC) and Small Business Finance Corporation (SBFC) were amalgamated into SME Bank Limited effective January 1, 2002. SME bank Limited was established to exclusively cater to the needs of the SME sector and to address the needs of this niche markets with tailor-made specialized financial products and services that will help stimulate SME development and pro poor growth in the country. In accordance with the report published by Economic Survey of Pakistan (ESP), (2008-09), up to 28th February 2009, SME Bank has financed 7,814 SMEs, disbursed loans amounting to Rs7,936 million to 54,698 beneficiaries in the country.

Recently, commercial banks have opened SME departments in their branches to support and promote SMEs. Similarly, micro finance banks have extended their facilities to enhance financial leverage of micro enterprises. Leasing companies and other financial institutes have also launched products to strengthen the SME sector. Islamic banking also contributes in hand-holding and support to SME sector by providing financial instruments like Mudarabah, Murabaha, Ijarah, etc.

b) Contribution of Pakistani SMEs in the Economic Development

It has been estimated that the SME sector in Pakistan contributes 30% in the GDP, along with agriculture sector provides 90% jobs, accounts for 35% value addition in the manufacturing industry and generates 25% exports earnings [up to US$2.5 billion], (SBP 2009). A survey conducted by SMEDA (2008) revealed that 72% of all the SME enterprises were sole proprietors, 12% Partnership (registered), 9% Partnership (unregistered), 6% Private companies and 1% (others). According to the Economic Survey of Pakistan (2008-09), the SME sector has emerged as a lifeline of Pakistan’s economy constituting nearly 99.06 percent of all economic establishments, out of which 53 percent of the establishments belong to Wholesale & Retail Trade and Restaurant & Hotel sectors, 20 percent are part of Manufacturing sector and 22 percent fall in the Community, Social, and Personnel Services sector.

<table>
<thead>
<tr>
<th>Table 2.1: Contribution of SMEs in Pakistan in the Economy of Pakistan.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Numbers of Economic Establishments</td>
</tr>
<tr>
<td>Total Numbers of SMEs</td>
</tr>
<tr>
<td>(Along with Agriculture) Contribution in Employment</td>
</tr>
</tbody>
</table>

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The figure 2.1 elaborates that it has been reckoned that the total count of economic enterprises in Pakistan stands 3.2 million, out of which 99% comprise of SMEs, providing 90% jobs in the economy including agriculture related SMEs and provide 78% jobs in the economy excluding agriculture related SMEs, having 1 to 10 employees as an average in 99% SMEs, and their share in export revenues, GDP, and manufacturing industry comprise 25%, 30%, and 35% respectively.

According to very latest statistics by State Bank of Pakistan (SBP 2010), 90% of the total SME loan portfolio is concentrated in Punjab and Sindh, 64.22% in Punjab and 25.93% in Sindh, while only 10% share is taken by Khyber Pakhtunkhwa, Balochistan, Gilgit Baltistan, and Azad Jammu and Kashmir. The SBP report uncovers that an overall decline in SME financing was observed, which fell 20% to Rs348 billion in 2009 from Rs437 billion in 2007, as a consequence of loan defaults and slowing economy. It was also reported that 89% of the loan disbursements by SMEs were for working capital requirements, which reflects banks' reluctance for providing long-term financing and venture capital needs. According to a recent article on the same issue, the three major cities in Pakistan, Karachi, Lahore, and Faisalabad account for more than 50% of total SME financing in the country and top 20 cities together make up 85% of total SME financing (Dawn 2010). The share of SME financing in total lending portfolio in Pakistan is only 10% (Daily Times 2010). In 2009, 89% of the SME financing was received for meeting working capital needs, which shows banks' reluctance to finance long-run projects (SBP 2010). According to another publication by SBP in December 2008, at the end of fourth quarter of 2008, the total outstanding credit of SME sector stood Rs383 billion. About 48% of this amount has been availed by manufacturing SMEs, followed by 36.4% by trading SMEs, and the rest i.e. 15.6% by service SMEs. The share of short-term loans (up to 1 year) constitutes about 70.9%, long-term loans (exceeding 3 years) up to 19%, and the rest was the share of medium-term loans (1 to 3 years), i.e. 10.1%. As per SBP review on SMEs (2008), the total non-performing loans up to 31-12-2007 stood Rs41.3 billion, which constitutes 9.5% of the total financing to the SME sector in 2007.

The SME sector contributes 60% of GDP and over 70% of total employment in low-income countries; while they contribute over 95% of total employment and about 70% of GDP in middle-income countries (Berger et al. 2003). Surprisingly, more than 90% industrial units in the country are small SMEs. 84% of the SMEs have annual revenue of less than Rs0.5 million (SBP 2008).

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share in GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Services</td>
<td>17%</td>
</tr>
<tr>
<td>2. Manufacturing</td>
<td>30%</td>
</tr>
<tr>
<td>3. Trade &amp; Hotels</td>
<td>53%</td>
</tr>
</tbody>
</table>

Source: ILO/SMEDA (2002)

The table 2.2 explains that the services sector in Pakistan possesses 17% share in GDP, while manufacturing and trade plus hotels contribute 30% and 53% respectively.
c) Problems Faced by SMEs in Pakistan

SME sector in Pakistan has amazing potential of development but the key problems include various factors as depicted below:

Till late 90s, the focus of the government, banks, and financial institutes remained mainly on the corporate sector, particularly large-scale industries and manufacturing concerns. The greater concentration of facilitating and financing corporate sector resulted high rates of failures, owing to economic slumps, institutional malpractices, political motives, and damaging activities of labor unions in that sector left the formal lending institutes with huge infected portfolios (SME Bank 2009). A substantial portion of SME sector may not have the security required for collateral. Most of the SMEs appear deficient in accounting and financial information that hinders the effectiveness of financial statement-based lending and credit scoring. This leads to “SME finance gap” particularly in emerging economies (Newberry 2006). Another obstacle is lack of business plans/viability reports to assess the cash flows of business and expected return on investment. Since the viability based approach provides general business development assistance (Kamanyi 2003). Other major causes are lack of accounting and other information; and insufficiently high levels of profitability, gearing, liquidity, and other performance criteria on the part of funding applicants (ISR P 09). Some other constraints in the swift growth of SMEs in Pakistan include shortage of skills, scarcity of capital goods, poor management, lack of data on the sector, resistance to change and marketing (SBP 2009). Another report highlights that one of the problems being faced by this sector is that it does not have access to formal sources of financing (their formal credit usage is around 12%). Interestingly enough, compared to the high default rate of 65% among large concerns, SMEs default rate is only 15% (Tanveer 2001).

According to a report by World Bank Pakistan (WB Pakistan 2009), there is an enormous growth potential for financial services in Pakistan, especially in rural areas. Around one third of the population borrows, but only 3% use formal services to do so. The same report further adds that an incomplete legal and regulatory framework and non-SME-friendly products and procedures hamper increased SME lending. Indirect costs, legal fees, collateral registration, and documentation make bank lending expensive for small and medium enterprises (SMEs), (WB 2009). A similar report on SME sector in Canada highlights a situation, which seems common in Pakistan as well. A research report by International Monetary Fund (IMF) reveals that financing SMEs may be a challenge. Small loans do not always justify the overhead costs of financial institutions. Many SMEs are start-ups, with little or no credit history, and with few tangible assets to secure a loan. A large portion of SMEs offer untested ideas and innovative products whose commercial success is uncertain (IMF 2007). A similar report on SME sector in China also highlights a situation, which seems a resembling to the Pakistani situation. A study by Asian Development Bank (ADB 2002) reveals that SME investments are difficult to evaluate, take time to mature, and difficult to liquidate. In China, major institutional investors (including pension funds and insurance companies) are not allowed to invest in private SMEs. The study makes insights on international best practices on SME financing and states that to encourage investment in SMEs, most countries have the programs that either increase potential return to investors, or reduce risk of loss (ADB 2002).

d) SME Policy

The SME Policy 2006 (which is the latest one available and also called as SME Policy 2007) is designed by the Government of Pakistan, which has taken input from various government departments and sources. This was the 1st ever policy on SMEs in Pakistan came into being with the aim to facilitate and promote SMEs across the country. Special attention was paid to build the overall capacity of SMEs including financial, technical, entrepreneurial, managerial, human resources, marketing, and exports capability. The SME Policy was developed as a result of the deliberations of the SME Task Force and its four Working Committees. The SME Policy formulation was a participatory process through executives from ministry of production, industries, and special incentives, ministry of commerce, SBP, SMEDA, and other public sector institutions were involved, while the private sector bodies included, chambers of commerce and industries, trade associations, public sector organizations, and more than 1000 SMEs were consulted across the country.

e) SMEs Promotion by Private Sector

The concept of SMEs has been widely acknowledged and promoted by the private sector in Pakistan. On the front of the private sector in Pakistan, all the branches of chamber of commerce and industry and trade associations have formulated SME committees within their offices. The chairmen and members of such committees address, promote, and protect the interests of SMEs around the country. Union of Small and Medium Enterprises (UNISAME) is the specialized body of the private sector to deal with the issues of SMEs. On the academia side, business and commerce graduates are fully aware of the notion and significance of SMEs. FPCCI has also set an SME standing committee to deal with the affairs of SMEs. The Committee regularly reviews and proposes the Government the policy recommendations about SMEs in a bid to promote and safeguard the interests of the SMEs (FPCCI 2010). The Committee has added input in the SME policy as well.
III. Data Analysis

The quantitative data analysis has been undertaken through the software, SPSS (Statistical Package for Social Sciences) by using descriptive statistics, reliability test, and correlation techniques to test the model. The results are tabulated and elucidated hereunder:

Table 3.1: Reliability Test

<table>
<thead>
<tr>
<th>Scale</th>
<th>N</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>500</td>
<td>100.0</td>
</tr>
<tr>
<td>Excludeda</td>
<td>0</td>
<td>.0</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>100.0</td>
</tr>
</tbody>
</table>

a. List-wise deletion based on all variables in the procedure.

Table 3.1.1 Reliability Statistics

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.922</td>
<td>10</td>
</tr>
</tbody>
</table>

The reliability test shows Cronbach’s Alpha score of .922, while the benchmark of it is .7, which means the questionnaire and scale are highly reliable.

Table 3.2: Descriptive Statistics.

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SME Financing</td>
<td>500</td>
<td>3.7900</td>
<td>.68964</td>
</tr>
<tr>
<td>Financing Constraints</td>
<td>500</td>
<td>3.4988</td>
<td>.54813</td>
</tr>
<tr>
<td>Functional/Internal Barriers</td>
<td>500</td>
<td>3.5500</td>
<td>1.22903</td>
</tr>
<tr>
<td>Government Incentives &amp; Support</td>
<td>500</td>
<td>4.0700</td>
<td>.82179</td>
</tr>
<tr>
<td>SMEs' Growth &amp; Development</td>
<td>500</td>
<td>4.3250</td>
<td>1.25699</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>500</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
According to respondent’s opinions, as exhibited in table 3.2, the rating on independent variable SME Growth and Development was the highest with a mean of (4.32). The rating of Government Incentive and Support was second the highest with a mean of (4.07), the rating of SME Financing was the third highest with a mean of (3.79), the rating of Functional/Internal Barriers was the fourth highest with a mean of (3.55) and the rating of Financing Constraints was the lowest with a mean of (3.49).

The standard deviation of respondents’ opinions on “Financing Constraints” was the least (0.54), as compared to the other dimensions. This indicates that there is the highest participation in SME Financing dimension. The standard deviation of respondents’ opinion on SME Growth and Development was the highest (1.25), as compared to other dimensions. This indicates that there is the least involvement in SME Financing dimension.

### Table 3.3: Correlations

<table>
<thead>
<tr>
<th></th>
<th>SME Financing</th>
<th>Financing Constraints</th>
<th>Functional/Internal Barriers</th>
<th>Government Incentives &amp; Support</th>
<th>SMEs’ Growth &amp; Development</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SME Financing</strong></td>
<td>1</td>
<td>.937(** )</td>
<td>.929(** )</td>
<td>.966(** )</td>
<td>.931(** )</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td></td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td><strong>Financing Constraints</strong></td>
<td>.937(** )</td>
<td>1</td>
<td>.875(** )</td>
<td>.921(** )</td>
<td>.903(** )</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td></td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td><strong>Functional/Internal Barriers</strong></td>
<td>.929(** )</td>
<td>.875(** )</td>
<td>1</td>
<td>.884(** )</td>
<td>.857(** )</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td></td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td><strong>Government Incentives &amp; Support</strong></td>
<td>.966(** )</td>
<td>.921(** )</td>
<td>.884(** )</td>
<td>1</td>
<td>.961(** )</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td></td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td><strong>SMEs’ Growth &amp; Development</strong></td>
<td>.931(** )</td>
<td>.903(** )</td>
<td>.857(** )</td>
<td>.961(** )</td>
<td>1</td>
</tr>
<tr>
<td><strong>Sig. (2-tailed)</strong></td>
<td></td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
<td>.000</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
<td>500</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed).**
As exhibited in table 3.3, the correlation values show that there is a positive correlation among dependent and independent variables including SME Financing with Financing Constraints, Functional/Internal Barriers, Government Incentives and Support and SME Growth and Development. The dependent variable “SME Financing” has the strongest correlation with Government Incentives and Support (0.966**), then with Financing Constraints (0.937**), with SMEs’ Growth and Development (0.931**) and with Functional/ Internal Barriers (0.929**), while the significance level stands .00, which means all the alternative hypotheses are accepted.

Table 3.4: Regression.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>F Change</th>
<th>df1</th>
<th>df2</th>
<th>Sig. F Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.882*</td>
<td>.821</td>
<td>.821</td>
<td>.20798</td>
<td>.821</td>
<td>41.781</td>
<td>4</td>
<td>495</td>
<td>.0000</td>
</tr>
</tbody>
</table>

The table 3.4 and its summary exhibit the following statistics:
- The R value shows Coefficient of Correlation that is the numerical measure of strength of the linear relationship between two variables. The R value (.882) shows that there is a positive correlation among all variables, the dependent and independent variables, while the R Square and Adjusted R Square show Coefficient of Determination that provide a value of (.821), which means the results are 82% reliable to be used for estimation of population.

Table 3.5: ANOVA (b)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>27.817</td>
<td>4</td>
<td>6.954</td>
<td>41.781</td>
</tr>
<tr>
<td>Residual</td>
<td>82.391</td>
<td>495</td>
<td>.166</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>110.208</td>
<td>499</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The table 3.5 exhibits the following statistics:
- The Sum of Square shows the total variability around the mean, the Sum of Square of Residual Mean, the Sum of Squared Errors in Prediction, and Sum of Square Regression, which means the improvement in Prediction by using the predicted value of (Y) Dependent Variable over just using the mean of (X) Independent Variable.
- The degree of freedom means number of sample minus one.
- The F Test value (358) shows the combination of all variables and overall significances of the Model, it means there is a clear dependence of all the variables on each other, and the results appear significant.
Table 3.6: Coefficients (a).

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>6.912</td>
<td>.356</td>
<td>46.589</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Financing Constraints</td>
<td>.851</td>
<td>.056</td>
<td>.871</td>
<td>52.269</td>
</tr>
<tr>
<td></td>
<td>Functional/Internal Barriers</td>
<td>.74</td>
<td>.061</td>
<td>.647</td>
<td>54.912</td>
</tr>
<tr>
<td></td>
<td>Government Incentives &amp; Support</td>
<td>.86</td>
<td>.045</td>
<td>.536</td>
<td>81.752</td>
</tr>
<tr>
<td></td>
<td>SME Growth &amp; Development</td>
<td>.72</td>
<td>.044</td>
<td>.625</td>
<td>51.851</td>
</tr>
</tbody>
</table>

The table 3.6 exhibits the following statistics:

The t values of independent variables, Financing Constraints, Functional/Internal Barriers, Government Incentives & Support, and SME Growth & Development respectively stand (52.269), (54.912), (81.752), and (51.85). According to the rules if t value is greater than 2 (t>2.5), then null hypothesis will be rejected and alternate hypothesis will be accepted. That means the results accepted the hypothesis framed for the study and met its objectives, as delineated below:

H1: High cost of financing proves detrimental for SMEs and overall socio-economic development. ACCEPTED

H2: Low cost financing increases the demand for borrowing for SMEs and profitability of banks and creditors. ACCEPTED

H3: SME financing heavily depends on removal of financing constraints (i.e. functional/internal barriers of SMEs themselves and of financing agents). ACCEPTED

H4: The growth and development of SMEs is directly linked up with capacity building of SMEs and government incentives and support. ACCEPTED

The research objectives were also fulfilled with quantitative results, as delineated below:

1. To identify core constraints in access to finance by SMEs in Pakistan and other pertinent obstacles in the growth and development of SMEs. Objective FULFILLED.

2. To identify the role of government incentives and support for the growth and development of SMEs and understand their significance. Objective FULFILLED.

The findings of qualitative research suggest that most people/SMEs borrow but they use informal channels. They invest from their savings and retained earnings or borrow from friends and family members. Most of them feel reluctant to borrow from banks and financial institutes because of stringent collateral requirements, lengthy and convoluted documentary process, heavy mark up, and somehow hanky-panky / mal practices at banks and financial institutes. Most of the SMEs borrow for purchasing inventory and to meet working capital needs because the lending institutes evade sanctioning loans for venture capital or project financing for start-up businesses. The preference of the lending institutes is the corporate or large-scale sector, as they swiftly grant credit to them at discounted mark up and indirectly, they have been using credit rationing. The contribution of SME financing to total loan portfolio in 2009 stood only 10%, which decreased about 6 plus percent from last year.

IV. Conclusion and Recommendations

a) Conclusion

Formal financing is the biggest problem of SMEs because a substantial portion of SMEs does not have the security required for collateral. The loan processing time is very lengthy and cumbersome and the loan terms are not succinct and thoroughly understood by the borrower. The share of SME financing...
in total lending portfolio in Pakistan is only 10% (Daily Times 2010). In 2009, 89% of the SME financing was received for meeting working capital needs, which shows banks’ reluctance to finance long-run projects (Dawn 2010). Due to insufficient funds and relatively small size of business, most SMEs even don’t envisage of becoming the members of a stock exchange and issue shares of stock and bonds. There is an enormous growth potential for financial services in Pakistan, especially in rural areas. Around one third of the population borrows, but only 3% use formal services to do so. In addition, an incomplete legal and regulatory framework and non-SME-friendly products and procedures hamper increased SME lending. Indirect costs, legal fees, collateral registration, and documentation make bank lending expensive for small and medium enterprises (WB 2009). The unofficial sources report that the relations managers of various banks charge hanky-panky amount, generally 3 to 5% of the loan amount against sanction of a loan, but it all depends on case to case basis. The mark up rate on financing at 12.5% appears very high in the whole region. In addition, the banks also add a mark up spread from 2 or 3 to 6% on loans, which discourages the investment climate and the cost of doing business apparently becomes too high (SBP 2010). Islamic banking and stand-alone Islamic branches of conventional banks can make remarkable and stupendous growth provided their products offer interest free and profit and loss sharing financial solutions to enhance leverage to the SMEs.

Most of the SMEs appear deficient in accounting and financial information that hinders the effectiveness of financial statement-based lending and credit scoring. Another obstacle is lack of business plans/viability reports that is to assess the cash flows of business and expected return on investment. Other major causes are lack of accounting and other information; and insufficiently high levels of profitability, gearing, liquidity, and other performance criteria on the part of funding applicants. Some other constraints in the swift growth of SMEs in Pakistan include shortage of skills, scarcity of capital goods, poor management, lack of technology and data on the sector, resistance to change, and marketing.

b) Recommendations

Profit and loss sharing/ Islamic financing: It presents the best solution for promotion of SMEs in Pakistan because the owner does not bear the complete risks of loss and work freely to enhance the business with the financial support of a friendly bank. Collateral free lending: It should be offered for running finance to meet working capital needs and project finance/venture capital in a similar way. The prudential requirements of the State Bank of Pakistan also allow collateral free lending up to Rs3 million based on cash flows lending (SBP 2010). It should be offered to established businesses and a reasonable share of such loans should be passed for newly emerging businesses. Using cash flows & market credibility against financing: Using positive cash flows and company credibility or goodwill in the market need to be considered as tantamount to traditional requirement of collateral/mortgaged property. This will be especially suitable for SMEs with track record of success. Collateral free Sale-Purchase Agreement for inventory: As vast majority of SMEs borrow to buy inventory/stock, so such schemes should be launched on priority basis. The insurance cover for the lenders will be to get the stock of borrower insured and with consent of the borrower, some sensible person(s) can be hired on contractual terms to assist the warehouse in charge of the borrower and monitor and report the bank on the continuous progress of sale and balance status of inventory. Such products might attract very high demand. Collateral free lending against Trust warehouse receipt of tradable commodities: This practice is common in India and various parts of the world; it should also be adopted in Pakistan. The risk of the lender is minimized through receiving fresh stock of easily tradable commodities like, rice, wheat, sugar, cotton, and the like. The private warehouses under an agreement with the lender can provide such facilities. Moreover, the commodities can be covered from the risk of theft, fire, burglary, etc through an agreement with an insurance company. Collateral free leasing: There should be no collateral requirement on leased products especially for financing machinery and equipments. The risk of the leasing companies can be covered through insurance of the leased products. Moreover, the leasing company can utilize other risk minimizing instruments to safeguard its interests. Establishing credit guarantee/insurance agencies: The Pakistan Export Finance Guarantee Scheme (PEFGA) was established to facilitate the availability of finance for export trade to exporters and indirect exporters (SBP-PEFGA 2010). But unfortunately, it is known that PEFGA is about to close its operations and is undergoing the process of loans recovery, only because of lack of interest by the present regime. Like Pakistan Export Credit Guarantee Agency (PEFGA), other such agencies also need to be established, which can share the credit risk with the banks for financing SMEs. Financing ready-made businesses: Schemes like ‘President Rozgar Scheme’ and ‘Mera Apna Karobar- NBP Karobar’ offered by National Bank of Pakistan (NBP) in 2007, offer tailor-made solutions for generating self-employment. The products included utility store, mobile utility store, general store, rickshaws, public call offices (PCOs), and telecaster (tele-call centre) having great demand in the country. The mark up/interest on loans is subsidized by Government of Pakistan, as the borrower only pays 6% mark up and the rest is borne by the Government (NBP...
5. Concessionary mark up/interest rates. Low/subsidized schemes appear need of the hour and must be initiated building, and loaning to SMEs: In collaboration with Karobar is subsidized (NBP 2010). Establishing State Bank of Pakistan and National Bank of Pakistan rural areas should be given subsidized mark up rates by unfortunate and marginalized communities located in rural areas should be given subsidized mark up rates by State Bank of Pakistan and National Bank of Pakistan (NBP). In a similar manner, NBP’s scheme, Apna Karobar is subsidized (NBP 2010). Establishing institutes for entrepreneurship training, capacity building, and loaning to SMEs: In collaboration with SMEDA, banks and lending institutes, specialized institutions need to be opened to train and develop entrepreneurs and SMEs. The potential entrepreneurs and SMEs should be groomed to develop business management skills, engage in business and self-employment opportunities, enabling them to identify potential projects, design new products, conduct brief viability studies (or cost/benefit analysis), and eventually, they should be offered loans to resume their own businesses. It all requires commitment, mutual trust, capacity building, and continuous coordination among all stakeholders inclusive of entrepreneurs, SMEs, SMEDA, banks and lending institutes, and institutes for entrepreneurship training, capacity building, and loaning.

References


Abstract - This study investigates the relationship between economic growth and development in the telecom sector through foreign direct Investment (FDI) and making good infrastructure for land line and cell phones. We check the impact of the telecom sector, independent variable, on the economic growth, dependent variable, through using questionnaire based of five options likert scale then we used the simple regression model as statistical instrument to check the impact. In this study we shows that the growth in the telecom sector is not consider as a whole growth in the economy.

Keywords : Telecom, Economic growth, developing countries.

GJMBR-B Classification : FOR Code: 150501 JEL Code : L96, L63, O32, O33
Telecommunications Role in Economic Growth with Respect to Pakistan

Mohsin Shakeel o, Raja Abdul Ghafoor Khan o & Haniya Rehman Malik p

Abstract - This study investigates the relationship between economic growth and development in the telecom sector through foreign direct investment (FDI) and making good infrastructure for land line and cell phones. We checked the impact of the telecom sector (independent variable) on the economic growth (dependent variable) through questionnaire based on five points likert scale then we used the simple regression model as statistical instrument to check the impact. In this study we show that the growth in the telecom sector is not considered as a whole growth in the economy.

Keywords : Telecom, Economic growth, developing countries.

I. Introduction

The economists always consider an important factor for development in infrastructure of telecom in any county to measure growth in that country, therefore for economists, it is a positive sign for the economic growth the investment, which is in the infrastructure that ultimately impacted on the social over head capital, which consider as the education expenditure, health services, and public infrastructure e.g. roads, porches and the telecommunication. Studies measure the growth dividend of investment in telecom sector in developed countries but few have asses the impact of telecom role in developing countries (Hardy, 1980; Norton, 1992; Roeller & waver, 2001).

It is a well known fact that the transportation cost has heavily influnt and high the price of products the economy along with the organization always touch, in this regard and keep on trying to reduce the cost of the product. In OECD Organizational Economic Cooperative Developing) countries the spread of telecom network alone consider the responsible for one 3rd of out put growth between 1970 and 1990(Hardy, 1980; Norton, 1992; Roeller & waver, 2001).

It is also consider with this expansion in the telecom network helpful in expending of the market boundaries and information flows (Hardy, 1980; Norton, 1992; Roeller & waver, 2001).

To understand this phenomena that expansion in the market boundaries and information growth to much dependent on the telecom network in the Era before and the after 1860. In 1860 before the innovation of telegraph, markets were considered as close markets and no kind of information can be pulled out from such kind of markets and now there is an expansion in the market boundaries but after the expansion of the telegraphy instruments the market boundaries have gradually increased and the information transmitted from one market to another market (telecommunication & Empire Era 1860-1930). So it means that telecom networks are much helpful in producing economic growth, in decreasing of the transaction cost impacting on the GDP for economy trading on up-word with wide range out put significantly (Roellar & Verman, 2001). It is to remember that the level of telecom infrastructure working in the OECD countries was very low on the other hand it was at universal level in US and Canada in year of 1970. Where as in the same year the other European countries like France Italy and Portugal had limited telecom infrastructure (Roeller & Verman, 2001).

It is to note that expansion in the modern telecommunication infrastructure from 1970 to 1990 the economic growth has the up-word trend rapidly as compare to the investment in telecom networks field. (Leonard Waverman & Meloria Meschi, 2007). The level of penetration of telecom networks is increasingly on growth dependent which also on the level of penetration initially and nearly universal services; a phone in every house holds and firm as for the government stander the policy to establish the universal services has not only for enhancing the equity for the government but also has the implied appreciation in growth enhancing parameter of the telecommunication infrastructure expansion. (Roeller & Waverman, 2001). According to international organization namely International Telecommunication Union (ITU), 1995, only 214 are the member of this organization where as the rest of world still lack in the development in the telecommunication sector considering modern, efficient, economic system, (Roeller & Waverman, 2001).

According to Roeller and Waverman the telecom sector only comprised on fixed line systems rather then no knowing about mobile phones as much in era of 1970 to 1990. Whereas, today there is much development in the telecom sector, the mobile phones have given much weighted especially that members ITU in numbering 102 where lowering the penetration phone level in 1995, now there is also an increase in the mobile phone sector as compared to land line phones.
infrastructure. In this regard we can quote the example of Morocco where the telecom penetration rate was four fixed lines per 100 people and zero in mobile per 100 people in 1995 where as in 2003, 8 years later, mobile penetration was 24 per 100 people while the fixed line penetration remained almost the same. (Leonard Waverman & Meloria Meschi, 2007).

II. Reviewing of Literature

Telecom infrastructure development got a great attention of researchers in recent years. Zhu (1996) attempted to examine the causal relationship running from telecommunications investment to economic development only using a pooled time series analysis based on 17 years data from 23 countries, and found telecommunications investment countries, and found telecommunications investment countries, Madden and Savage (1998) analyzed the relationship between telecommunications infrastructure investment and economic growth by taking a sample of transitional economies in Central and Eastern Europe. The study showed that overall, there appears to be two ways, or mutual causality between telecommunications investment and real economic growth at the aggregate level. Boy laud and Nicoletti (2000) used factor analysis and panel data analysis to examine the effects of market entry, liberalization and privatization on productivity, prices and quality of service in long-distance fixed-line and in mobile telephony in 714 (Zahra, Azim, and Mahmood, 2002) several OECD countries. In another study, Li and Xu (2001) examined the impact of privatization and competition on fixed-line subscriptions, labour and factor productivity in the telecommunication industry worldwide. A study of Yilmaz, et al. (2001) indicated that the accumulation of telecommunication infrastructure improves the overall productive capacity at the regional level by examining the impact of telecommunications infrastructure on economic output both at the aggregate and sectoral levels in the United States. Wallsten (2002) used data on telecommunication industry worldwide to analyse whether the sequence of reforms matters. Fink, et al. (2002) used data on 86 developing countries worldwide to analyse the impact of telecommunication policy reforms on industry performance. Ding and Haynes (2004) empirically investigated the role of telecommunication infrastructure in long run regional economic growth in China for a sample of 29 regions for a 17 years’ period, from 1986-2002. With a panel dataset, they used a dynamic fixed effects model for estimation, which allows testing the relationship between regional economic growth with initial economic condition, fixed investment, population growth, as well as telecommunications infrastructure. On the basis of the results, they showed that telecommunications is both statistically significant and positively correlated to regional economic growth in real GDP per capita in China. The results were strong even after controlling for investment, population growth, past levels of GDP per capita, and lagged growth. They further indicated that the telecommunication investment is subject to diminishing returns, suggesting in this manner that regions at an earlier stage of development are likely to gain the most from investing in telecom infrastructure.

The result has been confirmed by more recent analysis of economic growth in OECD by Datta and Agarwal (2004) which indicates that telecommunications infrastructure plays a positive and significant role in economic growth using a similar (but not identical) data set as Roller and Waverman, which includes 22 OECD countries. A dynamic panel data method is used for estimation, which corrects for omitted variables bias of single equation cross-section regression. Again, country-specific fixed effects are included. Their results showed a significant and positive correlation between telecommunications infrastructure and growth, after controlling for a number of other factors.

a) Problem Statement:

The purpose of this study is exploring the relationship between the economic growths and financing through telecom infrastructure.

III. Conceptual Frame Work

![Conceptual Frame Work Diagram]

IV. Formulation of Hypothesis

The study is explaining to analyze the role of telecom on economic growth with expansion in this sector rapidly deployment of the modern technology. To examine the role of telecoms in growth of the economy with respect to Pakistan telecom sector for this making following Hypothesis.
**H1:** There is a significant role of telecom setup in the development of economic growth.
Against the null hypothesis there is no role

**H2:** Foreign Direct Investment in telecom sector plays a positive role for the development of the economic growth.
Against the hypothesis there is no positive role.

### V. Methodology

As this study is focusing to explore the role of telecom sector in gaining the economic growth with respect to Pakistan economy which is considered as an under developed economy. Since it is a volatile market therefore to calculate the role of telecom sector demands a deep analysis of the market and also the development in telecom sector is very crucial. To analyze, it is pre-requisite to examine before and after telecom sector role in increasing the GDP and Revenue of the Pakistan economy growth. It is also an important question that all the FDI's go into the telecom sector only or other sectors of the economy can be beneficial. To examine this role we have to check the impact of the telecom sector on economic growth. It is obvious that regression instruments are most logical and appropriate for this.

#### a) Statistical Instruments:

To check the impact of telecommunication on the economic growth we used the questionnaire comprising of eleven questions. We distributed this questionnaire to the students of the different universities in Rawalpindi & Islamabad. The sample size of our study is 113. We distributed and collected the questionnaire from our sample, 23 questionnaires were rejected on the basis of biasness and incompleteness.

We used simple regression model to check the relation between telecommunication sector and economic growth. On analysis we found that telecom sector plays a significant role in enhancing the economic growth of Pakistan therefore our first hypothesis proved.

Similarly to check the relationship between FDI and the economic growth we also used the simple Regression model that shows the result that FDI has also a significant effect in the economic growth so our second hypothesis also positively proved.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Constant)</td>
<td>.502</td>
<td>.253</td>
<td>1.983</td>
</tr>
<tr>
<td></td>
<td>FDI can enhance the GDP?</td>
<td>.344</td>
<td>.055</td>
<td>.399</td>
</tr>
<tr>
<td></td>
<td>FDI can be used to enhance PCI.</td>
<td>.577</td>
<td>.069</td>
<td>.521</td>
</tr>
<tr>
<td></td>
<td>FDI may consider good tool play important role in telecommunication infrastructure.</td>
<td>.452</td>
<td>.062</td>
<td>.370</td>
</tr>
<tr>
<td></td>
<td>Expansion in cellular and land line is a symbol of increase in GDP.</td>
<td>-.310</td>
<td>.063</td>
<td>-.360</td>
</tr>
<tr>
<td></td>
<td>Cellular and land line infrastructures expanded in result of increment of PCI.</td>
<td>-.090</td>
<td>.049</td>
<td>-.119</td>
</tr>
<tr>
<td></td>
<td>Cellular and land line infrastructure expansion is the result of economic growth.</td>
<td>-.211</td>
<td>.052</td>
<td>-.213</td>
</tr>
<tr>
<td></td>
<td>FDI can be considering an indicator of GDP growth in economy.</td>
<td>.184</td>
<td>.035</td>
<td>.220</td>
</tr>
<tr>
<td></td>
<td>PCI of economy can be showed FDI level in the economy.</td>
<td>-.475</td>
<td>.042</td>
<td>-.527</td>
</tr>
<tr>
<td></td>
<td>PCI level of the economy is influenced by the expansion in cellular and land line infrastructure.</td>
<td>.280</td>
<td>.060</td>
<td>.247</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Telecommunication sector is really backbone of the economic growth
VI. DISCUSSION

This study explores the relationship between economic growth and telecom sector development. The result shows that there is a strong relationship between both variables. In other words we can say that our dependent variable which is economic growth, has really become back bone of the economy in modern era for the developing countries like Pakistan if the policies may in the line of foreign investor (Sridhar, 2004). It is very important for the government to re-evaluate the policies to attract the foreign investor as well as for the environment suited for direct foreign investment so that capital investment required for the telecom infrastructure can be built in the country (Sridhar, 2004). According to table there is significant effect of fixed line as well mobile phone penetration on the economic growth on controlling on the factor of production like capital and labor (Sridhar, 2004).

The impact of the mobile and land line phone penetration in growth of developing countries are estimated against there impacts which are not taken as per the country specific social environment then mobile phone contribution has a positive effect on national output up to 16.2% for all developing countries (Sridhar, 2004). In the case of Pakistan the cell phone penetration from the period of 1998 – 2001 is accounted for up to 53.83% compounded annual growth rate (Sridhar, 2004).

a) Managerial Implications

Research shows in the context of Pakistan how telecom investment can impact on penetration with the increase the investment in telecom sector how and at what extant growth in the economy would be to such a level. It is also cleared from other researchers finding that a 1% penetration increment in mobile phones the growth rises up to 6.75% correspondingly.

b) Limitations:

This research is made on cross-sectional basis and this research can be taken on time series data which produce better results to enable us to use a good measure to determine the supply of investment in telecom sector.

VII. CONCLUSION

Our study shows that development in telecom sector can become back bone of the economic growth for the modern economic universe through the development in this sector really be a leap – frogged in cellular industry at the result of which most of the economies do have de regulated this sector significantly as the result of which FDI is available for this sector especially in mobile. With the help of FDI the telecom infrastructure can be restructured and be helpful in exulting the economic growth and the elevation of poverty in developing countries like Pakistan by providing the information regarding pricing, job opportunity and the markets it is also a fact that the growth in the telecom sector cannot be become as the substitute for the actual economic growth and offsets the negative economic effects cause by the over overarching exogenous shocks but a good facilitator for the economic growth for trickling down.

REFERENCES RÉFÉRENCES REFERENCIAS


Impact of Demographic Diversities on the Job Satisfaction and Its Consequences: Case of Academicians in Higher Learning Institutions of Pakistan (Application of Stepwise Multiple Regression)

By Saif-Ud-Din Khan, Dr. Allah Nawaz & Dr. Farzand Ali Jan
Qurtuba University Dera Ismail, Khan kpk, Pakistan

Abstract - Research on job satisfaction is replete with the studies exploring the impacts of personal and demographic attributes of the employees on their organizational attitudes. Demographics are tested as the predictor of job satisfaction or dissatisfaction and its consequences like involvement, commitment, absenteeism and turnover. Mixed results have been reported by the researchers showing that different demographic factors play different roles in diverse settings, for example, in advanced and developing countries. Thus, researchers have proved that demographic analysis is indispensable to understand the employee attitudes. This paper is a part of PhD research project on ‘job satisfaction of academicians in the HEIs of KPK, Pakistan.’

Keywords : Job Satisfaction, Involvement & Commitment, Absenteeism & Turnover, Demographics, Best Fit Models.

GJMBR-A Classification : JEL Code : J28

Strictly as per the compliance and regulations of:

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Impact of Demographic Diversities on the Job Satisfaction and Its Consequences: Case of Academicians in Higher Learning Institutions of Pakistan (Application of Stepwise Multiple Regression)

Saif-Ud-Din Khan \( ^\alpha \), Dr. Allah Nawaz \( ^\sigma \) & Dr. Farzand Ali Jan \( ^\rho \)

Abstract - Research on job satisfaction is replete with the studies exploring the impacts of personal and demographic attributes of the employees on their organizational attitudes. Demographics are tested as the predictor of job satisfaction or dissatisfaction and its consequences like involvement, commitment, absenteeism and turnover. Mixed results have been reported by the researchers showing that different demographic factors play different roles in diverse settings, for example, in advanced and developing countries. Thus, researchers have proved that demographic analysis is indispensable to understand the employee attitudes. This paper is a part of PhD research project on 'job satisfaction of academicians in the HEIs of KPK, Pakistan.' The researcher presents results of the 'stepwise multiple regression' for developing the 'best-fit models' for job satisfaction and its consequences. Gender, sector and marital status have emerged as the significant predictors.

Keywords : Job Satisfaction, Involvement & Commitment, Absenteeism & Turnover, Demographics, Best Fit Models.

I. INTRODUCTION

Human resource management has to handle several issues however; the organizational behavior is the most critical and decisive factor in the success and failure of management. Job-satisfaction is the leading commonly researched issue for both academic and professional researchers (Stacey, 1998; Locke and Latham, 2000:249). Satisfied workers hold positive perceptions and attitudes towards their employers (Marion, 2001; DeVane and Sandy, 2003; Dessler, 2005). Research shows that happy employees are productive while unhappy are not therefore, success of the organization depends on the satisfaction of their workforce (Lise and Judge, 2004). Organizations want their employees to be satisfied to become productive, efficient committed (Shamil and Jalees, 2004). Job satisfaction is the degree of an employee’s affective orientation towards their job (Tsugilis, Zachopologou, and Grammatikopoulou, 2006). Thus, job satisfaction is a very important attribute that is frequently measured by all types of organizations (Beyth-Marom, Harpaz-Goredsky, Bar-Haim, and Godder 2006; Wikipedia, 2009; Sattar, Khan, and Nawaz, 2010).

Job satisfaction is mostly predicted either with the factors of job satisfaction or demographic and personal attributes of the employees. The factors include pay, work, supervision, promotion, work environment, and coworkers (Williams and Sandler 1995; Stacey, 1998; Ellickson and Logsdon, 2001; DeVane and Sandy, 2003; Lise and Judge, 2004). Other investigators have used the concepts like personal and organizational factors (Saiyadain, 1998), personal & job characteristics (Sokoya, 2000), challenging work, equitable rewards, encouraging working conditions, supportive co-workers, personality (Naval and Srivastava, 2004), and the "demographic relationships" between satisfaction and the faculty (Shamil and Jalees, 2004; Tsugilis et al., 2006; Saifuddin, Khair-uz-Zaman, and Nawaz, 2010).

Employees are diverse in their demographic attributes, which have implications for the degrees of satisfaction from job dimensions like pay, work, promotion etc (Sokoya, 2000). For example, gender, age, education, designation, numbers of years in organization and marital status of the employees have widely been found critical in determining job satisfaction (Stacey, 1998; Marion, 2001; Bas and Ardic, 2002; Shah and Jalees, 2004; Chuhtai and Zafar, 2006; Eker, Anbar, and Dirbiyik, 2007; Asadi, Fadak, Khoshnodifar, Hashemi, and Hosseininia, 2008; Malik et al., 2010; Sattar, et. al., 2010). This study explores the issue of job satisfaction among the academicians in public and...
private sector universities of Khyber Pakhtunkhwa, Pakistan by empirically recording their attitudes and demographic attributes. Stepwise regression has been used to compute the significance of employee-demographics on their attitudes.

II. Literature Review

Experience tells that satisfied worker is involved and committed to his/her duties while dissatisfied workers practice negative attitudes of absenteeism and turnover (Locke and Latham, 2000:249-250; Bas and Ardic, 2002). Job satisfaction relates to an individual’s perceptions and evaluations of the job, which are affected by the needs, circumstances, and expectations (DeVane and Sandy, 2003). It is an emotional response to a job situation that is determined by how well outcomes meet or exceed expectations, for example, if employees are treated unfairly, work hard but rewarded less, they are likely to develop negative attitudes toward their job, officers and colleagues. However, if they are treated fairly and paid well, they are expected to have positive attitudes for the organization (Luthans, 2005:212). Thus, job satisfaction is the expression of contentment by an employee with regard to different dimensions of job (Wikipedia, 2009; Malik et al., 2010; Sattar et al., 2010).

Job satisfaction of academicians is well reported and certain factors of job satisfaction have been researched over and over showing that work, pay, promotion, supervision, co-workers and environment collectively defines the job satisfaction of the employees (Bas and Ardic, 2002; Santhapparaj and Alam, 2005; Beyth-Maron et al., 2006; Eker et al., 2007; Malik et al., 2010). Literature also provides evidence that employees express diverse attitudes about these factors of satisfaction due to their demographic diversities (Sattar et al., 2010). Different surveys are coming up with a variety of results where some demographics are emerging as having significant implications while other attributes have no or little impacts on the responses.

a) Job Satisfaction (js)

Job satisfaction is a general attitude which is determined by the factors of job satisfaction (such as, pay, work, superior’s attitude, environment etc.); personal characteristics of the worker (demographics); and social or group factors (Shajahan and Shajahan, 2004:116). People working in the private or government organization have certain needs to satisfy, which must be understood by the human resource management of the respective organization like university (Malik, Nawab, Naeem, and Danish, 2010).

Job satisfaction is defined as the contentment felt of the workers after a need is fulfilled (Williams and Sandler 1995; Robins, 1998: 170). It is a general attitude which is determined by the job predictors (i.e. pay, job, superior behavior and environment etc.) and the personal attitude (demographics) and other social and group factors (Shajahan and Shajahan, 2004:116).

People working in the private or government organization bring with them certain needs that affect their performance therefore, understanding how these needs are related with performance and how rewards can lead to job-satisfaction are the urgent issues for every organization working at any level (Sattar et al., 2010; Malik et al., 2010).

Research on the role of demographic factors in determining organizational attitudes is going on across the world by using a variety of statistical tools (Bas & Ardic, 2002; Shah and Jalees, 2004; Smith, Candall, and Hulin, 1969; Oshagbemi, 1999). Similarly, ‘regression tools’ have been used to predict worker behavior wherein both demographics and factors of job satisfaction has been used as predictors (Santhapparaj and Alam, 2005; Chughtai and Zafar, 2006; Beyth-Maron et al., 2006; Karimi, 2007; Eker et al., 2007). It is therefore critical for every HEI to perform demographic analysis and then use the findings in decision making thereby increasing the chances of job satisfaction (Saifuddin et al., 2010).

b) Demographic Impacts on Job Satisfaction

Several studies have explored the demographic attributes by using them as predictors of organizational attitudes, for example, gender, sector, designation, marital status, age, qualification, and experience (Saiyadain, 1998; Naval and Srivastava, 2004). The catalyst role of employee’s personal attributes and demographic characteristics is recorded by almost every researcher on job satisfaction. Almost all the researchers have identified ‘demographics’ as the change agents, which modify employee’s attitude towards different aspects of his/her job (Bas and Ardic, 2002; DeVane and Sandy, 2003).

Demographics also affect workers attitudes in terms of productivity, involvement and commitment on one hand and on the other hand the degrees of absenteeism and turnover or intention to leave (Shamil and Jalees, 2004). Another group of researchers have recorded that age, gender, experience, department, foreign qualification or exposure to different culture, and technological challenges always influence the overall satisfaction of the employees (Tella, Ayeni, and Popoola, 2007; Asadi et al., 2008; Sattar et al., 2010; Malik et al., 2010).

So there are several demographic variations among the workforce which influence the degrees of satisfaction from pay, supervision, work, and environment etc. for example sector (public and private), age, gender, education, qualifications, length of service and marital status etc. of the workers have widely been found critical in determining the satisfaction level (Rocca, and Kostanski, 2001; Base and Ardic, 2002; Eker et al., 2007; Asadi et al., 2008).
Given that, researchers have also identified the impact of demographic variables on overall job satisfaction and its different elements and workers related attitude such as, pay, coworkers, supervision, promotions, physical conditions, teaching and research, governance, productivity, involvement, and commitment in different work settings including academic environments (Oshagbemi, and Hickson, 2003; Oshagbemi, 2003; DeVane and Sandy, 2003; Ssesanga

III. Research Design

All organizations conduct surveys for computing demographic implications for the organizational attitudes of their workforce, for example, ‘comparative analysis of job satisfaction among public and private professionals (David and Wesson, 2001)’; ‘comparison of JS between public and private university teachers in Turkey (Bas and Ardic, 2002)’; ‘effects of factors of job satisfaction on the satisfaction of faculty members (Castillo and Cano, 2004)’; ‘JS of academic staff in private universities of Malaysia (Santhapparaj and Alam, 2005)’; ‘JS of Tutors in an Open University (Beyth-Marom et al., 2006)’; and ‘consequences of organizational commitment for teachers in Pakistani Universities (Chughtai and Zafar, 2006; Malik et al., 2010).’

Given the popularity of survey approach the researcher applied the same and used a structured questionnaire that was extracted from the literature. It was distributed among 260 academicians in the universities of KPK, Pakistan. 218 completed survey instruments were returned giving 83.84% of return rate. The questionnaire included questions about 8-demographic (Department, Designation, Qualifications, Gender, Age, Marital Status, and Sector of the University) and research variables including job satisfaction (from pay, work, supervision, promotion, environment, co-workers) involvement & commitment and absenteeism & turnover. 7-point Likert scale was used where 1 = strongly disagree, 2 = disagree, 3 = mildly disagree, 4 = neutral, 5 = mildly agree, 6 = agree and 7 = strongly agree.

SPSS 12.0 was used to create the database for analysis. The Reliability-analysis gave Cronbach’ Alpha of 0.904 for 55 items. Stepwise regression has been used to gradually exclude the insignificant demographic factors thereby reaching the list of the most significant demographics which stand out as the best fit for the criterion variables. All the demographic factors were first converted into dummy variables using the values of 0 and 1 for their dichotomous classifications.

Figure 1: Showing the Schematic Diagram & Empirical Results of the Theoretical Model.
IV. Findings of the Study

a) Demographic Groupings

Table 1: Showing the Demographic Groupings (n=218).

<table>
<thead>
<tr>
<th>Factors Groups</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender - GDR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>74</td>
<td>33.9</td>
</tr>
<tr>
<td>Male</td>
<td>144</td>
<td>66.1</td>
</tr>
<tr>
<td>Department - DPT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sciences</td>
<td>122</td>
<td>56.0</td>
</tr>
<tr>
<td>Non-Sciences</td>
<td>96</td>
<td>44.0</td>
</tr>
<tr>
<td>Public vs. Private – PPR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public</td>
<td>169</td>
<td>77.5</td>
</tr>
<tr>
<td>Private</td>
<td>49</td>
<td>22.5</td>
</tr>
<tr>
<td>Marital Status - MST</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Married</td>
<td>121</td>
<td>55.5</td>
</tr>
<tr>
<td>Unmarried</td>
<td>97</td>
<td>44.5</td>
</tr>
<tr>
<td>Designation - DSG</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AP&amp;ASP</td>
<td>84</td>
<td>38.5</td>
</tr>
<tr>
<td>Lecturer</td>
<td>134</td>
<td>61.5</td>
</tr>
<tr>
<td>Qualification - QUA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MPhil/PhD</td>
<td>71</td>
<td>32.6</td>
</tr>
<tr>
<td>Masters</td>
<td>147</td>
<td>67.4</td>
</tr>
<tr>
<td>AGE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>31-Above</td>
<td>96</td>
<td>44.0</td>
</tr>
<tr>
<td>20-30</td>
<td>122</td>
<td>56.0</td>
</tr>
</tbody>
</table>

b) Regression of Demographics on Job Satisfaction (JS)

i. Models, Coefficients & Excluded Variables (JS)

Table 2: Showing the Details of THREE Models.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.464(a)</td>
<td>.215</td>
<td>.211</td>
<td>.61924</td>
<td>59.200</td>
<td>.000(a)</td>
</tr>
<tr>
<td>2</td>
<td>.485(b)</td>
<td>.235</td>
<td>.228</td>
<td>.61275</td>
<td>33.029</td>
<td>.000(b)</td>
</tr>
<tr>
<td>3</td>
<td>.508(c)</td>
<td>.258</td>
<td>.248</td>
<td>.60471</td>
<td>24.862</td>
<td>.000(c)</td>
</tr>
</tbody>
</table>

Detail of the Models

a Predictors: (Constant), GDR
b Predictors: (Constant), GDR, MST
c Predictors: (Constant), GDR, MST, PPR
d Dependent Variable: Job Satisfaction (JS)

Table 3: Showing Coefficients of Regression in THREE Models.

<table>
<thead>
<tr>
<th>Model</th>
<th>Variables</th>
<th>B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>3.890</td>
<td>.072</td>
<td></td>
<td>54.036</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>GDR</td>
<td>.681</td>
<td>.089</td>
<td>.464</td>
<td>7.694</td>
<td>.000</td>
</tr>
<tr>
<td>2</td>
<td>(Constant)</td>
<td>3.695</td>
<td>.109</td>
<td></td>
<td>33.962</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>GDR</td>
<td>.817</td>
<td>.105</td>
<td>.556</td>
<td>7.803</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>MST</td>
<td>.236</td>
<td>.100</td>
<td>.169</td>
<td>2.366</td>
<td>.019</td>
</tr>
<tr>
<td>3</td>
<td>(Constant)</td>
<td>3.751</td>
<td>.109</td>
<td></td>
<td>34.262</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>GDR</td>
<td>.790</td>
<td>.104</td>
<td>.538</td>
<td>7.603</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>MST</td>
<td>.288</td>
<td>.100</td>
<td>.205</td>
<td>2.863</td>
<td>.005</td>
</tr>
<tr>
<td></td>
<td>PPR</td>
<td>-.268</td>
<td>.103</td>
<td>-.161</td>
<td>-2.600</td>
<td>.010</td>
</tr>
</tbody>
</table>

Table 4: Showing the Excluded Variables in THREE Models.

<table>
<thead>
<tr>
<th>Model</th>
<th>Beta</th>
<th>T</th>
<th>Sig.</th>
<th>Partial Correlation</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DPT</td>
<td>-.064(c)</td>
<td>-1.076</td>
<td>.283</td>
<td>-.074</td>
<td>.995</td>
</tr>
<tr>
<td>DSG</td>
<td>-.024(c)</td>
<td>-.391</td>
<td>.696</td>
<td>-.027</td>
<td>.932</td>
</tr>
<tr>
<td>QUA</td>
<td>-.046(c)</td>
<td>-.761</td>
<td>.448</td>
<td>-.052</td>
<td>.944</td>
</tr>
<tr>
<td>AGE</td>
<td>.067(c)</td>
<td>.893</td>
<td>.373</td>
<td>.061</td>
<td>.618</td>
</tr>
</tbody>
</table>
ii. Analysis I

Above analysis reveals that only three out of seven factors have emerged as critical in predicting the variation in job satisfaction of the academicians. Model 3 shows that gender \((\beta = .538, p<0.05)\), marital status \((\beta = .205, p<0.05)\) and sector i.e. public vs. private \((\beta = -.161, p<0.05)\) are the best predictors of job satisfaction. Department, designation, qualification and age are playing no role in explaining the variation in the dependent variable (See table 4). After excluding the insignificant factors, the best-fit to predict ‘job satisfaction of academicians’ is:

\[
JS = a + \beta_1GDR + \beta_2MST + \beta_3PPR + e
\]

\[
JS = 3.751 + .538 + .205 + -.161 + .60471
\]

c) Regression of Demographics on Involvement & Commitment (I&C)

i. Models, Coefficients & Excluded Variables (I&C)

Table 5: Showing the Details of TWO Models.

<table>
<thead>
<tr>
<th>Model</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.675(a)</td>
<td>.456</td>
<td>.95729</td>
<td>180.753</td>
<td>.000(a)</td>
</tr>
<tr>
<td>2</td>
<td>.752(b)</td>
<td>.566</td>
<td>.85715</td>
<td>139.933</td>
<td>.000(b)</td>
</tr>
</tbody>
</table>

Detail of the Models

a. Predictors: (Constant), GDR
b. Predictors: (Constant), GDR, PPR
c. Dependent Variable: Involvement and Commitment (I&C)

Table 6: Showing the coefficients of Regression in TWO Models.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.020</td>
<td>.111</td>
</tr>
<tr>
<td>GDR</td>
<td>1.841</td>
<td>.137</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.406</td>
<td>.113</td>
</tr>
<tr>
<td>GDR</td>
<td>1.617</td>
<td>.126</td>
</tr>
<tr>
<td>PPR</td>
<td>-1.057</td>
<td>.143</td>
</tr>
</tbody>
</table>

Table 7: Showing the Excluded Variables in TWO Models.

<table>
<thead>
<tr>
<th>Model</th>
<th>Beta In</th>
<th>T</th>
<th>Sig.</th>
<th>Partial Correlation</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>DPT</td>
<td>-.065(b)</td>
<td>-1.453</td>
<td>.148</td>
<td>-.099</td>
</tr>
<tr>
<td></td>
<td>MST</td>
<td>-.070(b)</td>
<td>1.278</td>
<td>.203</td>
<td>.087</td>
</tr>
<tr>
<td></td>
<td>DSG</td>
<td>-.013(b)</td>
<td>-.280</td>
<td>.779</td>
<td>-.019</td>
</tr>
<tr>
<td></td>
<td>QUA</td>
<td>-.069(b)</td>
<td>-1.505</td>
<td>.134</td>
<td>-.102</td>
</tr>
<tr>
<td></td>
<td>AGE</td>
<td>-.047(b)</td>
<td>-.952</td>
<td>.342</td>
<td>-.065</td>
</tr>
</tbody>
</table>

ii. Analysis II

Involvement and commitment was the second criterion variable tested for demographic impacts. The results (table 7) shows that only gender \((\beta = .593, p<0.05)\) and sector \((\beta = -.342, p<0.05)\) are the significant factors while rest of the five factors have been excluded from the models through stepwise multiple regression (See table 7). The best fit for the dependent variable, therefore, is:

\[
I&C = a + \beta_1GDR + \beta_3PPR + e
\]

\[
I&C = 3.406 + .593 + -.342 + .85715
\]

d) Regression of Demographics on Absenteeism & Turnover (A&T)

i. Models, Coefficients & Excluded Variables (A&T)

Table 8: Showing the Details of ONE Model.

<table>
<thead>
<tr>
<th>Model</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.325(a)</td>
<td>.106</td>
<td>.102</td>
<td>1.13397</td>
<td>25.516</td>
</tr>
</tbody>
</table>

Detail of the Model

a. Predictors: (Constant), GDR (Gender)
b. Dependent Variable: Absenteeism and Turnover (A&T)
Table 9: Showing the Coefficients of Regression in ONE Model.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>4.369</td>
<td>.132</td>
</tr>
<tr>
<td>GDR</td>
<td>.819</td>
<td>.162</td>
</tr>
</tbody>
</table>

Table 10: Showing the Excluded Variables in ONE Model.

<table>
<thead>
<tr>
<th>Model</th>
<th>Beta In</th>
<th>t</th>
<th>Sig.</th>
<th>Partial Correlation</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>1</td>
<td>DPT</td>
<td>-.047(a)</td>
<td>-.726</td>
<td>.469</td>
<td>-.049</td>
</tr>
<tr>
<td>MST</td>
<td>.122(a)</td>
<td>1.587</td>
<td>.114</td>
<td>.108</td>
<td>.701</td>
</tr>
<tr>
<td>PPR</td>
<td>-.110(a)</td>
<td>-1.671</td>
<td>.096</td>
<td>-1.13</td>
<td>.942</td>
</tr>
<tr>
<td>DSG</td>
<td>.055(a)</td>
<td>.845</td>
<td>.399</td>
<td>.058</td>
<td>.978</td>
</tr>
<tr>
<td>QUA</td>
<td>.043(a)</td>
<td>.661</td>
<td>.510</td>
<td>.045</td>
<td>.978</td>
</tr>
<tr>
<td>AGE</td>
<td>.083(a)</td>
<td>1.164</td>
<td>.246</td>
<td>.079</td>
<td>.823</td>
</tr>
</tbody>
</table>

ii. **Analysis III**

The third variable tested for demographic implications was absenteeism and turnover. Again gender is most important rather only factor, which divides the respondents (β = .325, p<0.05). There is difference of opinion between the males and females about the nature and process of absenteeism and turnover. They have different experiences about this variable therefore hold diverse attitudes. The best fit therefore is:

\[ A&T = a + 1\text{GDR} + e \]

where:

\[ A&T = 4.369 + .325 + 1.13397 \]

V. **Summary of Analysis**

Table 11: Showing the Summary-Detail of all Models.

**Job Satisfaction**

Hypothesized Model

\[ J_S = a + \gamma_1 \text{GDR} + \gamma_2 \text{DPT} + \gamma_3 \text{MST} + \gamma_4 \text{PPR} + \gamma_5 \text{DSG} + \gamma_6 \text{QUA} + \gamma_7 \text{AGE} + e \]

1 The best fit

\[ J_S = 3.751 + .538 + .205 + -.161 + .60471 \]

Excluded variables: DPT, DSG, QUA, & AGE

**Involvement & Commitment**

Hypothesized Model

\[ I&C = a + \beta_1 \text{GDR} + \beta_2 \text{DPT} + \beta_3 \text{MST} + \beta_4 \text{PPR} + \beta_5 \text{DSG} + \beta_6 \text{QUA} + \beta_7 \text{AGE} + e \]

2 The best fit

\[ I&C = 3.406 + .593 + -.342 + .85715 \]

Excluded variables: DPT, MST, DSG, QUA, & AGE

**Absenteeism & Turnover**

Hypothesized Model

\[ A&T = a + \alpha_1 \text{GDR} + \alpha_2 \text{DPT} + \alpha_3 \text{MST} + \alpha_4 \text{PPR} + \alpha_5 \text{DSG} + \alpha_6 \text{QUA} + \alpha_7 \text{AGE} + e \]

3 The best fit

\[ A&T = 4.369 + .325 + 1.13397 \]

Excluded variables: DPT, MST, PPR, DSG, QUA, & AGE

Table 12: Showing the Roles of Demographics in Different Models.

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Job Satisfaction</th>
<th>Involvement &amp; Commitment</th>
<th>Absenteeism &amp; Turnover</th>
<th>Roles of the Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 GDR</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>3</td>
</tr>
<tr>
<td>2 DPT</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>3 MST</td>
<td>✓</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>4 PPR</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>5 DSG</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>6 QUA</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>7 AGE</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>
VI. Discussion

Table 12 gives interesting findings with regard to the roles played by the demographic attributes of the academicians in HEIs of KPK. The leading points to revisit gender the single most important predictor of all the research variables having significant influence on overall job satisfaction and its outcomes. Male and females are significantly different in their opinion with respect to overall job satisfaction, involvement and commitment as well absenteeism and turnover. These findings are also in the line of Okpara, Squillace, and Erondo, (2005), in United States where they have identified gender discrimination in higher education and provide evidence that male teachers were more satisfied than their female counter parts. Gender differences are also found by previous researchers in their different cultural perspective like Base and Ardic (2002), in Turkey and Shah, and Jalees, (2004) in Pakistan.

Therefore, the issue should be carefully managed and review the policy of the carefully because ‘women in higher education have contributed significant progress’ (Okpara, Squillace, and Erondo, 2005). Writers have not only sought to describe where women are within the academic but also to put forward explanations for that position and the differing perspectives offered by economists, sociologists, feminists, and management theorists-provide numerous and potentially conflicting explanations of the gender differences in academia (Shaw and Cassell, 2007).

Second critical factor is the classification of public and private institutions. The respondents have difference of opinion about both job satisfaction and involvement and commitment. This also supports previous studies like public sector Greek educators were found more satisfied from their compensation and supervisor in comparison to their colleagues from the private sector (Tsikilis, et.al. 2006). In Turkey public and private university teachers have also reported significant differences about their satisfaction and suggested to review the personnel policies of the public universities because private universities academicians appear to be significantly different from the public university teachers (Bas, and Ardic. 2002). Since the conditions of private and state owned universities are different in so many aspects, it is meaningful to conduct the research with respect to the satisfaction of their employees separately (Kusku, 2003).

Marital status of the respondents is significant in determining the job satisfaction and has no role in other hypothesized regression models. It has been found in a previous literature that marital status significantly affect job satisfaction and explore that, when marriage time increases, the job and life satisfaction also increased (Dikmen, 1995; Azalea, Omar, and Mastor, 2009). Their results show that “married employees are less satisfied as compare to unmarried”. However, the results of Greek academics were found no statistical significant influence of marital status on the job satisfaction (Platsidou, and Diamantopoulou, 2009).

In addition, it was identify by Altinok, (2011), in the public universities in “Ankara province” that marital status significantly affect the life and job satisfaction. Their result reveals that academicians concerning job and life satisfaction feel negativity of being married and the unmarried academic personnel have a higher life and job satisfaction than the married ones. Nevertheless, the results are contradictory in Pakistan where researchers found that marital status has emerged as a consistent predictor of organizational commitment. They reports that married people have more family responsibilities and need more stability and security in their jobs. Therefore research shows in Pakistan that marital status would be positively related to university teachers’ commitment (Chughtai and Zafar, 2006). Furthermore department, Designation, Qualification and Age has been found having no effect whatsoever in any of the regression models applied on all three test-variables.

VII. Conclusions

Although the impacts of demographics are widely reported as the significant predictors of the employee attitudes, the current study however, gives surprising results, which are quite contrary to the hypothesized models. Out of seven demographic attributes tested; only three have emerged as critical. Rest of the four factors is playing no role in predicting the values of dependent variables. It is however, alarming that gender differences surface as the most obvious factor showing diversities between males and females. Perhaps it is because of the current political situation in the country.

The difference of opinion between the respondents from public and private sector institutions is also important and denoting several implications. This classification is predictive of variance in job satisfaction and involvement and commitment. However, it has no role in explaining the absenteeism and turnover. The factor has positive impacts as compared to the mixed role of gender. Finally, the marital status of the respondents has implications for the job satisfaction and relations with the involvement & commitment as well as absenteeism & turnover. It is therefore concluded that demographic impacts on the attitudes of academicians in the HEIs of KPK are not significant in terms of their number. However, those few, which have implications, are sensitive; demanding careful handling to keep the related-decisions up and right.
REFERENCES Références Referencias


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Effect of Trustworthiness of Internet Merchants on Consumer Trust in Online Shopping with the Moderating Effect of Perceived Risk

By Muhammad Mudassir & Aziz Ur Rahim

Muhammad Ali Jinnah University Islamabad Pakistan

Abstract - Internet marketing has significantly changed the personality of store competition. More and more often, even normal customer not just the technical smart one is diving in over internet. The level to which the World Wide Web suppliers can build trust will considerably affect the desire to purchase over internet. Consequently it is important to understand the aspects that effect customer believe in e-retailers. Data was collected from five main universities of Islamabad i.e. Muhammad Ali Jinnah university, Islamic International, Comsats, Behria and Quaid.e.Agaz university Islamabad. Snow ball sampling technique was used and 200 questionnaires were distributed of which 157 were returned. Result showed that trust of internet merchants does play a pivotal role in attracting customer to shop online. The finding of this research paper will help the internet marketers and merchants to device such strategies that can ensure consumer trust on e.retailers and hence lessen the risk being involved in online transaction.

GJMBR-A Classification : JEL Code : L86
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1. Introduction

The use of the Online for buying products or services has tremendous prospective. The Online allows customers to store or do dealings 24 hours a day, all year around from almost any location. It also provides customers more solutions and allows them to have fast assessments. Moreover, it allows customers to interact socially, come back ideas, and to assess activities with other customers in the electronic communities'. Though the Internet offers an array of advantages that together have been shown to be grievous enough to appeal customers, recent surveys demonstrated that the onrush place of net shopping still remains low.

Turban and Lee (2001) define trust in e-commerce as “The willingness of a consumer to be vulnerable to the actions of an Internet merchant in an Internet shopping transaction, based on the expectation that the Internet merchant will behave in certain agreeable ways, irrespective of the ability of the consumer to monitor or control the Internet merchant”. Competition is just a mouse click away and the internet’s merchants are trying to not only delivering high quality of foolproof services but also maintain the ground of prospect customers. Scholar and Literature identify different determinant that contribute towards trust i.e. ability, belevonce, and integrity. Deficit of trust in has been consistently established as one of the most highly effective restrictions to individuals for exciting in e-commerce, such as negotiations in which reasonable and personal details is provided to providers via the Internet. In the long run of e-commerce it seems to be weak and unconvincing without a common atmosphere of online believe in. Creating client believe regarding online shopping is still a big challenge to the internet merchants and without developing the consumer trust it is difficult to flourish this industry (Wang & Emurian, 2005). Client believe in of Online organizations is a considerable element affecting the achievements of e-commerce. To increase customer believe in, many e-retailers are analyzing and trying to come up with different trust-building techniques, such as participation in third-party assurance applications (Kimery & McCord, 2002).

Business-to-consumer electronic dealing, one cover of which is Web-based shopping, is characterized as electronic-based scheme transactions conducted between consumers and organizations. Despite the overall financial system crises in the Internet and telephone systems places, digital market (EC) will improve and business Web websites will stay an essential interactions channel. However, genuine concerns regarding privacy and trust seems to be the main factors in the way to development and essential concerns to both people and organizations (Liu, Marchewka & Yu, 2005). Consumer behavior research find out that knowledgeable clients will most likely depend on other factors but if talk about the fresh customers they heavily rely upon reputation and brand image (Ward & Lee, 1999).

The levels to which the e-retailer can develop believe in will considerably effect the desire of the individual to create purchases over the internet (Grewal, Munger, Levy & Lyer, 2003). Proof indicates that clients often think twice to execute with Web-based organizations because of issue about resource perform or the Perceived risk possibility of having personal information thieved by hackers (McKnight, Choudhury & Kcmar, 2002). Because of trust on web merchants can allow Web visitors to deal with both incertitude and concerns in on the internet conversations, and to help them make amazing goals towards Web organizations.
them make amazing goals towards Web organizations. Believe in is of amazing significance for the success of e-commerce, since it is an important element that clients take into consideration in their decision-making when choosing on the Internet customers acknowledged variations in size and popularity among Internet shops, and those variations affected their examination of shop reliability and their understanding of danger, as well as their desire to use the store (Jarvenpaa, Tractinsky & Vitale, 2000).

II. Research Problem

As it is the era of globalization and everyone wants to have quick access. Because lack of time it is difficult for a person to visit a place in search it manually and than by a commodity. Internet provides easy access of information to everyone but the main problem is that people generally don’t trust to purchase anything on internet because of lacking trust on e-retailers and risk being associated with e-transactions.

III. Research Questions

1. Can trustworthiness of internet merchants create consumer trust in online shopping?
2. Can perceived risk moderates the relationship between trustworthiness of internet merchants and consumer trust on online shopping?

IV. Objectives

1. To find out the impact of trustworthiness of internet merchants on the consumer trust in online shopping.
2. To what extant perceived risk moderates the relationship between trustworthiness of internet merchants and consumer trust on online shopping.

V. Significance

The significance of merchants and customer trust for Internet shopping is underexploited, however, because as recent market Surveys have confirmed, many users are reluctant to make purchases on the Internet. Their main reasons may be because of low trust worthiness of internet merchants, reputation of the website and size. On the other hand what internet customers perceived is also very important to bring under consideration they fell insecure mainly regarding the privacy policy of the web merchants, risk being involved regarding online transactions, size and reputation also plays a very pivotal role for internet customers to shop. In addition, this research paper shows detail of a potential empirical investigation of some major hypotheses arising from the model. Findings from such research could extend trust and e-commerce theories, and be used to guide efforts by the e-commerce community to increase consumer trust in Internet shopping.

VI. Literature Review

a) Trust Worthiness of Internet Merchants:

On the internet believe in is essential both business to business as well as business-to-consumer e-business. Customers as well as companies, sensation stress associated with downturn in the economy as well as terrorism, progressively turn to purchase from is to do company along with businesses most abundant in reliable Internet sites as well as electric systems (Shankara, Urban & Sultan, 2002).

The idea associated with trust continues to be analyzed in a variety of situations through the years. The theoretical perspectives used in this research are aggregated into two categories.

- **Theory of Psychology** characterizing trust in terms of the anticipations and also willingness of the trusting party inside a business deal, the risks connected with acting on such anticipations, and the contextual elements that both enhance or perhaps prevent the development and maintenance of the trust. It seems to be best with regard to knowing customer trust upon buying since it concentrates on transactions.

- **Theory of Perceived risk** it has been assumed that individuals behave in a rational manner, weighing information before making a decision. Individuals have exaggerated fears due to inadequate or incorrect information. Implied in this assumption is that additional information can help people understand true risk and hence lessen their opinion of danger.

According to (Das and Teng, 2004) believe in continues to be utilized in 3 various ways -namely, like a perception ("subjective trust"), because numerous individual as well as situational aspects that may lead to very subjective believe in ("trust antecedents"), so that as those things caused by very subjective believe in ("behavioral trust"). Deficit of customer believe in e-commerce merchants, e-commerce technological innovation, and the public, financial and lawful infrastructures of the e-commerce atmosphere, creates a significant challenge to the large-scale usage of business to consumer e-commerce (Patton & Josang, 2004).

Three aspects that people get with regard to Believe in value with regard to web retailers tend to be Capability, Benevolence as well as honesty. Ability refers to the team that permits the actual trustee to become recognized qualified inside a few particular domain names. Benevolence may be the level that trustee considered to really feel gregarious treatment as well as issue and also the determination to perform great towards the trustier past a good single minded profit purpose. Integrity is actually faithfulness to some group of concepts this kind of as (study/work habits) considered to the actual trustee reliable as well as...
dependable based on trustor (Jarvenpaa, Knoll & Leidner, 1998).

Creating customer believe in is essential for brand spanking new or even not known Web companies trying to lengthen their own client achieve internationally. Creative designers look at the social features associated with potential customers to improve believe in, considering the fact that various trust-building internet techniques will vary price effects (Sia et al., 2009). The result claim that worth improving methods such as guarantee associated with protection as well as cash back guarantee would be the majority of element for your brand new web retailers to draw the internet clients (Grewal et al., 2003).

The actual scientific results uncover that this recognized perceived ability, integrity as well as benevolence associated with remote control teammates had been considerably less than the actual rankings associated with nearby teammates which this particular difference improved since the tasks proceeded, Curiously, the outcomes reveal that this development associated with believe in is not really essential for the digital group to provide an excellent outcome. A few groups displaying lower levels associated with believe in could offer top quality outcome (Kelsey & Aubert, 2003).

Individual trust propensity also an important aspect in relationship of trust (Kee & sun, 2005). Since discussed broadly in the literature, businesses which have a solid environment associated with internal believe in and the ones who else very easily create relying human relationships along with exterior patners carry out much better than businesses along with reduced amounts of believe in. This is especially correct with regard to businesses contending within worldwide marketplaces (Kelley & Huff, 2003).

By Dillon, Thompson and Corner (2002) study had been made to discover the value of recognized customer danger and also the buying encounter on the internet buying behavior of sites customers. Each recognized customer risk as well as lack of interpersonal discussion in online buying had been discovered to become adversely linked to the quantity of on the internet buys created. Substantial unfavorable relation find among recognized risk on the internet buying behavior. Since the significance positioned on aspects associated with the item risk as well as personal privacy danger sizes associated with customer risk improved, the quantity of on the internet buys created had been discovered to diminish.

Digital re-embedding, i.e. including interpersonal tips to some web site, continues to be recommended just as one technique to improve customer rely upon online-vendors. Several online stores at the same time include this tactic, for instance with the addition of pictures as well as brands associated with customer support real estate agents or even through making discussion and give a call back possibilities (Steinbrück & Schaumburg, 2003). Trust and commitment in as well as dedication would be the main tenets within creating effective extensive human relationships on the internet selling circumstance. Within the lack of actual physical discussion between purchaser and also the owner, sites ought to obtain the actual believe in from the purchasers as well as provide within the guarantees created have grown to be main problems within on the internet client romantic relationship administration (Mukherjee & Nath, 2007).

Research consists of program assurance is a distinctive determinant associated with customer rely upon the actual product as well as implies that program guarantee of the Internet merchant has got the most powerful impact upon customer believe in of most the actual antecedents associated with believe in, that shows a definite distinction through the antecedents associated with rely upon the standard advertising materials. (Teo & Liu, 2005). On the basis of above literature we develop the below hypothesis.

H1: Trust Worthiness of Internet Merchants strongly affects the online customer trust.

b) Perceived Risk

Perceived risk and perceived benefits of online shopping were found to be considerably associated with the amount and regularity of online buys made. Loss of social connections in on the internet shopping was associated with reduced online spending. The results of the research recommend that Internet marketing Web sites should include features that boost client support and decrease recognized risk. (Doolin, Dillon, Thompson & Corner, 2005). The outcome of another research indicates that recognized comfort of the e-shop has the best effect on trust, followed by recognized popularity of the shop network. (Eitzrow & Meyer, 2007).

A paper suggest that there are four major aspects which effect customer views of their online purchasing experiences namely website style, reliability of the web privacy and online web customer service (Shergill & Chen, 2005). Ferrin, Rao and Kim (2008). Argued that the consumer trust as well as recognized risk possesses powerful effects on the buying choices on web. Lieberman and Stashevsky (2002) find that if the internet marketers and online solution providers are successful in satisfy the customer about not to lose their credit card and personal information can boost Internet utilization motivation. Comfort features differ greatly from web page to web page and with the growing issue of credit card frauds, undesirable solicitation and identification fraud on the rise a client's details being kept personal is of great concern (Schaupp & Bélanger, 2005).

A particular investigation looked into the actual relative’s significance, whenever buying services and
goods on the Internet, customer often look for 4 aspects. (1) 3rd party personal privacy finalizes, (2) personal privacy claims, (3) 3rd party protection finalize, as well as (4) protection features. The outcomes reveal customers appreciated protection functions a lot more compared to 3 some other believe in directories. (Belanger, Hiller & Cruz, 2002). Moreover, protection as well as personal privacy tends to be after that straight associated with believe in, that continues to be the competing benefit on the internet atmosphere. By having the literature support we are able to develop the H2.

H2 : Perceived Risk plays the moderating role between trustworthiness of internet merchants and consumer trust on online trust.

c) Customer trust in online shopping

Consumer-perceived risk is actually decreased using the embrace institutional believe in. Meaning that certain method to decrease consumer-perceived risk would be to create, promote, as well as improve institutional believe in using the participation of economic as well as interpersonal organizations within the capability associated with guarantors within the swap procedure (salam, Rao & Pegels, 2003).

Srinivasan (2004) Argued some key elements that can be used as a source of gaining customer trust are benefits of the website, branding, Product or services that the company offers and there quality. If the web merchants wants to target females means they are offering female based gender product so the web merchants should devise a strategy that can reduce the risk even though all those women tend to be skilled Online users (Garbarinoa & Strahilev, 2004).

Insufficient rely upon on the internet businesses is really a main reason numerous internet users usually do not use the internet. Particularly, it was found that recognized trustworthiness of the organization as well as recognized reputation from the organization in order to personalize the services and products had been substantial antecedents in order to preliminary rely upon the organization (Koufaris & Sosa, 2004). Previous analysis indicates that website can impact the wish of the consumer to perform online (hussain, Suhaimi & Mustafa, 2005). The outcome of a research reveals that customers will believe in the website if they experience the web page keeps a justified moral performance (Yang, Lin, Chao & Chandlrees, 2009). A vital discovering claim that relatives power associated with perceived protection upon rely in EC dealings instead of merchant popularity as well as monetary legal responsibility. Whilst restricted monetary legal responsibility continues to be suggested like a surrogate for facts protection in the direction of creating customer believe in (Chellappa & Pavlou, 2002).

Whenever examining causes of customer rely upon e-retailing, customers appear to create their own choice in order to believe in a good e-retailer on the perception-based, intellectual foundation. Nearly all substantial aspects (reputation, personal, info through buddies as well as family members, recognized investment decision, recognized likeness, recognized manage, recognized familiarity) are straight associated with the actual customer’s understanding associated with electronic selling, Walczuch and Lundgren (2004) suggest that an individual has associated with e-retailers is actually therefore the most crucial determinant associated with rely upon e-retailing. Customer acknowledged strength of non repudiation, privacy protection, and information stability was found to be key elements of e-commerce acceptance (Suh & Han, 2003).

Belanger, Hiller and Smith (2002) study suggest that a large number of individuals using the Internet have serious privacy concerns, and that winning public trust is the primary hurdle to continued growth in e-commerce. Researchers found that loyalty within B2C e-Services website is impacted by believe in, satisfaction as well as acknowledged community presence (Cyr, Hassanein, Head & Ivanov, 2006). When a customer consistently use vendor’s web it generates not only customer loyalty and customer satisfaction but also create word of mouth (Palvia, 2009).

By having comprehensive literature review it is obvious to know that internet merchant’s trustworthiness is of extremely important concerned issue for the customer to shop online and another factor is the perceived risk that stops the customer from doing online shopping. So for above mentioned issues we come up with the suggested model as below.

VII. Model

```
Perceived Risk

Trustworthiness of Internet Merchants

Consumer trust on Online Shopping
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VIII. Research Methodology

This study was conducted to verify the impact of trustworthiness of internet merchants on consumer trust on online shopping. For this purpose data was collected from the population of five university students having some background of online shopping. The initial sample for the study was selected from students at five universities; Muhammad Ali Jinnah, Comsats institute of information technology, Quaid.e.azam, Behria University and a major university is Islamic International. Students who volunteered to complete the survey were then requested to recruit at least two other individuals who shop online. Through this snowball sampling technique, we obtained a final sample of 157 respondents for which 200 questionnaires was distributed.

IX. Instrument

For the measurement Perceived Risk scale items were derived from the interview summaries given by Szymanski and Hise (2000). For trustworthiness of internet merchants (Moorman, Deshpande & Zaltman, 1993) questionnaires were used some were new measure taken by Matthew, Lee and Turban (2001). For dependent variable i.e. Trust in Internet shopping Cheung and Lee, M.K.O. 200 questionnaire was used. Responses to the scale items were measured on a five point Likert scale.

To evaluate the stability and credibility of data different mathematical techniques were used like Cronbach alpha. Group information of respondents was analyzed by descriptive statistics. Exploratory aspect research was conducted for the evaluation of construct. Regression and Correlation methods were used to confirm the connection by using Mathematical Program Software i.e. spss.

X. Findings

One hundred and five questionnaires were distributed in Mohammad Ali Jinnah University, Islamabad out of which all ninety were returned. Eighty Seven questionnaires were distributed in Islamic international in which sixty seven questionnaire were returned. Out of 157 respondents 119 were male (75.8) and 38 were females (24.2 percent). Forty-five (28.7 percent) respondents belong to age group of 20 to 25 years, 47 (29.9 percent) respondents belong to age group of 26 to 30 years, 29 (18.5 percent) respondents were from the age group of 31-35 years and 36 respondents (22.9 percent) were of above age of 36 years. Bachelor respondents were 51 (32.5 percent), Master respondents were 59 (37.6 percent) and 47 (29.9 percent) respondents were M.s and above in education level. 21 respondents (13.4 percent) receives income about 10000-20000 rupees per month, 51 respondents (32.5 percent) receive income  from 21000 to 30000 rupees per month and 85 (54.1) respondents receive above 31000 and above monthly salary rupees pocket money. Fresh experience on internet shopping were 53 respondents (33.8 percent). 1-5 years experience respondents were 89 (56.7 percent) and experience for more than 5 years respondents were 15 (9.6 percent).

<table>
<thead>
<tr>
<th>Variables</th>
<th>Categories</th>
<th>No. of respondents</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>119</td>
<td>75.8</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>38</td>
<td>24.2</td>
</tr>
<tr>
<td>Age</td>
<td>20-25</td>
<td>45</td>
<td>28.7</td>
</tr>
<tr>
<td></td>
<td>26-30</td>
<td>47</td>
<td>29.9</td>
</tr>
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<td></td>
<td>31-35</td>
<td>29</td>
<td>18.5</td>
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<tr>
<td></td>
<td>Above – 36</td>
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<td>22.9</td>
</tr>
<tr>
<td>Qualification</td>
<td>Bachelor</td>
<td>51</td>
<td>32.5</td>
</tr>
<tr>
<td></td>
<td>Master</td>
<td>59</td>
<td>37.6</td>
</tr>
<tr>
<td></td>
<td>M.s and Above</td>
<td>47</td>
<td>29.9</td>
</tr>
<tr>
<td>Income</td>
<td>10000-20000</td>
<td>21</td>
<td>13.4</td>
</tr>
<tr>
<td></td>
<td>21000-30000</td>
<td>51</td>
<td>32.5</td>
</tr>
<tr>
<td></td>
<td>31000 and above</td>
<td>85</td>
<td>54.1</td>
</tr>
<tr>
<td>Experience</td>
<td>Fresh</td>
<td>53</td>
<td>33.8</td>
</tr>
<tr>
<td></td>
<td>1-5 Years</td>
<td>89</td>
<td>56.7</td>
</tr>
<tr>
<td></td>
<td>More than 5 years</td>
<td>15</td>
<td>9.6</td>
</tr>
</tbody>
</table>
As it is clear from the Table 2 that the value of the KMO test is more than 0.5 and also the level of significance is 0.000 which indicate that the values of the KMO are significant indicating the appropriateness of factor analysis.

Table 3

Scale Items and summary statistics

<table>
<thead>
<tr>
<th>Variables</th>
<th>Factor/Item</th>
<th>Factors (EFA)</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived Risk</td>
<td>PR1 I was afraid that someone might steal my personal information.</td>
<td>.529</td>
<td>.874</td>
</tr>
<tr>
<td></td>
<td>PR2 I was worried that someone might steal my credit card number.</td>
<td>.580</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PR3 I was worried that the company might misuse</td>
<td>.619</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PR4 I dealing with a company unknown to me.</td>
<td>.624</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PR5 I suddenly got suspicious of the site.</td>
<td>.596</td>
<td></td>
</tr>
<tr>
<td></td>
<td>PR6 The online shop did not promise secure transaction.</td>
<td>.684</td>
<td></td>
</tr>
<tr>
<td>Trustworthiness of Internet Merchant.</td>
<td>ITM1 Internet merchants will not charge internet shoppers more for Internet shopping.</td>
<td>.564</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ITM2 Internet merchants are honest with their consumers.</td>
<td>.639</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ITM3 Internet merchants act sincerely in dealing with customers.</td>
<td>.549</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ITM4 I will not be overcharged by Internet merchants during sales transactions.</td>
<td>.634</td>
<td></td>
</tr>
<tr>
<td>Consumer Trust in Internet Shopping.</td>
<td>CTIS1 Internet shopping is unreliable.</td>
<td>.509</td>
<td>.776</td>
</tr>
<tr>
<td></td>
<td>CTIS2 Internet shopping cannot be trusted, there are just too many uncertainties.</td>
<td>.658</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CTIS3 In general, I cannot rely on Internet vendors to keep the promises that they make.</td>
<td>.556</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CTIS4 Anyone trusting Internet shopping is asking for trouble.</td>
<td>.614</td>
<td></td>
</tr>
</tbody>
</table>

The entire three variables proved significance in the factor analysis.
Table 4
Cronbach’s Alpha

<table>
<thead>
<tr>
<th>Cronbach’s Alpha</th>
<th>N of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.922</td>
<td>14</td>
</tr>
</tbody>
</table>

Cronbach’s Alpha value > 0.7 shows that the scale is reliable and valid.

Table 5: Correlation coefficient matrix.

<table>
<thead>
<tr>
<th>Correlations</th>
<th>PR</th>
<th>ITM</th>
<th>CTIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>PR</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ITM</td>
<td>.635**</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>CTIS</td>
<td>.634**</td>
<td>.776**</td>
<td>1</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

Correlation Analysis was used to confirm existence of relationship between the independent variables i.e. Trustworthiness of Internet Merchants and the dependent variable i.e. Customer trust in online shopping.

The correlation Analysis shows highly significant positive relationship between Trustworthiness of Internet Merchants and the dependent variable i.e. Customer trust in online shopping.

Our HI is (Trust Worthiness of Internet Merchants strongly effect the Online customer trust.) is accepted. Perceived Risk is also playing a moderating role between trustworthiness of internet merchants and consumer trust in online shopping. Because for moderator significant relationship is found in correlation analysis therefore our second supposition, H2 (Perceived Risk plays the moderating role between trustworthiness of internet merchants and consumer trust on online trust) is accepted.

Table 6
Descriptive statistics

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean (Standard Deviation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perceived Risk</td>
<td>2.8418 (.97618)</td>
</tr>
<tr>
<td>Trustworthiness of Internet Merchant</td>
<td>2.9108 (1.02845)</td>
</tr>
<tr>
<td>Consumer Trust in Internet Shopping</td>
<td>3.0669 (1.02116)</td>
</tr>
</tbody>
</table>

Table 7

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficient</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta.</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.823</td>
<td>.156</td>
</tr>
<tr>
<td></td>
<td>ITM</td>
<td>.771</td>
<td>.050</td>
</tr>
<tr>
<td>2</td>
<td>(Constant)</td>
<td>1.010</td>
<td>.176</td>
</tr>
<tr>
<td></td>
<td>ITM</td>
<td>.561</td>
<td>.109</td>
</tr>
<tr>
<td></td>
<td>ITMxPR</td>
<td>.048</td>
<td>.022</td>
</tr>
</tbody>
</table>

a. Dependent Variable: CTIS
Table 8

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R²</th>
<th>Squared Adjusted R Square</th>
<th>Change Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R Square</td>
</tr>
<tr>
<td>1</td>
<td>0.740</td>
<td>0.548</td>
<td>0.545</td>
<td>0.548</td>
</tr>
<tr>
<td>2</td>
<td>0.784</td>
<td>0.614</td>
<td>0.609</td>
<td>0.066</td>
</tr>
</tbody>
</table>

a. Predictors (Constant), PRxITM
b. Predictors (Constant), PRxITM, ITM

Regression analysis indicates that the value of R square is 61.4 %, which indicates that the impact of dependent variables ITM on CTIS is 61.4 %. Variation is 38.6% is unexplained.

**H1**: Trust Worthiness of Internet Merchants strongly affects the online customer trust.

To further analyze the relationship of variable and to check their impact upon each other regression analysis has been performed. The objective is to check the impact of trustworthiness of internet merchants upon Consumer trust on online shopping with the moderating role of the Perceived risk. For this purpose linear regression technique was used. The result is shown above.

The result of regression analysis clearly indicates that trustworthiness of internet merchants is highly correlated with consumer trust in online shopping as shown on above regressions analysis t value is (t= 5.152) at 100% level of significane. H1 is accepted and consistent with previous correlation analysis.

**H2**: Perceived Risk plays the moderating role between trustworthiness of internet merchants and consumer trust on online trust

H2 is also accepted because we find in our correctional analysis that there is significant relationship between perceived risk and trustworthiness of internet merchants, the relationship between perceived risk and customer trust in online shopping also proves to be significant.

**ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares of</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>89.138</td>
<td>1</td>
<td>89.138</td>
<td>187.888</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>73.535</td>
<td>155</td>
<td>.474</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>162.673</td>
<td>156</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Regression</td>
<td>99.947</td>
<td>2</td>
<td>49.974</td>
<td>122.692</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>62.726</td>
<td>154</td>
<td>.407</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>162.673</td>
<td>156</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), ITMxPR
b. Predictors: (Constant), ITMxPR, ITM
c. Dependent Variable: CTIS

**XI. Conclusion**

Electronic industry is modifying fast the way people do business all over the world. In the business-to-consumer section, revenue through the web have been improving considerably over the last few years. Customer of not only developed countries used the internet as a medium of shopping but even in developing nations people are trying to use this fast access medium.

From the research it was found that that trustworthiness of internet merchants significantly affect the consumer trust on online shopping and both the hypothesis are accepted. H1 was Trust Worthiness of Internet Merchants strongly effects the Online customer trust and H2 was Perceived Risk plays the moderating role between trustworthiness of internet merchants and consumer trust on online trust. So the online merchants should develop trust so that they might capture the good pool of prospect customers. Because the customer thinks that if we shop online so there may be the risk of lose. This lose may be in shape of personal information theft, fake internet merchants or threat of financial lose. So in order to overcome customer worries the online merchants may device such strategies that create or develop customer trust on online merchants. In Pakistan as we are developing nation and online shopping is not considered heavily
because of many reasons. People usually do not trust on online shopping because they are afraid of being fraud or there information may be theft and due to flexible legal policies one cannot find justice if someone held for fraud. So as our research suggest that if the internet merchants want to make business in Pakistan they must first develop trust and ensure the customer that online shopping is safe and free from fraud. For that the internet merchants should develop such policies on which the customer can trust.

Lastly, analysis into the trust in style designed in this document will help accelerate the development of customer e-commerce by eliminating one of the major obstructions to its progression, namely, deficit of trust.

XII. Limitations

A restriction of the suggested style is that it does not cope with the consequences of trust. Along with mind-set, risk knowing, and very subjective standards, trust is one of the aspects impacting on-line customer conduct. Since the idea of believe in is very well relevant to (and often puzzled with) the concept of risk, an knowing of believe in that does not analyze its relationship with danger is incomplete. Another restriction of this research was the shortage of time. Study was performed with the help of review implemented was well arranged and widely recognized by past scientists, though questionnaire adopted but there can be found chance that some participants reacted might have not stated the reaction properly. Taste was taken only two universities of Islamabad, Capital of Pakistan. Furthermore, only business learners were examined in this research at three education level of undergraduate, graduate student and post graduate student learners. The conclusions of the research can are different in other parts of country due to variation in sub-culture.

XIII. Future Direction

Analysis can be duplicated in longer time period of time for more general outcomes. It can be perform in different situations or areas to confirm outcomes go with or differ. Trust of e-retailers does put impact on consumer willingness to shop online but there are a lot other elements that can generate consumer trust like money back guarantee, store name and store reputation. Future research may be carried out more broadly keeping in view the element of trust and upcoming specialist will strongly step in where the existing research are reluctant to take.

References Références Referencias


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An Investigation of the Various Factors Influence on Exports

By Muhammad Nadeem, Muhammad Azam & Rabiul Islam

Utara University Malaysia

Abstract - This study aims to examine empirically the impact of various determinants on exports in Pakistan using secondary data over the period from 1981-2011. This area was selected for research because trade is equivalent to an engine of economic growth. For empirical analysis after checking the data for stationarity the least square method has been used. The empirical results show positive and statistically significant impacts of explanatory variables such as world income, industry value added, indirect taxes, exchange rate and saving on exports of Pakistan during the study period. The finding suggests that the volume of exports needs to be expanded maximally by appropriate policy and it certainly contribute well in achieving higher level of economic growth.

Keyword : Selected Determinants of Exports, OLS, Pakistan.

GJMBR-B Classification : JEL Code : F20
An Investigation of the Various Factors Influence on Exports

Muhammad Nadeem \(^a\), Muhammad Azam \(^a\) & Rabiul Islam \(^p\)

**Abstract** - This study aims to examine empirically the impact of various determinants on exports in Pakistan using secondary data over the period from 1981-2011. This area was selected for research because trade is equivalent to an engine of economic growth. For empirical analysis after checking the data for stationarity the least square method has been used. The empirical results show positive and statistically significant impacts of explanatory variables such as world income, industry value added, indirect taxes, exchange rate and saving on exports of Pakistan during the study period. The finding suggests that the volume of exports needs to be expanded maximally by appropriate policy and it certainly contribute well in achieving higher level of economic growth.

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I. Introduction

Trade is equivalent to an engine of economic growth; this is the view of classical as well as modern liberal economists. Studies provide evidences of the positive correlation and strong causality between foreign trade and economic growth and development of many countries (Balassa, 1987). With the help of trade countries win friends, and become able to break the traditional mould of isolation. It increases the growth of total factor productivity and encourages foreign direct investment (FDI). The strategy of export promotion particularly, when a country specializes and produces those products which it can produce competitively is exactly in accordance with the principle of comparative advantage, as a result of this the whole community of the world gets various commodities at cheaper prices. Economies are attained, markets are extended, the levels of income and employment are expended which ultimately facilitate the process of economic development. Thus, optimal allocation of world resources can be achieved by putting more emphasis on the promotion of exports because returns from trade sector largely depends upon accelerating growth of exports.

In the recent past decades much importance has been given to FDI-Led Export growth\(^1\) because some Asian countries like Japan, Singapore, and China etc. adopted this policy and got desirable outcomes. Indeed, the role of domestic investment is not less important for export expansion strategies. Thus, even FDI has the importance but still it cannot diminish the importance and role of productive investment of the domestic economy. Although domestic private investment is regarded as a reliable and permanent channel to enhance production capacity, yet investment in public sector has been considered more important, for example in power, communications like roads and other public goods and services that are necessary in stimulating private investment. Moreover, government has a dominant role because it can support research activities and has a close contact with foreign buyers as well as in providing easy access to credit for both directly and indirectly exporting firms.

Pakistan's history reveals that during last almost 65 years exports have fluctuated widely. In 50's exports received either limited or no attention and as such registered a decline of 5.7 percent. In 60's export recovered and grew at an average rate of 22.3 percent (Hassan and Khan 1994). The main reason behind the recovery of exports was the introduction of Export Bonus Scheme by the government. In 70's Pakistan's trade pattern experienced a structural shift in the form of lower exports and rising import bills of capital and raw material since the 1970s. As a result, the surge in imports did not match the equal rise in exports and the economy faced a large trade deficit. It is important to note, that there were some exogenous factors also that adversely affected the export growth during the same period besides the incentives provided by the government. Specifically, the increase in international oil price led to the recession in the international market and erratic agricultural performance of the country. Resultantly, exports decreased to an average of 7.0 percent of GDP in 1976-80 from an average of 8.1 percent of GDP during 1972-75. However, the growth of exports in the decades of 80's and 90's was markedly slow as compared to 70's. In fact the average growth rate of exports was 8.5 percent per annum in 1980's and 7.6 percent in 1990's. Hence the export performance of Pakistan was less than satisfactory when viewed against the experiences of many successful developing countries in the region like Korea, Taiwan, Singapore, and China etc. However, in the current last decade Pakistan has achieved a tremendous growth in the

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\(^{1}\) See also (Abou-Stait, 2005)
export sector. Pakistan exports were estimated at current US$ 24810 Million in 2011 and it was US$ 19290 million last year\(^2\). The current Pakistan's exports are mainly comprises on rice, furniture, cotton fibre, cement, tiles, marble, textiles, clothing, leather goods, sports goods, surgical instruments, carpets and rugs and food products. The main exports partners are European Union, USA, UAE, and Afghanistan.

![Figure 1: Trend in Exports of Pakistan from 1981-2011](image)

**Source:** Data are in US$ million and taken from Economic Survey of Pakistan (2011-12).

A number of studies have examined the determinants of exports in terms of a mixture of factors that includes FDI, foreign aid, changes in terms of trade, openness of the economy, exchange rate, GDP growth rate, indirect taxes, total labour force etc., such as Riedel et al. (1984) found that export behaviour is strongly influenced by the domestic market conditions. The variable measuring relatively domestic demand or domestic profitability is found to be significant in explaining export behaviour in 23 out of 30 sectors. Similarly the exchange rate and relative price turn out to be statistically significant in only 10 out of the 30 sectors. Anwer (1985) used the simultaneous equation approach (2SLS) to examine export performance of Pakistan. The findings of the study suggest that world income and domestic production significantly explain the demand and supply side of export respectively. Similarly the price elasticities are not significant. Funke and Holly (1992) while taking the supply and demand side factors and found that supply side factors are comparatively much more important for explaining export performance than demand side factors in West German manufacturing sector. Hasan and Khan (1994) carried out study and specified demand-side factors and supply-side factors for export performance of Pakistan. They also examined the impact of exchange rate policy on Pakistan's trade balance by applying 3SLS technique. Their results showed that export demand is positively related with world demand and negatively related with relative export price in case of both primary and manufactured exports. The nominal exchange rate, on other hand, showed a positive and significant relationship between export demands in both cases. Sharma (2001) investigates export determinants in India using annual data for 1970-98. Results suggest that demand for Indian exports increases when its exports prices fall in relation to world prices. Also the real appreciation of the rupee adversely affects India's export demand. On the other hand export supply is positively related to the domestic relative price of exports and a higher domestic demand reduces export supply. Similarly foreign investment appears to have statistically no significant impact on India's export performance although the coefficient of FDI variable has a positive sign. The study also finds no evidence to claim that the level of infrastructure has an impact on export supply. Jongwanich (2007) examines patterns and determinants of exports in nine East and Southeast Asian economies, and founds that supply-side factors tend to become more crucial in determining export performance. Agasha (2009) found that foreign price level and terms of trade have a positive and significant relationship with export growth rate in Uganda during 1987-2006, whereas, FDI, GDP and exchange rate have no significant effect in explaining the export growth rate. Moniruzzaman et al. (2011) used annual time series data for the period from 1972-73 to 2008-2009 and techniques of cointegration, Engle-Granger causality and vector error correction to empirically estimate the export supply model of Bangladesh. The result shows that export supply is positively related with GDP, the gross capital formation appears as the most important determinant of the export supply, however, the relative price of real export is positively related to the supply of real export but insignificant.

The main objectives of the study are to find out empirically the magnitude of effect of various factors on exports of Pakistan, to analyze the exports performance of Pakistan economy during the study period, and to

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\(^2\) See Economic Survey of Pakistan (2011-12), see also Figure 1
suggest suitable measures in the light of finding of this study that could potentially improve the export performance of Pakistan.

II. Materials and Methods

a) Model Specification

This study has tried to incorporate all those factors in the export function that can potentially play a meaningful role in the determination of exports in Pakistan. It is a common fact that export promotion strategies have a great deal in the trade liberalisation regime. Pakistan, like many other developing countries, is trapped in many financial problems like fiscal deficit, trade deficit and external debt crisis. In such a sorry and terrible state of financial crises the inflow of FDI only is not sufficient, rather the promotion and expansion of export sector is also necessary for addressing the financial disturbances. In this respect the study intends to identify some of the determinants of exports. Basically external factors play a vital role in the determination of exports. Keeping in view this fact the present study has includes three variables to capture external effects like FDI, exchange rate and world income. However, domestic factors are also equally important, thus in this respect, the study has included the variables namely GDP, indirect taxes and industrialisation.

The mathematical model which is used in this study is simple linear and can be written as:

\[ y = f(x) \]  

(1)

Where in equation (1) \( y \) represents the dependent variable and \( x \) the explanatory variable. Since the number of explanatory variables in the model is greater than one, so the model for estimation can be written as:

\[ y = f(x_1, x_2, x_3, \ldots, x_n) \]  

(2)

Symbolically the equation (3) can be expressed as follows;

\[ X = \beta_0 + \beta_1FDI + \beta_2WY + \beta_3ER + \beta_4GDP + \beta_5INDT + \beta_6INVAD + \beta_7GNS + \mu \]  

(3)

for export promotion, such facilities also attract foreign investors.

World Income : Theoretically, it is explicable that with the increase in income demand for various goods increase. Many researchers have used this variable for determining exports and have got positive relation between exports and world income (Hasan and Khan 1994; Sharma 2001).

Exchange Rate : When the exchange rate depreciates it leads to fall in the relative domestic prices of exports, making exports cheaper in international markets, which in turn leads to greater demand for exports. The positive impact of exchange rate depreciation on export is confirmed by the findings of Hasan and Khan (1994), Sharma (2001), and Agasha (2009).

Gross domestic product / Production Level : By studying the trade theories it is concluded that main cause of export expansion is the higher level of production, because it leads to surplus of output which can be exhausted in international markets. It is basically supply side determinant of exports (Bertil, 1968). If the economy is closed one, then such surplus output can be exported abroad, which earns foreign reserves. Thus, expect positive impact of GDP on exports growth. In empirical literature Kumar (1998) confirms the positive impact of GDP on exports.

Indirect Taxes : Indirect taxes are also an important determinant of exports. Although it may affect production decision adversely but we can expect its positive effect on exports due to fiscal incentives by the
government because sometimes governments in developing countries provide tax exemptions for the expansion of export sector. Hence, due to higher rate of indirect taxes the prices of various commodities increase in the domestic markets. It leads to decrease in demand for various goods in domestic markets and provide exportable surplus.

Savings: It has been observed in developing countries, that major proportion of saving is utilized in non-productive assets for example, purchasing of property, gold and jewellery etc. Therefore, higher savings results in large volume of goods made available for exports. Similarly with the increase in savings interest rate decreases that promote investment opportunities which is the key channel for export growth.

Industry Value Added: Pakistan is an agricultural economy and agricultural output is subject to uncertainty because of nature’s vagaries but industrial output is more or less stable. No country today has greater income and outputs just on the bases of agricultural output. It is in fact industrialisation that results in maximum utilisation of human and natural resources of the economy. Thus it will provide greater stimulus to output and national income of the country.

c) Data Sources

In order to estimate the export function of Pakistan, secondary time series data covering the period from 1981 to 2011 has been used. For analysis the data has been taken from World Development Indicators (various issues), Economic Survey of Pakistan (various issues) and State Bank of Pakistan’s hand Book of Statistics. The data on US GDP, Industry Value Added and FDI were originally in US$ which have been converted later on into Pak Rupee (PKR) by using exchange rate of the corresponding period. Similarly data on all variables is taken in natural log form to eliminate major ups and downs also it is measured in million Pak rupees at current prices.

d) Estimation Techniques

While reviewing the literature it has observed that different researchers have used different techniques like OLS, GMM, VAR and 2SLS for the estimation of export determinants. However, using the method of least square (OLS) for estimating export function after checking the data for stationarity where the data found stationary.

III. Results and Discussion

Results of the study are given in Table 1. Since using time series data, there may be the problem of stationarity. Thus, in order to check the stationarity of the variables Augmented Dickey Fuller (ADF) test has applied and the data found stationary, therefore, the export model is run by least square techniques. The OLS results are presented in Table 1.

Estimated export equation;

\[ X = 0.37WY + 0.71INDT + 1.35INVAD + 0.39NER + 0.03FDI + 1.69GDP + 0.16GNS \]  
\[ (2.48) \quad (4.07) \quad (2.92) \quad (3.16) \quad (0.62) \quad (3.30) \quad (1.24) \]

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>WY</td>
<td>0.366462</td>
<td>0.147582</td>
<td>2.483109</td>
<td>0.0204</td>
</tr>
<tr>
<td>INDT</td>
<td>0.710525</td>
<td>0.174448</td>
<td>4.072993</td>
<td>0.0004</td>
</tr>
<tr>
<td>INVAD</td>
<td>1.354059</td>
<td>0.462693</td>
<td>2.926475</td>
<td>0.0074</td>
</tr>
<tr>
<td>NER</td>
<td>0.387489</td>
<td>0.122725</td>
<td>3.157384</td>
<td>0.0043</td>
</tr>
<tr>
<td>GDP</td>
<td>1.689198</td>
<td>0.512678</td>
<td>3.294853</td>
<td>0.0030</td>
</tr>
<tr>
<td>FDI</td>
<td>0.025688</td>
<td>0.041287</td>
<td>0.622177</td>
<td>0.5397</td>
</tr>
<tr>
<td>GNS</td>
<td>0.163665</td>
<td>0.132541</td>
<td>1.234824</td>
<td>0.2288</td>
</tr>
</tbody>
</table>

R-squared 0.996606
Adjusted R-squared 0.995757
S.E. of regression 0.084609
Sum squared resid 0.171809
Log likelihood 36.54101
Durbin-Watson stat 2.194156

Hence the expected signs, high value of t-statistics, significant coefficients of explanatory variables suggest that the estimated export equation is satisfactory. It means that the study can reject the null hypothesis of no impact of regressors on the export.

Null hypothesis H0 : B’s = 0 (Regressors have no impact)  
Alternate hypothesis: B’s \neq 0

Usually, t-statistics uses to test the significance of the regression parameters and the values of these t-statistics are given in parentheses. The t-statistics values show that the parameter for FDI and GNS is statistically insignificant while for all other variables like INVAD, INDT, WY, GDP and NER the parameters found are statistically significant.
The foremost determinant of export found in the previous studies is the exchange rate. The significance of the exchange rate is worth noting because it is seen as a crucial determinant of exports. The empirical results of study also show that exchange rate is significant and the variable has a corresponding t-value of 3.16. The size of the coefficient is 0.39 which means that 1% depreciation in exchange rate in Pakistan brings about a 0.39% increase in the volume of exports. Table 1 shows that exchange rate carries the correct sign which is consistent with trade theory. The result corroborates the theoretical predictions that exchange rate movements are positively correlated with the growth in exports. An increase in the exchange rate means depreciation for the domestic currency and appreciation for foreign currency which makes exportable items cheaper. As a result of this the demand for exports is likely to increase. Several previous studies like (Hasan and Khan 1994; Sharma 2001) also found the same results.

Another highly significant and positive coefficient in explaining export growth is of the industrialization variable in the present study. The coefficient size of this variable found is 1.35 which means that one percent change in industry value added will bring 1.35 percent change in export of Pakistan. Thus for Pakistan like developing countries the importance of industrialization is obvious because the developing countries mostly are agrarian where production is often unstable because of uncertain weather conditions and attacks of pests. Certainly no country can expand its export potential just on the bases of agricultural production.

The coefficient for indirect taxes is also highly significant and positive which shows that indirect taxes are positively correlated with export growth in Pakistan. The coefficient size of this variable found is 0.71 which means that 1 percent change in indirect taxes will bring 0.71 percent change in export of Pakistan. Indirect taxes are levied in different proportion on different goods so it may not be necessarily concluded that this type of tax is high for exportable commodities. Furthermore, in order to promote exports, governments sometimes provide tax exemptions to exporters. Thus on demand side indirect taxes lead to increase the prices of various goods at home that result in decrease of demand for such commodities and generating exportable surplus. On supply side because of increase in indirect taxes the cost of production increases as a result the supplier will try to sell their products in the foreign markets instead of selling them at low prices at home. Hence due to these reasons this variable does not adversely affects exports. The world income variable (USGDP) is also correctly signed and significantly. The estimated income elasticity implies a fairly large response of exports to changes in world income. The variable has a corresponding t-value of 2.48 and coefficient size 0.37. Thus 1% increase in foreign income leads to increase exports by 0.37% in Pakistan. Foreign income has a positive impact on export demand suggesting that exports can be regarded as an engine of growth in Pakistan. This result is consistent with Joshi and Little (1994), who observed positive and statistically significant relationship between world income and India’s export performance, Hasan and Khan (1994). Thus, in order to increase and expand exports of Pakistan the policy makers should observe the trade cycles in trading partners economies and should try to get maximum benefit in the periods of cyclical booms. Government should make it a priority in its policy agenda to expand exports to major trade partners by diversification of exports with better quality products and high value added components.

In empirical literature GDP is also one of the valid determinants, as many studies found positive and significant impact of this variable on exports e.g. Ekanayake (1999), but there are studies which found insignificant impact of GDP growth rate on exports as Agasha (2007) in Uganda found insignificant impact of GDP on export. The result of the present study for this variable (GDP) is also significant with positive sign. High level of production can be utilized at domestic and international level at the same time. Majority of developing countries including Pakistan have relative advantages for agriculture goods. They can exhaust benefits of lower cost production by export growth policies. Moreover, large size of GDP creates environments for investment decisions. However, two important variables have been found statistically insignificant but shows expected positive relationship.

### IV. Conclusions

Generally, it is believed that for a developing country like Pakistan better exports performance plays a significant role in accelerating the pace of economic growth. Similarly it increases the growth of total factor productivity and encourages FDI. The strategy of export promotion particularly, when a country specializes and produces those products which it can produce competitively is exactly in accordance with the principle of comparative advantage. As a result of this the whole community of the world gets various commodities at cheaper prices. Both of the economies that is internal and external are attained, markets are extended and the levels of income and employment are also expanded. Ultimately economic development process is facilitated and promoted. Thus, optimal allocation of world resources can be achieved by putting more emphasis on the promotion of exports because returns from trade sector largely depends upon accelerating growth of exports. The present study has been carried out to find out the main factors that are important in the determination of exports in Pakistan. In order to obtain this objective the study used secondary data covering the time period 1981-2011. For this purpose the study
has included eight variables namely world income, FDI, exchange rate, indirect taxes, industry value added, savings and GDP growth rate. The results show positive and statistically significant impacts of explanatory variables such as world income, industry value added, indirect taxes, exchange rate and savings on exports of Pakistan during the study period. The findings of the study certainly help the policy makers chalk out macroeconomic policy for attaining enhanced level of economic development and growth.

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The Effect of Personal Quality Performance on Strategic Quality Management (SQM) Evidence from the Jordanian Hospitals Sector

By Feras Suliman Alshalabi
Al-Balqa' Applied University

Abstract - Purpose - This study develops a research framework that examines the relationship among personal quality performance criteria and strategic quality management (SQM) in Jordanian hospitals and, exam the moderating effects of sector.

Design/ Methodology /Approach – This study targeted the most important hospitals that operate in a major Amman city – Jordan, 6 of these hospital agreed to cooperate, the researcher personally administrated (287) questionnaire, responses were analyzed using descriptive statistics, and regression analysis.

Findings – The findings indicate that the four criteria of personal quality performance have significant influence on strategic quality management (SQM). subgroup analysis reveals that main effects are for the most part, not moderate by sector.


GJMBR-A Classification : JEL Code : L15

Strictly as per the compliance and regulations of:

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The Effect of Personal Quality Performance on Strategic Quality Management (SQM) Evidence from the Jordanian Hospitals Sector

Feras Suliman Alshlabi

Abstract -
Purpose - This study develops a research framework that examines the relationship among personal quality performance criteria and strategic quality management (SQM) in Jordanian hospitals and examines the moderating effects of sector.

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Findings – The findings indicate that the four criteria of personal quality performance have significant influence on strategic quality management (SQM), subgroup analysis reveals that main effects are for the most part, not moderate by sector.

Practical Implication – Positive personal characteristics, human relationships, effective communication and exceeding work performance are the most important criteria that represent personal quality performance, and in turn support the strategic management of quality.

Research limitation / implication – Since the study took place in only one Jordanian city, increasing the sample base both in terms of cities and respondents could provide safer generalizing of findings.

Originality / value – The paper assesses the influence of personal quality performance criteria on strategic quality management (SQM) focusing in Jordanian hospitals.

Keywords : Quality, personal quality, personal quality performance, strategic quality management.

1. Introduction

It has been recognized that the old idea was that quality is a company and institutionally responsibility is radically changed, The new truth is that quality is a very personal obligation and very personal responsibility. (Roberts & Sergeskeeter, 1999) So all the companies now a days believe that personal quality is the first step to move to the levels of total quality management and the level of quality that is absolutely essential.

With respect to quality, there are usually a small number of strategies, say three to five. (Gryna, 2001) Organizations, regardless of whether they are private, public or not-for-profit, face a continuous barrage of requests to improve quality. Every quality management initiative can, and must be tied to key business process performance indicators in order to have any real impact on productivity and the bottom-line. However, strategic plans are rarely translated into the quality strategies needed to ensure overall performance improvement gains. Strategic Quality Planning Process will move your organization and/or a department's quality management team beyond the notion of quick fixes and into the realm of solutions. It leads to the development of Quality Management Strategies. (Business Improvement Architect (bia), 2012) hence, these argue poses organization to have a clear vision, understanding, and development of strategic quality management (SQM).

In quality literature, SQM refers to an important part of the syllabi of a lot of business and financial management studies schools all across the world. It is also a very important part of the operations of a business entity as it focuses on finding out the weaknesses and turning them into strength. (finance.mapsofworld.com, 2012) (oxbridgewriters.com, 2012)

This paper develops a research framework that relates personal quality performance and strategic quality management (SQM). Four important criteria of personal quality performance are considered: positive personal characteristics, human relationships, effective communication and exceeding work performance.

At the same time, we consider the impact of sector as a control variable, because of the important of these variable as determinant of many aspects in organization.

This paper was operationalised among some Jordanian hospitals and organized as follows: first, the constructs in the model are introduced building on the relevant literature review to identify several important aspects of personal quality, personal quality performance, and strategic quality management. Second, hypotheses linkage these criteria of personal quality performance, strategic quality management and sector are presented and discussed. Next, sample is described and measurement issues are addressed. Cronbach'S alpha was used to evaluate the internal consistency of items. Then, regression analysis are used for hypotheses testing, and subgroup analysis is taken to examine the moderating effect of the sector. Finally,
the results of the study and their potential implications are explored.

II. Theoretical Background

a) Personal Quality

Quality begins with the individual. The main element of quality is the people who make products and create services eventually not technology and tools; those people who are responsible to run and make systems work efficiently. So, quality reflects the significance of people. Therefore, people must be promoted internally to perform their job with quality. (Kahwaji, 2010)

Personal qualities are personal characteristics of an individual. They are what make up one's personality. They help a person get along in a new situation. Personal quality propels a chain reaction of quality improvements within an organization. Higher personal quality leads to improved work performance, good interpersonal relationships and better job satisfaction. It also helps to create a positive first impression. (Taiko, 2009) (Sambasivan, Etal, 2009)

(Malhi, 2009) said Personal Quality is the degree to which an individual expresses positive personal attributes, practices good human relations and exhibits superior work performance and it is the bedrock of organizational quality. Quality people do quality work. So, personality quality, by definition, cover all aspects of living experienced by individuals. It encompasses functional status, access to resources & opportunities. It cover both the material satisfaction of vital needs as well as aspects of life such as family, work, social life, personal development, self realization and a balanced eco-system.

A focus on personal quality must be emphasized within a company before the beginning of any quality initiative in the workplace. The theory is that focus must begin with the people; otherwise, it is unlikely successful results with any long lasting effect will be achieved. In addition, resources and recommendations for effective recruitment of top candidates, as well as employee development are also provided. (Martin, 2008)

(Jambekar. 1995) showed that Personal quality improvement offer a risk and embarrassment-free experiential framework for individuals to learn not only the basics of quality management but also system thinking.

(Jambekar. 2005) argued that the concept of personal quality may be viewed as personal empowerment. by doing improvement in some aspects of personal quality, and then by making a connection to a larger organization by reflecting upon one's experience we can gain best understanding of the concepts of organizational quality.

(Baum, at al, 2001) found that personal quality have a strong influence on the management skills/competencies. (Sambasivan et al. 2009) support this finding when they argued that personal quality doesn't have a direct affects on organization performance, personal quality primarily work through competencies, motivations levels, and strategies of organizations.

Hensel et al (2010) found a relation between personal quality and strategic human resources development. this fact is supported by the increasing tendency for SHRD professionals to focus on personal quality (Blanchard &Thacker 2007), which supported by studies showing a relation between personal quality and several aspects of organization effectiveness (Barrick, et al, 200, Arthur et al 2003).

(Alyahyawi, 2011) recognized criteria of personal quality performance for departmental heads: positive personal characteristics, human relationships, effective communication and exceeding work performance, and he argued that criteria of selection and assignment of departmental heads should be revised so as to include personal quality fields. Tables (1) illustrate main proposed criteria of personal quality.
### Table 1: Main proposed criteria of personal quality

<table>
<thead>
<tr>
<th>Positive Personal Attributes</th>
<th>Good Human Relations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Having high self-esteem.</td>
<td>• To treat all people with respect</td>
</tr>
<tr>
<td>• Having the ability to handle responsibility</td>
<td>• To be optimistic</td>
</tr>
<tr>
<td>• Adopting system procedures</td>
<td>• To show care for others</td>
</tr>
<tr>
<td>• Having self discipline</td>
<td>• To maintain good relations</td>
</tr>
<tr>
<td>• Hard working</td>
<td>• To have good listening skill</td>
</tr>
<tr>
<td>• Practical implementation</td>
<td>• To draw people attention to their faults politely.</td>
</tr>
<tr>
<td>• Maintaining a high level of sincerity and honesty</td>
<td>• To give an honest and a specific evaluation.</td>
</tr>
<tr>
<td>• Accepting constructive criticism</td>
<td>• To praise when needed</td>
</tr>
<tr>
<td>• Having flexibility and the ability to adapt to changes</td>
<td>• To control your emotions</td>
</tr>
<tr>
<td>• Applying time management</td>
<td>• To admit your faults</td>
</tr>
<tr>
<td>• Having good communication skills</td>
<td>• To keep secrets</td>
</tr>
<tr>
<td>• Having elegance and good appearance</td>
<td>• To have empathy to see the others point of view</td>
</tr>
<tr>
<td>• Having fitness and good health</td>
<td>• To respect commitments and promises</td>
</tr>
<tr>
<td>• Living a balanced life</td>
<td>• To help others in their development</td>
</tr>
<tr>
<td>• Having self improvement</td>
<td>• To keep smiling</td>
</tr>
<tr>
<td></td>
<td>• To avoid controversy and irony</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Superior / Outstanding Work Performance</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• To achieve error-free work</td>
<td>• To achieve error-free work</td>
</tr>
<tr>
<td>• To have full knowledge of the job</td>
<td>• To have full knowledge of the job</td>
</tr>
<tr>
<td>• To predict problems and prevent them</td>
<td>• To predict problems and prevent them</td>
</tr>
<tr>
<td>• To be initiative to improve work</td>
<td>• To be initiative to improve work</td>
</tr>
<tr>
<td>• To do tasks by priority</td>
<td>• To do tasks by priority</td>
</tr>
<tr>
<td>• To take quick and accurate decisions based on full awareness of facts</td>
<td>• To take quick and accurate decisions based on full awareness of facts</td>
</tr>
<tr>
<td>• To have team working skills</td>
<td>• To have team working skills</td>
</tr>
<tr>
<td>• To have creativity and innovation</td>
<td>• To have creativity and innovation</td>
</tr>
</tbody>
</table>

(Kahwaji, 2009) (Malhi, 2009)

Personal quality plays a key role in organizations, as we said before it is the first and major step in achieving total quality management. The importance of Personal Quality stems from 1) Quality is an attitude of mind, 2) People are the ultimate creators of quality products and services Personal 3) Quality is the bedrock of organizational quality 4) Increases organizational and personal productivity 5) Enhances quality of personal life. (Malhi, 2009) Because quality is an attitude of mind (which reflect the importance of personal quality), and organization performance is greatly depending on personal quality of it is member (Malhi, 2009), organization must work hard to enhance personal quality. to do so organizations should adapt specific strategy for enhancing personal quality which explain in details how to enhance personal quality to attain peak performance at work place as illustrated at figure (1).
The Effect of Personal Quality Performance on Strategic Quality Management (SQM) Evidence from the Jordanian Hospitals Sector

ENHANCING PERSONAL QUALITY MODEL

SELF-RENEWAL & CONTINUOUS IMPROVEMENT

<table>
<thead>
<tr>
<th>DETERMINING CURRENT PERSONAL QUALITY LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Identifying personal attributes</td>
</tr>
<tr>
<td>• Assessing human relations skills</td>
</tr>
<tr>
<td>• Evaluating work performance</td>
</tr>
<tr>
<td>• Determining areas for improvement</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FORMULATING PERSONAL QUALITY ACTION PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Establishing personal quality goals</td>
</tr>
<tr>
<td>• Formulating Action Plan to attain personal quality goals</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TAKING ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Executing your Personal Quality Action Plan</td>
</tr>
<tr>
<td>• Managing time successfully</td>
</tr>
<tr>
<td>• Practising self-discipline</td>
</tr>
<tr>
<td>• Maintaining perseverance</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MONITORING PROGRESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Reviewing progress towards attainment of personal quality goals</td>
</tr>
<tr>
<td>• Taking corrective action</td>
</tr>
</tbody>
</table>

b) Strategic quality management (SQM):

The term and concept of strategic quality management was introduced by Garvin (1988), who deals with this concept from traditional perspective. According to GARVIN Argument, juran CONSIDER SQM to be systematic approach for setting and meeting goals throughout the company (juran, 1988 juran and gryna, 1993, Tennant & Roberts 2000), and the approach to apply SQM should intuitively scaling up from project to project basis, establishing quality goals as a part of the company plans. (Leonard & Mcadam 2002)

Because juran equates SQM with traditional approaches like "project by project basis, company-wide quality control, TQM", researchers (Aldrisi & Mohamed 2012, Srinidini 1998, Aravindan 1996, Leonard and Mcadam, 2002) considered juran definition is not exhaustive, comfort with development and changes that have happened in different fields specifically the field of strategic management. So, Theory of strategic total quality management was later developed as an extension of TQM, which was based on a total system view of quality viewing (madu & kuei, 1993).

SQM moved to a new period by the waves of quality, when the quality became the driving force to survivability and competitiveness, SQM is seen as the key to being competitive. (Leonard and Mcadam, 2002) within The new competitive approach of SQM, all definitions and arguments emphasized the importance of linking total quality management and strategic quality management with corporate strategy and strategic planning. (calingo, 1996) said that "SQM is attained when strategic planning and quality planning have merged into one seamless process, owing to a free flow of information between strategic planners and quality planners. (Srinidni 1998) argue that, SQM is the integration of the principles of quality management into all the steps of strategic planning, this mean that quality concepts are integrated into the vision and goals of the firm, in the formulation of the policies, and action required for change management and in the deployment of the strategy (Pheng & hong 2005) support Srinidni argument when they stated that "SQM as its name suggests, it merges corporate strategy with total quality management where incremental quality plans are replace by bold initiatives such as cycle-time reduction and business process re-engineering".
The Effect of Personal Quality Performance on Strategic Quality Management (SQM) Evidence from the Jordanian Hospitals Sector

Aravindan (1996) viewed SQM as a process by which quality management activities focus towards the long range direction and progress of quality enhancement strategies by insuring the careful formulation through vital quality strategies, and continuous evaluating through quality improvement and control.

To attain the success of SQM implementation, the aspects of TQM must be considered as the extensive criteria of SQM, and the key elements in SQM implementation were listed by (Madu & Kuei, 1993). (Madu et al, 1996) as a following:

1. Integrity, environment issues and social responsibility.
2. From customer needs to organization learning and sharing.
3. Strategies that include management development, employee retention and leadership to disaster planning and crisis management training.

(Omachonu and Ross, 2004). (Temur, Et al, 2009) also found that Perceptions of SQM Implementation was effected by process improvement and assessment of competitiveness, and some other management principles, which have the highest impact on determining the SQM implementation perceptions.

The importance of SQM can be found in the total quality management literature, it has been considered as an extension of total quality management (TQM) (Madu and Kuei, 1993). There are appositive associations among SQM and customer satisfaction and environmental needs (Madu and Kuei, 1993), in SQM, quality was defined as being driven by customer and environmental needs and looks to identify critical factors that will determine the survivability and competitiveness of a firm in the near future. Because SQM is a pattern of goals, policies, plans, and human organization is not something to be taken lightly. And it is likely to be in place over a long period of time SQM affects the organization in many different ways. The culture that guides members of the organization and other stakeholders, the position that it will occupy in an industry and market segments, and determining particular objectives and allocating resources to achieve them all follow from the decision processes determined by strategy.

The essential idea behind SQM is that the product is customer value rather than a physical product or service. This fact cannot be achieved unless an organization creates a culture of quality and no strategy and plan can be worthwhile unless it is carefully implemented. (Blog at WordPress.com (TQM), 2008)

The primary objectives of SQM may be spelt out as below:

Administering a proper analysis of the business strategy. This takes into account the comprehension of

the prominent parts of a proper mission statement of a business enterprise.

Incorporation of strategic analysis in the Business Excellence Model. This needs to be done to find out the comparatively weaker areas in a business and to better them.

Employing the means of quality management. As part of this comes the comprehension and consequent application of the basic principles of total quality management.

This process is followed by acquiring knowledge about the Business Excellence Model and then using it for the purposes of locating the particular areas in business that need to be improved. (finance.mapsofworld.com, 2012) (oxbridgewriters.com, 2012)

The competitive approach of SQM implies that, SQM is a continuous process of assess internal and external change with respect to quality. Although many processes and subprocesses are involved in strategic quality management, the process of strategic quality management must begins with defining and identifying what we mean by quality and what quality mean to the organization. Strategic quality management consist of Review your organization’s and/or department’s strategic plan or imperatives, Identify what quality initiatives or strategies have been used in the past, Understand the voice of customer, Engage employees and gain their feedback to ensure their continued commitment to quality, Create the quality vision, Develop a statement of quality and standards, Identify the quality strategies, and finally Develop the strategic implementation plan. (Business Improvement Architect (bia), 2012). The process of SQM consists five phases illustrated in figure (2). (Aravindan 1996)
The Effect of Personal Quality Performance on Strategic Quality Management (SQM) Evidence from the Jordanian Hospitals Sector

Figure 2
SQM PROCESS

Figure 3
The Research Model

Personal quality performance:
- positive personal characteristics
- human relationships
- effective communications
- exceeding work performance

Sector type

HR

HA

Strategic quality management
Figure (3) shows how the four criteria of Personal quality performance effect strategic quality management, and how sector moderates the effects.

### III. Model Hypotheses

This study has two specific research hypothesis. the first hypothesis has four specific sub hypothesis, in other words it try to examine the relationship between four independent variables and one dependent variables :those four independent variables consist personal quality performance that effect strategic quality management the second hypothesis try to examine the moderating role of sector on the effects of personal quality performance criteria on strategic quality management. The research objectives can be put into the following hypothesis :

- **HA**: personal quality performance has positive effects on strategic quality management .
- **Ha1**: positive personal characteristics have positive effects on strategic quality management .
- **Ha2**: Human relationships have positive effects on strategic quality management .
- **Ha3**: Effective communication have positive effects on strategic quality management .
- **Ha4**: Exceeding work performance has positive effects on strategic quality management .

- **HB**: hospital sector doesn’t moderates the association of personal quality performance with strategic quality management .

#### a) Research Methodology

i. **Sample**

The Study took place among Hospitals in Amman city Jordan the study targeted the most important hospitals of private and public sector which operate in the city and 6 of them agreed to cooperate all employee within respective departments and sections were randomly chosen .so the researcher administers 287 questionnaires to employee of the 6 hospitals and gathered 227 questionnaires, yielding response rate of 79.1 percent. All data collection procedures were designed to ensure the anonymity of participation.

ii. **Measure**

**Personal quality performance**

The present study used an instrument developed by Alyahawi (2011) in particular, (54) items, consisting of 4 distinct criteria (positive personal characteristics, human relationship, effective communication, exceeding work performance). the scale adopted was a5-point likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

**Strategic quality management**

The instrument to measure strategic quality management was adopted from the work of few researches such as (temur et al, 2009) (Pheng & Hong 2005)) all (40) items were measured using 5-point likert scale.

**Moderating effects sector**

Private hospitals have more attention on personal quality characteristics more than public sector in this way ,the private hospitals would have an effective quality management than public sector .the final issue addressed by this research is whether “sector” moderates The association of personal quality performance with strategic quality management .the different influences of personal quality performance vs. sector on strategic quality management make predictions of moderation especially difficult .the literature offers little guidance on this topic .thus, the moderating effect of sector is approached as explanatory issue. As a measurement of sector the sample were asked to determine whether their hospitals was public (1) or private one (2).

#### Reliability analysis

Reliability is the extent to which a measures is free from variable errors. for the purpose of this study ,the internal consistency method assesses the cronbach alpha statistics, which indicates strong reliability if the alpha co-efficient exceeds 0.7 and moderate reliability if the alpha co-efficient exceeds 0.6 table (2) shows that both scales and all of variable exceeded 0.7 and score strong internal consistency .

**Table 2**: Reliability statistics for scale.

<table>
<thead>
<tr>
<th>Scale</th>
<th>Cronbach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive personal characteristic</td>
<td>0.8524</td>
</tr>
<tr>
<td>Human relationships</td>
<td>0.9273</td>
</tr>
<tr>
<td>Effective communication</td>
<td>0.8853</td>
</tr>
<tr>
<td>Exceeding work performance</td>
<td>0.9345</td>
</tr>
<tr>
<td>Personal quality performance</td>
<td>0.9131</td>
</tr>
<tr>
<td>Strategic quality management</td>
<td>0.9572</td>
</tr>
</tbody>
</table>
Table 3: Descriptive statistics and Pearson correlations for personal quality performance criteria and strategic quality management

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>S.D</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>positive personal</td>
<td>3.87</td>
<td>0.65</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>characteristics</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human relationships</td>
<td>4.01</td>
<td>0.52</td>
<td>0.45**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective communication</td>
<td>3076</td>
<td>0.75</td>
<td>0.28*</td>
<td>0.38**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>exceeding work</td>
<td>3.95</td>
<td>0.62</td>
<td>0.57**</td>
<td>0.25*</td>
<td>0.41**</td>
<td></td>
</tr>
<tr>
<td>performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic quality</td>
<td>4.33</td>
<td>0.63</td>
<td>0.57**</td>
<td>0.49**</td>
<td>0.42**</td>
<td>0.52**</td>
</tr>
<tr>
<td>management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table (3) shows the descriptive statistics and correlations for all personal quality performance criteria and strategic quality management. All criteria of personal quality performance correlate positive with strategic quality management. The highest correlations factor appear between positive personal characteristics and S.Q.M. (R=0.57, p < 0.01) whereas the lowest one between effective communication and S.Q.M (r=0.4, p < 0.05).

IV. Result

The hypotheses were tested using multiple regressions. The regression result of testing for the effects of personal quality performance on strategic quality management are in Table (4). The result show that all the four purposed personal quality performance criteria have positive influences on strategic quality management, and those four hypotheses were fully supported.

Table 4: Multiple Regressions for strategic quality management

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Beta</th>
<th>T-value</th>
<th>SIG</th>
<th>R²</th>
<th>Model - F</th>
</tr>
</thead>
<tbody>
<tr>
<td>-positive personal characteristics</td>
<td>0.663</td>
<td>9.130</td>
<td>0.000</td>
<td>0.485</td>
<td></td>
</tr>
<tr>
<td>-human relationships</td>
<td>0.592</td>
<td>7.345</td>
<td>0.000</td>
<td>0.386</td>
<td></td>
</tr>
<tr>
<td>-effective communications</td>
<td>0.527</td>
<td>5.874</td>
<td>0.000</td>
<td>0.275</td>
<td></td>
</tr>
<tr>
<td>-exceeding work performance</td>
<td>0.573</td>
<td>6.998</td>
<td>0.000</td>
<td>0.354</td>
<td>18.75</td>
</tr>
</tbody>
</table>

In order to test the effect of moderated variable (the type of sector) separate multiple regression were used in two different models in each sector with strategic quality management as the dependent variable and sector, dimensions of personal quality performance modeled as the predictor variables. Table (5) summarize the result of these tests.
The effects of independent variables on strategic quality management separate for private and public sector were displayed in Table (5) the beta column contain the standardization B estimates for these effects. B values can be compared using T value.

Looking down this column it is seen that four tests are significant: the effect positive personal characteristics on strategic quality management, when the hospitals are private (B=0.553, p<0.001) is different from that when hospitals are public (B=223, p<0.001) the effect Human relationships on strategic quality management when hospitals are private (B=2310, p<0.001) is different from that when hospitals are public (B=0.208, P<0.01).

The T-value column shows a different result. Based on the previous analysis we conclude that positive personal characteristics, Human relationships, Exceeding work performance on strategic quality management separate for private and public hospitals, and effective communication contribute in strategic quality management for private but not public hospitals. And effective communication contribute in strategic quality management for public but not private hospitals. The overall conclusion drawn from these results is that sector (type of hospitals) as a moderate variable do not moderate the effect of personal quality performance on strategic quality management.

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>Independent variables</th>
<th>Beta</th>
<th>T - value</th>
<th>SIG</th>
<th>R²</th>
<th>Model - F</th>
</tr>
</thead>
<tbody>
<tr>
<td>PUBLIC</td>
<td>positive personal characteristics</td>
<td>0.223</td>
<td>2.625</td>
<td>0.017</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>human relationships</td>
<td>0.042</td>
<td>0.435</td>
<td>0.621</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>effective communications</td>
<td>0.448</td>
<td>4.482</td>
<td>0.000</td>
<td>0.714</td>
<td>19.022</td>
</tr>
<tr>
<td></td>
<td>exceeding work performance</td>
<td>0.219</td>
<td>1.521</td>
<td>0.111</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PRIVATE</td>
<td>positive personal characteristics</td>
<td>0.553</td>
<td>5.345</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>human relationships</td>
<td>0.431</td>
<td>3.991</td>
<td>0.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>effective communications</td>
<td>0.208</td>
<td>1.826</td>
<td>0.061</td>
<td>0.704</td>
<td>24.413</td>
</tr>
<tr>
<td></td>
<td>exceeding work performance</td>
<td>0.291</td>
<td>3.745</td>
<td>0.001</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

VI. LIMITATIONS AND SUGGESTIONS

The results show that the sector should not be concerned from the top management of the researched hospitals when they planning for the personal quality performance to conform with strategic quality management.

V. CONCLUSION

The goal of paper were divided into two subgoals, the first one is to discuss and empirically tested the nature of the relationship among the criteria of personal quality performance and strategic quality management in the hospital sector both private and public.

All hypotheses are supported which indicates significant affect of the criteria of personal quality performance (positive personal characteristics, Human relationships, Effective communication, Exceeding work performance) on strategic quality management this support the argue that the personal quality has a vital role in strategic quality management. The results imply that there are several criteria of personal quality performance enhance the management of strategic quality within the hospitals. Sense the top management of these hospitals should consider the important role of personal quality criteria when they seek to achieve a good strategic quality management.

The second sub goal of the paper was to exam the role of hospitals sector as a moderating effect on the relationship among personal quality performance dimension and strategic quality management. A sector analysis was used to examine the moderating effects of hospitals sector. In four instances were moderation significant (positive personal characteristics on strategic quality management, Human relationships on strategic quality management, Exceeding work performance on strategic quality management, Effective communication on strategic quality management).

The study took place in one city only, increasing the sample both in terms of the number of cites and respondents could provide more generalization in finding. In addition the study took place in hospitals and in order to permit generalization to other industries future research could make larger–scale investigation in all industries. Finally future research could examine the moderating effects of another moderate factor like size, industry, even more the financial position of the firms.

REFERENCES


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IFRS and Information Quality: Cases of CAC 40 Companies

By Soufiene ASSIDI & Mohamed Ali OMRI

Al-Balqa’ Applied University

Abstract - The objective of this work is to study the quality of countable information before and after the adoption of standards IFRS. Precisely, through the exposure of the positive theory of the accountancy which insists on the importance of information of quality for the investors in order to enable them to make the adequate decisions of investments. We tested over one period being spread out of 1998 to 2008, the relation between the quality of the information measured by Proxy accruals quality and standards IFRS in the context of the companies of CAC 40. The results obtained show that the adoption of standards IFRS makes improves quality of countable information. In particular, standards IFRS contribute improved quality information to diffuse it with the public and to increase his transparency, which makes it possible to attenuate asymmetries of information and the costs of agency.

Keyword: Quality - Information - Standards IFRS - CAC 40.

GJMBR-A Classification: JEL Code: L15

Strictly as per the compliance and regulations of:

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I. Introduction

We have seen in recent decades to mutations that characterize the European Union countries (EU) and those found by the commitment in the race for the standardization of accounting language. All Member States are taxed to adopt international accounting standards IFRS from January, 1, 2005 and that the publication of the regulation 1606/2002, 19/07/2002.

The preparation of these countries specifically France and this obligation requires more effort because of the wide divergence between international standards for accounting and France. Moreover, France is in a system of governance-oriented networks which explains the importance of stakeholders and to accelerate the internationalization and globalization, these are the phenomena experienced by the economy over the years.

In particular, the IFRS have become a solution for economic actors to be able to properly compare and compete on the world market without regard to financial rules and accounting discrepancies.

Besides there many differences that highlighted the need to find a solution that harmonize accounting standards, the proliferation of corporate scandals such as Enron, Worldcom, has disturbed the confidence of investors.

Thus, in order to reduce the differences between national accounting standards, professional accounting and auditing, from several countries, namely the U.S. and France in June 1973 created a committee known as private IASC name whose objectives were to establish and publish accounting standards acceptable to national plans. Companies will thus force to reorganize and oblige to publish relevant information and minimize the power of the executive.

Through voluntary disclosures of information, the manager will present to stakeholders, the future course of the firm and its financial (Skinner, 1994), and also provides an explanation of the accounting methods used. The disclosure of accounting information on a voluntary basis will reduce the asymmetric information and improve communication between managers, shareholders and lenders (Conover, Miller, and Szakmary, 2008).

Subsequently, changes in the transition to IFRS, and a significant influence on the quality of financial reporting and the conduct of the officer. In behaving this way, the leaders put their own interests above those of employees and donors, contributing to losses incurred by various stakeholders (Culpan and Trussel, 2005). The recent scandals illustrate the managerial misconduct and unethical behavior in business (Culpan and Trussel, 2005, Chih et al., 2008), which is likely to challenge the systems of corporate governance and financial information disclosure.

In this perspective, he wants to characterize the quality of information through IFRS. First we present, and successively the contribution of international standards in the business environment and the relationship between managerial behavior and quality of information. Then, the methodological approach and an explanation of empirical results found will be exposed.

II. Background Literature and Hypothese

a) International standards Contribution in the economic environment

IFRS are issued by the International Accounting Standards (IASB), formerly known as International Accounting Standards Committee (IASC). Their main objective is to develop a common accounting language, high quality, understandable and enforceable.
Indeed, the international accounting standards require high quality, transparent and comparable information in financial statements and other reports to help participants in the capital of enterprises in all global markets and other users make economic decisions (Epstein and Mirza, 1999).

The implementation of IFRS reduces information asymmetry between informed investors and uninformed people. For example, IAS 1 “Presentation of Financial Statements” requires sensitive information, such as management judgments and assumptions while forming the entity’s accounting policies and sources of estimation uncertainty that have a significant impact on the financial statements of the entity. This information must be disclosed and reported as appropriate in the annual reporting.

Thus, such information could be a key decision. The reduction information asymmetry limits communication between managers and other stakeholders of the company, as shareholders, creditors, supervisors, analysts...

b) IFRS and corporate culture

i. American context

International accounting standards are an Anglo-Saxon this explains some differences in many areas of practice called Continental. Therefore it is necessary to clarify the main principles underlying the IAS / IFRS. This preliminary step is essential to identify correctly the transition to IAS / IFRS.

In companies with dispersed ownership and where the wealth manager is limited to its share of human capital (and sometimes of limited participation, and not diverse), there is a decrease of handling information obtained and used the interest of all shareholders.

Following the performance of IFRS, studies have shown that 32% of U.S. companies found that IFRS are more intelligible than U.S. GAAP in terms of decision making. This has encouraged developed countries to establish plans that allow them to apply these standards. Notably, this case is presented in the European Union countries in 2001. Encouragement to apply these standards eventually becomes mandatory in 2005.

ii. European context

In Europe, the CEO is risk averse because it holds a majority stake. This highlights the problem of information asymmetry. Because IFRS became mandatory in the European context, this regulation of the firm that the net result is more important for both current and potential shareholders. In this same axis, Beaver et al. (1980) have stated that of all the information the result gets the most attention for all stakeholders. Hence the adoption of standards will change the traditions of European societies.

c) IFRS and providing informational

The adoption of IFRS in Europe is a change in the business world that has better readability and comparability of accounts of listed companies between them, while facilitating access to international capital markets. This requires an adequate margin of reliability of accounting data published. Thus, (Dumontier and Marghraoui, 2007) have attributed to improved information content of accounting data to the stricter rules and publishing more detailed information.

IAS / IFRS have intended to apply to all businesses large and engaged in financial statements, and give some advantages for investors since they promote the emergence of today’s financial markets and increase space investment. Through the different rules imposed by IFRS and their considerable contributions in the business world, the international standard setters (IASB) recently published an exposure draft on IFRS for SMEs (IFRS for Small and Medium-sized Entities). The relevance of accounting information as the international benchmark seems to justify the extensive use of financial statements as recommended media in the translation of economic and financial reality.

Traditional accounting principles were based on historical cost accounting and their principle of prudence, which influences the quality of accounting information and decreases its intrinsic value. A real change in the accounting philosophy turned to the only use of the concept of fair value that is different from traditional reference this leads to a change affecting the management structure.

The development of accounting standards has resulted in a significant change in the value and quality of information and the nature of business management. The goal is to improve information provided to investors to help them understand the situation of enterprises and assist them in making right decision in their investments.

i. Portion of historical cost to fair value

The historical cost principle has the merit of simplicity: “the date of entry into the corporate heritage assets acquired for consideration is recorded at their acquisition cost.”

Casta and Colasse, (2001) showed that the original value is based on the reality of a transaction and allows a single value. However, the historical cost principle has limits and impairs the ability to compare companies in similar economic level but with some strategic choices or different accounting, such as internal growth, the revaluation of property, or that of external growth.

IFRS therefore propose to abandon the principle of cost and value of assets and liabilities at fair value. This concept can be understood by the market value for a tradable asset in one market or the value of cash flows (cash flow) for a future non-marketable asset in a market.
Unlike the previous principle, the concept of fair value made by the international benchmark was the subject of several studies. Some authors show that the concept of fair value will reflect the economic reality, comparability and transparency of company reports in relation to historical cost accounting will reduce handling (Barth et al. 2008; Holthausen and Watts, 1983).

Similarly, Ouvrard (2006) stated that the use of a measure of sales amount based on the concept of fair value leads to an increase in earnings volatility. This variation is considered an incentive for accounting manipulation. In the same vein, the notion of fair value will affect the stability of firm performance measured in accounting and a heavy reliance on performance management to reduce the volatility of this variability (Barth et al., 1994).

However, the surplus of IFRS, in the economic and financial is considered as causes of the financial crisis in 2008 (Ghosh and Olsen, 2009).

ii. Primacy of economic reality on the legal appearance

IFRS retain the primacy of economic reality on the legal appearance. A transaction or a contract is accounted for and disclosed in financial statements in accordance with its economic reality that allows users to receive quality information.

The economic substance approach rejects the assessment based on the Convention or on the appearance and gives himself intended to better reflect the economic reality of the business, these two new concepts are transforming the very purpose of the income statement and the balance sheet. Indeed, the income statement contains topics that we show the profitability of the company and stock based on market values, including intangible assets of the company becomes the central element of the disclosure of business and reflect the economic weight of the firm.

Given the importance of accounting, international accounting standards emphasize the relevance of the information published. This is explained by many previous studies that showed that accounting records evaluated under IFRS are relevant and realistic which gives them superior to local standards.

Achieving the reliability of the information cannot be if managers and specifically the manager will adopt the constraints imposed by the environment (Daska et al., 2008) and modified to satisfy all stakeholders.

The flexibility of IFRS will allow the officer to employ several strategies to deal with these changes to increase manipulate the results and affect information. Similarly, accounting accruals are several problems at the time of acceleration of income which can help make a disclosure of private information to investors (Healy and Palepu, 2001).

Christie and Zimmerman (1994) have studied the problem of information asymmetry between the leader, who is regarded as opportunistic, and stakeholders who lack more information. The officer may make a discretion that is not observable because it has complied with all rules and standards. But the flexibility of IFRS will increase the power of auditors to detect such accounting manipulation.

However, the behavior of managers is associated with contractual arrangements, such as compensation, pension and loan agreements and asset prices, asymmetric information, agency and political costs (Francis et al., 2005; Lambert, 2001).

d) Managerial behavior and information quality

The preparation of financial statements often requires an exercise trial (Jensen and Meckling, 1976). This requirement means that accounting standards contain a space for managers and auditors. In combination with the flexibility in financial reporting which gives businesses some flexibility in the implementation of accounting regulations? However, it can however be situations opportunistic (Healy, 1985, Dechow and Sloan, 1991; Dye, 1998). Such situations should be dealt with by monitoring the actions of managers and the use of financial analysts’ forecasts of future performance of companies.

However, the monitoring process can be expensive and in some cases not feasible (Lamont, 1997). The use of borrowing will lead to lower agency costs because companies must meet certain interest payments and debt agreements, then they will be monitored by banks, financial institutions, rating agencies.

Managers have used accounting discretion in order to improve the company including financial results and earnings (Christie and Zimmerman, 1994; Bushee, 2001). It follows, therefore, that the timing of gains and loss of recognition is important (Balsam et al., 1995). In some cases, managers structure their choice of accounting method to transfer earnings from "good" accounting period to "bad years".

However, companies defer recognition of revenue over future accounting periods to reduce the tax charge for the current period. Similarly, companies are generally more willing to communicate the right information, and then they tend to delay the announcement of bad information (Aboody and Kaznik, 2000).

Managers who are entitled to stock options or incentive schemes tend to use discretionary accounting methods to increase the value of their compensation and future periods (and Vanstraalen Tendeloo, 2005).

Indeed, the influences of the gains of the company and the achievement of desirable goals will lead to a timetable for the disclosure of good news and bad information.
Managers have also arranged to manage the accounting data reported to influence the behavior or the response of others, such as market authorities, regulatory bodies, shareholders, lenders, also to avoid being subjected to control (Schatt et al., 2009). This would aim to give positive signals to market participants and to smooth the relationship between business and stakeholders (Easton and Harris, 1991).

The above considerations tend to be more intense for large companies that are financially visible and easily observable in the market (Jiraporn et al. 2008a). On the other hand, Jiraporn et al. (2008b) have shown that improving the financial situation of a company could also be achieved through diversification of businesses. Their results show in particular a negative relationship between a combination of industrial diversification and management of corporate earnings.

Accounting measures are closely associated with stock returns because they express the corporate financial performance, this is explained by the reaction of the market and price sensitive views to publish information (Kothari, 2005).

e) IFRS and information sources

The information quality is a fertile ground after the adoption of IFRS, which are often referred to as a revolution or a paradigm shift in not only accounting and finance but also in operational decisions.

Many companies adopt IFRS on a voluntary basis since their standards have advantages compared with local standards. These companies justify this choice by the fact that these standards reflect unparalleled reliability with those already mentioned at the relevance of accounting information and then deliver information more economical and allow for greater comparability.

A fact that, the decision-making and role playing by the individual and for the quality of accounting information and financial companies have found themselves attracted to apply these standards (Mazars, 2007).

i. Assets Valuation

The concept of fair value is not new but is the basis of international standards as named by (Mistral, 2003), the cornerstone of the work of IFRS. However, it has limited scope. Casta and Colasse (2001) showed that the relatively wide scope in terms of issues and multiple problems that have raised the application of that concept.

The IASB rejected the idea that all assets and liabilities are measured at fair value under the fair value method. It limited the scope of the fair value assets and liabilities for which there was a prior market, some financial assets and liabilities and some assets.

For liquidity, it is at the heart of recent work because it represents a need for investors. Where the assumption that markets would not work in theory, they would, for instance by lack of liquidity, substitutes for the market value, including a utility value (value in use) obtained Using actuarial models that have been proposed (Christopher et al., 2010).

ii. Earning management and financial communication

After the adoption of IFRS in Europe, handling accounts represents a vast field of investigation because the asymmetry of information has become very important for all stakeholders and specifically the shareholders. Accounting information is used in decisions to grant bank loans to finance the operating cycle or business investment.

These decisions are generally made after an analysis of accounting data of the company (Charreaux, 2000). Thus, leaders may be tempted to present a favorable financial situation is to show an ability to repay the loan, and a low risk to financial cost. Such manipulation will also allow a transfer of wealth from banks to corporate shareholders.

The lower cost of debt financing is very attractive to shareholders for at least two reasons: The first is the existence of leverage, so a return on invested capital greater, provided that the economic return exceeds the cost of debt. The second reason lies in the preservation of private benefits for controlling shareholders in case of debt financing.

Researchers who are interested in handling the relationship between accounting and debt have primarily examined whether the companies financed by bond manipulate the accounts to meet certain contractual clauses, called bond covenants we quote Labelle (1990).

iii. Accounting choices and disclosure

Understanding of accounting options after the transition to international standards poses several problems. Thus, the international standard for preparers of accounts allowed the possibility of applying two different treatments for the same economic transaction. The description and explanation of the position of French groups within this discretion is particularly interesting to understand the application of IAS / IFRS.

Indeed, these choices have a strategic dimension since their effects with no doubt mark the structure of financial statements for many years. Thus, revalue the assets or estate affect actuarial equity choices are structuring the balance sheet for the future.

Accounting choices are even more strategic they are considered definitive because of the multiple choices that influence the quality of information disclosed. We also note that international standards are increasing the geographic area of investment for investors, which highlights the role of information when faced with multiple accounting choices.
iv. **Earnings volatility**

Several studies have been conducted regarding the conversion to IFRS. Most studies have compared the quality of earnings before and after the transition to IFRS. In analyzing the impact of adopting IFRS, Daska et al. (2007) found that companies with a commitment to transparency of the experience of the financial statements have greater market liquidity and low cost of capital.

However, Barth et al. (2008) explored whether international accounting standards (IAS) applied by non-US companies are comparable to the U.S. PCG applied by U.S. firms in terms of relevance value.

Indeed, the document shows that PCG U.S. generally has a higher level of relevance that the value of non-US firms applying IAS. Researchers have also addressed the quality of earnings before and after the transition to IFRS. They showed that performance management is less after the adoption of IFRS.

Recent studies have analyzed the association between the voluntary adoption of IFRS and the role of accounting earnings in assessing internal performance. They found that IFRS is a better tool for evaluating the performance of domestic firms. Regarding the transition to IFRS, several studies have examined the importance of disclosure of the reconciliation of local GAAP standards and IFRS.

Hung and Subramanyam (2007) studied the impact of transition to IFRS for companies that voluntarily adopt IFRS in Germany and show that the book value of equity seems to be a relevant value and generates considerable gains.

Horton and Serafeim, (2009) show that the market reacts to IFRS reconciliations in the United Kingdom made this information must be disclosed by the documents required by the transitional IFRS.

v. **IFRS is a means of growth**

Christensen et al. (2008) found that market reactions are similar to the harmony of the data, and resume the adoption of IFRS for companies in the UK affects business growth.

Skinner and Sloan (2001) showed that growing business and an unreliable result influence the reaction of stock markets in the period from the publication of results. The application of IFRS to listed companies can present a unique set of financial documents accepted by all financial centers.

These standards have made a real change in accounting introducing two new concepts: the fair value and economic substance. The integration of the fair value and primacy of the economic substance were strongly desired by the financial markets who found that the records produced by listed companies were too remote from economic reality. The leader with the resources of the companies can change prices of assets that make the function very difficult to control by investors.

vi. **Information is an instrument of knowledge and communication**

Access to information is a problem with the size of the firm and the amount of information disclosed. Thus, the information is used as a means to influence the environment positively or negatively.

But she did not have the same weight to invest in SMEs than in large firms this explains in large enterprises, it is publicly available and could be achieved with lower costs than in small enterprises (Dargenidou et al., 2009).

The information poses a problem for small investors because large investors are sophisticated and able to detect the result of management on their priorities and their knowledge of the reliability of the information.

To adopt IFRS, the phenomenon of management result remained a concern for researchers. Lo (2008) found it necessary to define the scope, understand the specifics and give attention to major changes.

The quality of accounting results in a more general economic environment, but the quality of financial statements is therefore very attractive to various users such as deciding on the objectives of debt the development of ethics in business is also a factor likely to improve the transparency of accounting information.

The scope of the potential impact of IFRS is not limited to the financial statements, but also includes data on business management in relation to key indicators of performance, information management and remuneration based on performance.

Therefore, we formulate our hypothesis as follows: IFRS ensure the credibility of financial information.

### III. Research Method

**a) Data collection**

The sample consists of 36 listed French companies (CAC40 companies). Four companies are excluded, because they have a specific accounting (financial firms). For the sake of uniformity, we will ensure that companies in our sample are industrial but operating in various sectors of activity (industry, pharmaceutical, food ...).

**b) Variables**

i. **Dependent variable**

AQ : Accruals Quality

Numerous studies show that earnings management accountant is proxy for the quality of accounting information. It will be measured by the concept of total accruals. To do this we will first define and then we calculate accruals from each firms i and year t. by definition, accruals reflect all adjustment that allow accountants to move from accruals to cash accounting.
To determine discretionary accruals we will adopt the model of Kothari et al. (2005) who suggest that firms manage their results by taking into consideration the current and past performances of the firm. This model is as follows:

\[
\text{ATit}/\text{TAit-1}= \beta_1(1/\text{TAit-1}) + \beta_2(\Delta (\text{CAit-CCit})/\text{TAit-1}) + \beta_3(\text{IMMit}/\text{TAit-1}) + \beta_4 \text{ROAit} + \epsilon_{it}
\]

\[\text{AND} = \text{sum of total accruals from t-1}\]

ii. Independent variables

Table 1: Independent Variables.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definitions</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS</td>
<td>Represents the accounting system used</td>
<td>= 1 if IFRS are applied, 0 otherwise</td>
</tr>
<tr>
<td>Growth</td>
<td>Growth</td>
<td>Asset growth rate</td>
</tr>
<tr>
<td>Variation in earnings</td>
<td>Variation in earnings</td>
<td>Profit for the year t minus t-1</td>
</tr>
<tr>
<td>Size</td>
<td>Size of firm</td>
<td>logarithm of market capitalization</td>
</tr>
<tr>
<td>Debt</td>
<td>Debt</td>
<td>Total Debt to Equity</td>
</tr>
</tbody>
</table>

iii. Model specification

The following regression model summarizes the variables in this study:

\[
\text{AQit} = \beta_0 + \beta_1 \Delta BNit + \beta_2 \Delta IFRSit + \beta_3 \Delta SIZEit + \beta_4 \Delta GROWTH it + \beta_5 \Delta LEVERAGE it + \epsilon_{it}
\]

IV. Results

Descriptive statistics

Tableau 2: Statistiques descriptive.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Observation</th>
<th>Moyenne</th>
<th>Standard deviation</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>AQ</td>
<td>360</td>
<td>-0.0460698</td>
<td>0.086451</td>
<td>-0.8816944</td>
<td>0.6159701</td>
</tr>
<tr>
<td>(\Delta\text{NE})</td>
<td>360</td>
<td>11.45219</td>
<td>3.931432</td>
<td>1.231</td>
<td>16.91371</td>
</tr>
<tr>
<td>TAIL</td>
<td>360</td>
<td>7.38632</td>
<td>0.5162006</td>
<td>6.173573</td>
<td>8.91791</td>
</tr>
<tr>
<td>CROI</td>
<td>360</td>
<td>0.5140159</td>
<td>6.795071</td>
<td>-1.01178</td>
<td>125.2609</td>
</tr>
<tr>
<td>DEPTT</td>
<td>360</td>
<td>0.6024857</td>
<td>0.3749126</td>
<td>0.0341552</td>
<td>3.288881</td>
</tr>
</tbody>
</table>

This table shows that all variables except the average positive accruals quality variable (dependent variable) has a negative mean and a standard deviation lower. This proves that this variable is low volatility. The other variables have low standard deviations.

Table 3: Frequency

<table>
<thead>
<tr>
<th>Variables</th>
<th>frequency</th>
<th>Pourcentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS = 1</td>
<td>144</td>
<td>40%</td>
</tr>
<tr>
<td>IFRS = 0</td>
<td>216</td>
<td>60%</td>
</tr>
</tbody>
</table>
At the end of this table 40% of companies in our sample apply IFRS. This means the importance of applying these standards to our context.

Table 4: Matrice de corrélation.

<table>
<thead>
<tr>
<th>Variables</th>
<th>AQ</th>
<th>∆BN</th>
<th>IFRS</th>
<th>SIZE</th>
<th>GROW</th>
<th>DEBT</th>
</tr>
</thead>
<tbody>
<tr>
<td>AQ</td>
<td>1,0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>∆BN</td>
<td>-0,0117</td>
<td>1,0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IFRS</td>
<td>0,0237</td>
<td>0,0487</td>
<td>1,0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SIZE</td>
<td>-0,0961</td>
<td>0,3415</td>
<td>0,1020</td>
<td>1,0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GROW</td>
<td>0,0325</td>
<td>0,0520</td>
<td>-0,0495</td>
<td>0,2120</td>
<td>1,0000</td>
<td></td>
</tr>
<tr>
<td>DEBT</td>
<td>0,0082</td>
<td>0,1044</td>
<td>-0,0868</td>
<td>0,2231</td>
<td>0,0047</td>
<td>1,0000</td>
</tr>
</tbody>
</table>

We note that dependent variable total accruals are negatively correlated with two variables: variation in earnings and firm size. In contrast, IFRS variables, growth and debt are positively correlated with total accruals. But it should be noted that this table gives us an idea about the signs of correlation coefficients between the dependent and independent variables.

Figure 1: Variation in quality of accruals.

Also note that from the chart above, we find that total accruals increase before the adoption of IFRS and decreases after 2005.

Analysis of the results of econometric estimation

To test this question we are faced with three methods of estimation: The method of least squares (OLS) is generally used for individual data (cross section) or temporal data. But for our study, this method is insufficient because it is ignorant of double dimension. And the method of estimation with random effects or fixed effects. To allow the choice between these different estimation methods, three tests were performed:

Stationary test Augmented Dickey-Fuller (ADF)

Before estimating our model, we need to test stationary of the variables, since in this test; the probability is zero in first difference. For our sample we have performed the first difference.

Hausman test

This test is designed to make the choice between the estimated fixed effect (fixed effect model) and the estimated random effects (random effect model). The first model takes into account the heterogeneity of the sample and we introduce a dummy variable for each firm captures the transition form to another. While in these condition, we consider the risk of heterogeneity in behavior and this leads us to decompose the error term into components.

\[ H_0 : Cov(x_{it}, \mu_i) = 0 \text{ random effects model} \]
\[ (x_{it} = \mu_i + V_{it}) \]
\[ H_1 : Cov(x_{it}, \mu_i) \neq 0 \text{ fixed effects model} \]

The Hausman test follows a Kid 2 that takes the value of 9.84 with a probability of 0.0798. This test is therefore significant at 10%. We will apply the fixed effects specification for our sample

Lagrange multiplier test:

We conducted the lagrange multiplication test to demonstrate the presence of random heterogeneity in our sample. This test is not significant (chi-square is 0.16) indicating that the presence of a non-random effect. Ultimately we choose the estimate with fixed effects.
From this table we can notice that there is a significant negative relationship between the variable IFRS and total accruals at the 5% this indicates that the use of international standards improves the quality of accounting information released. This result proved not confirm those found by Hung and Subramanyan, (2007) and Lapointe and al. (2006).

Firm size has a positive and significant relationship with total accruals at the 1%. This shows that large size firms applying IFRS and publishes quality information, which is not coherent with the results found in the study of Iatridis (2008a) and corroborates the findings of Hung and Subramanyan (2007).

The coefficient on growth is positive and significant at 1%. This suggests that companies are growing their turnovers are also posted the highest total accruals. Indeed the growth of turnover usually results in an increase in working capital and therefore an increase in total accruals (Hung and Subramanyan, 2007).

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In addition, the variation in earnings has a positive in earnings has a positive and significant with total accruals at the 10% which shows that firms using IFRS results achieved by increasing the reliability of the information disseminated. This result corroborates those reached in studies of Dechow and al.(1994) and Xiong (2006).

Summarily concluded from the results, our hypothesis is confirmed: IFRS ensure the credibility of financial information.

Table 5 Regression results of quality information and IFRS.

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob</th>
</tr>
</thead>
<tbody>
<tr>
<td>AQ</td>
<td>0.055668***</td>
<td>0.006461</td>
<td>8.61</td>
<td>0.000</td>
</tr>
<tr>
<td>CROI</td>
<td>-0.036007**</td>
<td>0.016830</td>
<td>-2.13</td>
<td>0.033</td>
</tr>
<tr>
<td>Size</td>
<td>0.461891***</td>
<td>0.052808</td>
<td>8.74</td>
<td>0.000</td>
</tr>
<tr>
<td>Debt</td>
<td>-0.017897</td>
<td>0.34323</td>
<td>-0.52</td>
<td>0.602</td>
</tr>
<tr>
<td>∆BN</td>
<td>0.04005*</td>
<td>0.020438</td>
<td>1.96</td>
<td>0.072</td>
</tr>
<tr>
<td>Cons</td>
<td>0.006739</td>
<td>0.005856</td>
<td>1.15</td>
<td>0.250</td>
</tr>
</tbody>
</table>

**V. Conclusion**

The purpose of this paper is to study the impact of the adoption of international standards (IFRS) on the quality of accounting and financial firms CAC 40.

We presented the first positive accounting theory that stresses the importance of quality information for investors to enable them to take appropriate decisions for investment. Then, we presented a synthesis of empirical studies testing the relationship between information quality measured by Proxy “accruals quality” and IFRS.

The results confirm the work of Pae et al. (2006), Hung and Subramanyan (2007), Dechow et al. (1994) and Xiong (2006). They show that the adoption of IFRS increases the quality of published information and ensure its reliability. This allows us to conclude that the adoption of IFRS has a positive impact on the transparency of information which increases the growth and variation in earnings.

In fact, the CAC 40 companies are characterized by the preparation of consolidated financial statements, indicating that accounting has an important role in the functioning of financial markets. Changes after the adoption of IFRS will broaden the scope of the leaders and eventually their decision-making powers.

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Forecasting the BDT/USD Exchange Rate using Autoregressive Model

By Md. Zahangir Alam

International Islamic University Chittagong, Dhaka Campus, Bangladesh

Abstract - The key motivation of this study is to examine the application of autoregressive model for forecasting and trading the BDT/USD exchange rates from July 03, 2006 to April 30, 2010 as in-sample and May 01, 2010 to July 04, 2011 as out of sample data set. AR and ARMA models are benchmarked with a naïve strategy model. The major findings of this study is that in case of in-sample data set, the ARMA model, whereas in case of out-of-sample data set, both the ARMA and AR models jointly outperform other models for forecasting the BDT/USD exchange rate respectively in the context of statistical performance measures. As per trading performance, both the ARMA and naïve strategy models outperform all other models in case of in-sample data set. On the other hand, both the AR and naïve strategy models do better than all other models in case of out-of-sample data sets as per trading performance.

Keyword : Forecasting, Autoregressive and Autoregressive Moving Average Models, and Naïve Strategy.

GJMBR-B Classification : JEL Code : C53

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Md. Zahangir Alam

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I. Introduction

Exchange rate is an important variable which influences decisions taken by the participants of the foreign exchange market, namely investors, importers, exporters, bankers, financial institutions, business, tourists and policy makers both in the developing and developed world as well. Timely forecasting of the exchange rates is able to give important information to the decision makers as well as partakers in the area of the internal finance, buy and sell, and policy making. However, the experimental literature be skeptical about the likelihood of forecasting exchange rates accurately (Dua and Ranjan, 2011). The market where foreign exchange transactions are taken place is the biggest as well the most liquid financial markets. The foreign exchange rate is one of the vital economic indicators in the global monetary markets. For the giant multinational business units, an accurate forecasting of the foreign exchange rates is crucial since it improves their overall profitability (Huang et al., 2004). In the past, the foreign exchange rates were fixed with extremely a small number of short-term variations. Nowadays, floating foreign exchange rates are prevailed in most of the countries. The recent financial turmoil all over the world demonstrates the urgency of perfect information of the foreign exchange rates (Shim, 2000).

The series of foreign exchange rate demonstrates a higher volatility, complexity and noise which generate from a mysterious market mechanism producing daily observations (Theodossiou, 1994). Forecasting of a given financial variable is a vital task in the markets where financial transactions are taken place and positively helpful for the stakeholders, namely practitioners; regulators; as well as policy formulators of this market (Pradhan and Kumar, 2010). In the financial as well as managerial decision making process, forecasting is a crucial element (Majhi et al., 2009). Forecasting of the exchange rate is the foremost endeavors for the practitioners and researchers in the spree of international finance, particularly in case of the exchange rate which is floating (Hu et al., 1999). Since the breakdown of Breton-Wood system, prediction of the exchange rate is being more interested. To develop models for forecasting the exchange rates is important in the practical and theoretical aspects. The importance of forecasting the exchange rates in practical aspect is that an accurate forecast can render valuable information to the investors, firms and central banks for in allocation of assets, in hedging risk and in formulating of policy. The theoretical significance of an accurate forecasting exchange rate is that it has vital implications for efficient market hypothesis as well as for developing theoretical model in the field of international finance (Preminger and Franck, 2005). Some corporate tasks that make forecasting the foreign exchange rate so important, namely hedging decision, short-term financing decision, short-term investment decision, capital budgeting decision, earnings assessment and long-term financing decision (Madura, 2006). To forecast exchange rate is a hectic task, but this is an inevitable for taking financial decision in the era of internalization. The significance of the exchange rates’ forecasting stems from the reality that the findings of a given financial decision made today is conditional on the exchange rate which will be prevailed in the upcoming period. For this reason forecasting exchange rate is essential for a various international financial transactions, namely speculation, hedging as well as capital budgeting (Moosa, 2008). To understand the movements of exchange rate is a tremendously challenging and essential task. Efforts for deepening our understanding about the movements of exchange rate have taken some approaches. Primarily, efforts concentrated to develop low-frequency basically based
experimental models. The aim of model estimation is to present an accurate forecast of exchange rate as well as to get better our understanding the movements of exchange rate. The models could occasionally help to isolate the shortcomings of our knowledge and put forward new way of research (Gradojevic and Yang, 2000). The outcomes of this study render all of the mentioned rationales.

The motivation for this study is to investigate the use of auto regressive (AR) model, when applied to the task of forecasting and trading of the BDT/USD exchange rate using the Bangladesh Bank (BB) fixing series.

II. Literature Review

The likelihood to capture various patterns in the data as well as improvement of forecasting performance can be enhanced through combining different models. A number of researches are conducted on forecasting and trading financial series by the scholars and they suggest that by combining various models, forecasting accuracy can be enhanced over an individual model.

Khin et al. (2011) state that the economic market model of supply-demand’s ex-ante forecast is more perfect and efficient measured either in the context of its statistical decisive factor or by optical immediacy with the actual prices. Pradhan and Kumar (2010) conducts a study on Forecasting Exchange Rate in India: An Application of Artificial Neural Network (ANN) Model. and reveal that ANN model is a successful tool for forecasting the exchange rate. Moreover, they reveal that it is possible to extract information concealed in the exchange rate and to predict it into the upcoming. Sermpinis, Dunis and Laws (2010) mention that the Psi and the Genetic Expression perform in the same way and their performance is better among all models in the context of annualized returns and information ratio prior to and following the application of the trading strategy. They also reveal that all models with the exception of ARMA demonstrate an extensive augmentation in their trading performance in the light of annualized return. Dunis and Williams (2003) investigate and analyse regression models’ application in trading as well as investment along with the utilization of forecasting foreign exchange rates and trading models. They benchmark NNR models with some other regression based models and different forecasting techniques for determining their prospective added value like a predicting and quantitative trading techniques. To evaluate the forecasting accuracy of the selected models, some statistical measures namely MSE, MPAE, and so on are used as well as they use financial criteria, like returns risk-adjusted reassures. They reveal that regression models, exactly NNR models have the capability for forecasting the EUR/USD exchange rate returns within the sample period and insert value the same as the tool of forecasting and quantitative trading as well. Dunis and Miao (2005a) reveal that the adding of the volatility filters include the performance of the models in the respect of annualized return, maximum drawdown, risk –adjusted Sharpe ratio and Calmar ratio. Dunis and Miao (2005b) state that the performance of straightforward carry model is superior to the MACD model in the context of annualized return, risk-adjusted return and maximum potential loss, whilst a collective carry or MACD model contains the least trading volatility, in addition of the two volatility filters puts in noteworthy value to the different three studied modes’ performance. Dunis, Laws and Sermpinis (2008a) reveal that two neural network models, namely Higher Order Neural Network (HONN) and Multilayer Perception (MLP) do significantly outperform compared to the other selected models in case of a straightforward trading simulation. After incorporating transaction costs and applying leverage, they also find that same network models beat all other selected models in respect of the annualized return, robust as well as stable result. Dua and Ranjan (2011) do a study on modelling and forecasting the Indian RE/USD exchange, governed by the managed floating foreign exchange rates regime, with vector autoregressive (VAR) and Bayesian vector autoregressive (BVAR) models find that extension of monetary model for incorporating forward premium, capital inflows’ volatility as well as order flow is an effective way to improve forecasting accuracy of the selected model. Furthermore, BVAR model usually beat their parallel VAR variants. According to Boero and Marroc (2002), the performance of linear models is better than non-linear models if concentration is constrained to MSFE. Preminger, and Franck (2005) state that foreign exchange rate forecasting robust models have a tendency for improving Autoregressive and Neural Network model’s forecasting accuracy at each time sphere, as well as even of random walk for predictions done at a one-month time - sphere. They also mention that robust models have considerable market timing capability at each forecast horizons. Kamruzzaman and Sarker (2003) mention that the performance of all ANN related models are better than the ARIMA model. Furthermore, they reveal that all the ANN based models are capable to predict the foreign exchange market closely. Bissoondeeal et al. (2008) conduct a research for forecasting foreign exchange rates with nonlinear models and linear models and reveal that usually, NN models outperform compared to the time series models which are traditionally applied in forecasting the foreign exchange rates. Philip, Taofiki and Bidemi (2011) compare the performance of two models which are used to forecast the foreign exchange rates, namely Hidden Markov Model and Artificial Neural Network Model and find that the percentage of ANN model’s accuracy is more than Hidden Mark Model at 81.2% and 69.9% respectively. Sosvilla-Rivero and
García (2003) do a research for forecasting the USD/EUR exchange rate and evaluate the empirical significance PPP's expectation version for the study purpose. They find that the behavior of the given study's predictors are significant better than the random walk in forecasting the exchange rate up to a five-day period in terms of forecasts error as well as the directional forecast. Dunis and Huang (2001) state that the majority trading strategies continue positive returns after incorporating transaction costs. Furthermore, they mention that RNN models come into view as the most excellent sole modeling approach up till now. They also reveal that the model combination that has the most excellent overall performance as per forecasting accuracy, be unsuccessful to upgrade volatility trading outcomes whose basis are RNN. Dunis, Laws, and Sermpinis (2008b) mention that the HONN as well as the MPL networks outperform in predicting the EUR/USD exchange rates fixed up by the ECB until the last part of the year 2007 comparison with the performance of the RNN networks, the ARMA model, the MACD model and the naïve strategy. Panda and Narasimhan (2003) state that NN outperforms the linear AR model in case of in-sample forecasting. Though in case of out-of-sample forecasting, no model is nominated as a better model between the NN and linear AR model, NN can improve the linear AR model in respect of sign forecasting.

III. Data and Methodology

a) Data

Only secondary data related to the daily closing BDT/USD exchange rate is used for the study purpose. The daily closing BDT/USD exchange rate is investigated in this study which is collected from data base Reuters Xtra 3000. The study period is from July 03, 2006 to July 04, 2011 which comprise 1307 trading days. The total data set is broken down into in-sample data set and out-of-sample data set. The in-sample data set covers the time period from July 03, 2006 to April 30, 2010 and includes 1000 observations and used for the purpose of model estimation and forecasting, whereas out-of-sample covers the time period from May 01, 2010 to July 04, 2011 and contains 307 observations and used for the purpose of forecasting. The in-sample observations and out-of-sample observations are 76.51% and 23.49% respectively in this study.

b) Jarque-Bera Statistics

Jarque-Bera statistics is used to test the non-normality of the BDT/USD exchange rate.

Figure 1: BDT/USD Exchange Rate Summary Statistics.
Figure 1 depicts that the positive skewness, 1.359303, and a high positive kurtosis, 7.258467. According to the Jarque-Bera statistics, the BDT/USD return is non-normal at the confidence interval of 99%, since probability is 0.0000 which is less than 0.01. So, it is required to transform the BDT/USD exchange rate series into the return series.

c) **Transformation of the BDT/USD Exchange Rate Series**

Generally, the movements of the foreign exchange rates are usually non-stationary as well as quite random and not suitable for the study purpose. The series of BDT/USD exchange rates is converted into returns by using the following equation:

$$R_t = \frac{P_t}{P_{t-1}} - 1$$  \hspace{1cm} (1)

Where, 
- $R_t$ = the rate of return at time $t$
- $P_t$ = the exchange rate at time $t$
- $P_{t-1}$ = the exchange rate just preceding the time $t$

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- $P_t$ = the exchange rate at time $t$
- $P_{t-1}$ = the exchange rate just preceding the time $t$

d) **BDT/USD Exchange Rate Returns ADF Test and PP Test**

<table>
<thead>
<tr>
<th>Table 1: BDT/USD Exchange Rate Returns ADF Test.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Augmented Dickey-Fuller test statistic</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>1% level</td>
</tr>
<tr>
<td>5% level</td>
</tr>
<tr>
<td>10% level</td>
</tr>
<tr>
<td>Test critical values:</td>
</tr>
<tr>
<td>1% level</td>
</tr>
<tr>
<td>5% level</td>
</tr>
<tr>
<td>10% level</td>
</tr>
</tbody>
</table>


Table 1 presents the findings of ADF test and formally confirms that the returns series of the BDT/USD is stationary, since the values of Augmented Dickey-Fuller test statistic, -29.70146, less than its test critical value, -3.435169 at the level of significance of 1%.

<table>
<thead>
<tr>
<th>Table 2: BDT/USD Exchange Rate Returns PP Test.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Augmented Dickey-Fuller test statistic</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>1% level</td>
</tr>
<tr>
<td>5% level</td>
</tr>
<tr>
<td>10% level</td>
</tr>
</tbody>
</table>


Table 2 demonstrates the findings of the PP test and properly proves that the returns series of the BDT/USD exchange rate is stationary, since the values of PP test statistic, -150.9006, less than its test critical value, -3.435150 at the level of significance of 1%. Therefore, it can be mentioned that the BDT/USD exchange rates returns series is stationary as per both the ADF test as well as PP test.
m) Summary Statistics of the BDT/USD Exchange Rate Returns

Figure 2: BDT/USD Exchange Rates Returns Summary Statistics.

| Series: RETURN |
|---------|----------------|
| Sample 1 | 1307 |
| Observations | 1307 |
| Mean | 7.62e-05 |
| Median | 0.000000 |
| Maximum | 0.048621 |
| Minimum | -0.044983 |
| Std. Dev. | 0.004159 |
| Skewness | 0.520318 |
| Kurtosis | 41.79787 |
| Jarque-Bera | 82033.72 |
| Probability | 0.000000 |

Figure 2 further disclose a slight positive skewness, 0.520318, and a higher positive kurtosis, 41.79787. According to the Jarque-Bera statistics, the BDT/USD returns series is non-normal at the confidence interval of 99%, since probability is 0.0000 which is less than 0.01.

f) Specification of the Model

i. Benchmark Model

An autoregressive model and an autoregressive moving average model are benchmarked with a naïve strategy model in this study.

a. Naïve Strategy

It takes the most up to date period change as the most excellent forecast of the change which would be occurred in the future (Sermpinis, Dunis, and Laws, 2010). This forecasting model is expressed in the following way:

\[ Y_{t+1} = Y_t \]  

Where

- \[ Y_{t+1} \] = the forecast rate of return for the next period
- \[ Y_t \] = the actual rate of return at period \( t \)

The performance of the naïve strategy is appraised in the context of the trading performance by the way of a simulated trading strategy.

ii. Autoregressive Model

According to autoregressive model, a forecast is a function of previous values of the time series (Hanke and Wichern, 2009). This model takes the following equation:

\[ y_t = \mu + \phi_1 y_{t-1} + \phi_2 y_{t-2} + \cdots + \phi_p y_{t-p} + \epsilon_t \]  

Where,

- \( y_t \) = the actual rate of return at period \( t \)
- \( \mu \) = constant
- \( \phi_i \) = co-efficient
- \( \epsilon_t \) = a white noise disturbance term

iii. Autoregressive Moving Average Model

This model represents the present value of a time series depends upon it past values which is the autoregressive component and on the preceding residual values which is the moving average component (Sermpinis, Dunis and Laws, 2010). The ARMA (p,q) model has the following general form:

\[ y_t = \phi_0 + \phi_1 y_{t-1} + \phi_2 y_{t-2} + \cdots + \phi_p y_{t-p} + \epsilon_t - w_1 \epsilon_{t-1} - w_2 \epsilon_{t-2} - \cdots - w_q \epsilon_{t-q} \]  

Where,

- \( y_t \) = the dependent variable at time \( t \)
- \( y_{t-1}, y_{t-2}, \ldots, y_{t-p} \) = the lagged dependent variables
- \( \phi_0, \phi_1, \phi_2, \ldots, \phi_p \) = regression coefficients
- \( \epsilon_t \) = the residual term
- \( \epsilon_{t-1}, \epsilon_{t-2}, \ldots, \epsilon_{t-q} \) = previous values of the residual
- \( w_1, w_2, \ldots, w_q \) = weights

The performance of the naïve strategy is appraised in the context of the trading performance by the way of a simulated trading strategy.

i. Measures of the Statistical Performance of the Model

The statistical performance measures are, namely mean absolute error (MAE); mean absolute percentage error (MAPE); root mean squared error (RMSE); and theil-u, are used to select the best model in
the in-sample case and the out-of-sample case individually in this study. For all four of the error statistics retained (RMSE, MAE, MAPE and Theil-U) the lower the output, the better the forecasting accuracy of the model concerned.

ii. Measures of the Trading Performance of the Model

The trading performance measures, like annualized return (\(R_t\)); annualized volatility (\(\sigma\)); information ratio (SR); and maximum drawdown (MD), are used to select the best model. That model's trading performance would be the best whose annualized return, cumulative return, ratio information is the highest, and on the other hand whose annualized volatility and maximum drawdown would be the lowest.

IV. Empirical Results and Discussion

a) Model Estimation

i. AR(1) Model

The table below shows the output of the AR (1) BDT/USD returns estimation:

\[
\begin{array}{|c|c|c|c|c|}
\hline
\text{Variable} & \text{Coefficient} & \text{Std. Error} & \text{t-Statistic} & \text{Prob.} \\
\hline
C & 2.49E-05 & 0.000107 & 0.231425 & 0.8170 \\
AR(1) & -0.283663 & 0.030369 & -9.340439 & 0.0000 \\
\hline
\end{array}
\]

The estimated AR (1) model takes the following form:

\[
R_t = 0.0000249 - 0.283663R_{t-1} \quad (5)
\]

The coefficient (with the exception of the constant) of the estimated AR (1) is significant at the confidence interval of 95% (equation AR (1), since the probability of its coefficient (except the constant) is less than 0.05.

ii. ARMA (1, 1) Model

The following table shows the output of the ARMA (1,1) BDT/USD returns estimation:

\[
\begin{array}{|c|c|c|c|c|}
\hline
\text{Variable} & \text{Coefficient} & \text{Std. Error} & \text{t-Statistic} & \text{Prob.} \\
\hline
C & 1.45E-05 & 8.29E-05 & 0.174879 & 0.8612 \\
AR(1) & 0.185091 & 0.086714 & 2.134494 & 0.0330 \\
MA(1) & -0.505725 & 0.076194 & -6.637337 & 0.0000 \\
\hline
\end{array}
\]

The estimated ARMA (1, 1) model takes the following form:

\[
R_t = 0.0000145 + 0.185091Y_{t-1} - 0.505725Y_{t-2} \quad (6)
\]

The all coefficients (with the exception of the constant) of the estimated ARMA (1, 1) model are significant at the confidence interval of 95%, since the probability of its each coefficient (except the constant) is less than 0.05.

b) Statistical Performance

i. In-Sample Statistical Performance

The following table presents the comparison of the in-sample statistical performance results of the selected models.

\[
\begin{array}{|c|c|c|c|}
\hline
\text{Particulars} & \text{Naive Strategy} & \text{ARMA (1, 1)} & \text{AR(1)} \\
\hline
\text{Mean Absolute Error} & 0.0033 & 0.0019 & 0.0019 \\
\text{Mean Absolute Percentage Error} & 107.76\% & 58.35\% & 58.04\% \\
\text{Root Mean Squared Error} & 0.0073 & 0.0043 & 0.0044 \\
\text{Theil's Inequality Coefficient} & 0.8011 & 0.7241 & 0.7470 \\
\hline
\end{array}
\]

Table 5 reveals that both the ARMA(1,1) and AR(1) models have the same and the lowest mean absolute error (MAE) at 0.0019, whereas naive strategy has the lowest MAE at 0.0033. The AR (1) model has the lowest mean absolute percentage error (MAPE) at 58.04% followed by the ARMA (1,1) model; and naïve strategy at 58.35%; and 107.76% respectively. The ARMA(1,1) model has the lowest root mean squared error (RMSE) at 0.0043, whereas the AR(1) model has the second lowest RMSE at 0.0044 followed by the naïve strategy at 0.0073. Therefore, the ARMA (1,1) model is the best performing model on the basis of in-sample statistical performance results, since this model is nominated as the best model three times, whereas the AR(1) model is nominated as the best model twice and the naïve strategy model is nominated as the best model not a single time.
ii. *Out – Of- Sample Statistical Performance*

The following table demonstrates the comparison of the out-of-sample statistical performance results of the selected models.

**Table 6 : Out –of - Sample Statistical Performance Results.**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Naive Strategy</th>
<th>ARMA (1,1)</th>
<th>AR(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean Absolute Error</td>
<td>0.0022</td>
<td>0.0013</td>
<td>0.0013</td>
</tr>
<tr>
<td>Mean Absolute Percentage Error</td>
<td>94.31%</td>
<td>59.12%</td>
<td>53.64%</td>
</tr>
<tr>
<td>Root Mean Squared Error</td>
<td>0.0041</td>
<td>0.0024</td>
<td>0.0024</td>
</tr>
<tr>
<td>Theil's Inequality Coefficient</td>
<td>0.8109</td>
<td>0.7192</td>
<td>0.7391</td>
</tr>
</tbody>
</table>

Table 6 reveals that both the ARMA (1,1) and the AR(1) models have the same and the lowest mean absolute error (MAE) at 0.0013, whereas naïve strategy has the second lowest at 0.0022. The AR (1) model has the lowest mean absolute percentage error (MAPE) at 53.64% followed by the ARMA (1,1) and the naïve strategy models at 59.12%; and 94.31% respectively. Both the ARMA (1,1) and the AR(1) models have the same and the lowest root mean squared error (RMSE) at 0.0024, whereas the naïve strategy has the second lowest at 0.0041. The ARMA(1,1) model has the lowest theil's inequality coefficient at 0.7192 followed by the AR(1) model; and the naïve strategy at 0.7391; and 0.8109 respectively. Therefore, both the ARMA (1,1) and AR(1) model are the best performing model on the basis of out –of - sample statistical performance results, since these two models are nominated as the best model three times, whereas the naïve strategy model is nominated as the best model not a single time.

c. *Trading Performance*

i. **In-Sample Trading Performance**

The following table shows the comparison of the in-sample trading performance results of the selected models.

**Table 7 : In- Sample Trading Performance Results.**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Naive Strategy</th>
<th>ARMA(1,1)</th>
<th>AR (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualised Return</td>
<td>-11.59%</td>
<td>23.38%</td>
<td>13.39%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>6.19%</td>
<td>7.06%</td>
<td>7.16%</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td>-1.87</td>
<td>3.31</td>
<td>1.87</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>-48.91%</td>
<td>-5.26%</td>
<td>-6.18%</td>
</tr>
</tbody>
</table>

Table 7 reveals that the ARMA (1,1) model has the highest annualized return at 23.38%. The naïve strategy has the lowest annualized volatility at 6.19%. In addition, ARMA (1,1) model has the highest Sharpe ratio at 3.31. The naïve strategy model has the lowest downside risk as measured by maximum drawdown at - 48.91%. Therefore, both the naïve strategy and ARMA (1,1) models might be selected as the overall best model in – sample trading performance, since these models are nominated as the best models the highest times.

ii. **Out-Of-Sample Trading Performance**

The following table demonstrates the comparisons of the out-of-sample trading performance results of the selected models.

**Table 8 : Validation Trading Performance Results.**

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Naive Strategy</th>
<th>ARMA(1,1)</th>
<th>AR (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annualised Return</td>
<td>-8.96%</td>
<td>13.54%</td>
<td>14.49%</td>
</tr>
<tr>
<td>Annualised Volatility</td>
<td>2.89%</td>
<td>3.94%</td>
<td>3.93%</td>
</tr>
<tr>
<td>Sharpe Ratio</td>
<td>-3.10</td>
<td>3.44</td>
<td>3.69</td>
</tr>
<tr>
<td>Maximum Drawdown</td>
<td>-10.92%</td>
<td>-1.11%</td>
<td>-1.28%</td>
</tr>
</tbody>
</table>

Table 8 depicts that the AR(1) model has the highest annualised return at 14.49%, whereas the naïve strategy model has the lowest annualised volatility at 2.89%. Moreover, the AR(1) model has the highest Sharpe ratio at 3.69. The naïve strategy model has the lowest downside risk as measured by maximum drawdown at -10.92%. On the basis of the discussion of the table, both the AR(1) and naïve strategy models are selected as the overall best model out-of-sample trading performance, since it is nominated as the best model the highest times.

V. **Conclusion**

Techniques of forecasting foreign exchange rates depend upon the efficient market hypothesis are the shortcomings and in the real world, market inefficiencies are existed. However, foreign exchange markets are comparatively efficient and the opportunity...
to hold a strategy for making abnormal return is reduced (Dunis and Williams, 2003). The average Sharpe ratio of the foreign exchange managed future industry is merely 0.80 and for running a profitable foreign exchange trading desk, more than 60% winning trades is needed (Grabbe, 1996 ). Moreover, the Sharpe ratio of all models except the naive strategy is more than 0.80 in case of in-sample trading performance outcomes and the ARMA (1,1) model has the highest at 3.65. On the other hand, the Sharpe ratio of both the ARMA (1,1) model and the AR (1) model are more than 0.80, whereas the naive strategy model are less than 0.80 and the AR (1) model has the highest at 3.69 in case of the validation trading performance results (out-of-sample).

On the basis of the overall findings of this study, it can be concluded that in case of in-sample the ARMA (1,1) model, whereas both the ARMA (1,1) and AR(1) models are capable to add value significantly to the forecasting and trading BDT/USD exchange rate in the context of statistical performance measures. On the other hand, the naive strategy and ARMA (1,1) models in case of in-sample, whereas both the AR(1) and naive strategy models in case of out-of-sample can add value significantly for forecasting and trading BDT/USD exchange rate on the basis of trading performance.

In this study, only two models, namely an AR model and an ARMA model are benchmarked only with a naive strategy model. The naive strategy model is merely evaluated in the context of the trading performance. Some limitations are reflected in case of the estimated models, namely the estimated ARMA (1,1), and AR(1) models are not normally distributed, serial correlation of the residuals of the estimated ARMA (1,1) and AR(1) models is present, and the variances of the estimated ARMA (1,1), and AR(1) models are not constant. Appropriate transformation of the original model, application of the Newey–West method, and changing the data frequency or using the generalized least squares method can be considered to overcome the indentified shortcomings.

**References**


**Appendices**

### A.1 EViews7 Output of ADF Test.

Null Hypothesis: EXCHANGE has a unit root  
Exogenous: Constant  
Lag Length: 5 (Fixed)

<table>
<thead>
<tr>
<th>t-Statistic</th>
<th>Prob.*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Augmented Dickey-Fuller test statistic</td>
<td>-0.461736</td>
</tr>
</tbody>
</table>

Test critical values:  
1% level: -3.435165  
5% level: -2.863554  
10% level: -2.567892


Augmented Dickey-Fuller Test Equation  
Dependent Variable: D(EXCHANGE)  
Method: Least Squares  
Date: 08/26/11  Time: 11:43  
Sample (adjusted): 7 1307  
Included observations: 1301 after adjustments

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXCHANGE(-1)</td>
<td>-0.002550</td>
<td>0.005523</td>
<td>-0.461736</td>
<td>0.6443</td>
</tr>
<tr>
<td>D(EXCHANGE(-1))</td>
<td>-0.301776</td>
<td>0.028276</td>
<td>-10.67240</td>
<td>0.0000</td>
</tr>
<tr>
<td>D(EXCHANGE(-2))</td>
<td>-0.122482</td>
<td>0.028979</td>
<td>-4.226588</td>
<td>0.0000</td>
</tr>
<tr>
<td>D(EXCHANGE(-3))</td>
<td>-0.062716</td>
<td>0.029095</td>
<td>-2.155555</td>
<td>0.0313</td>
</tr>
<tr>
<td>D(EXCHANGE(-4))</td>
<td>-0.174358</td>
<td>0.028656</td>
<td>-6.084534</td>
<td>0.0000</td>
</tr>
<tr>
<td>D(EXCHANGE(-5))</td>
<td>0.013938</td>
<td>0.027287</td>
<td>0.510791</td>
<td>0.6096</td>
</tr>
<tr>
<td>C</td>
<td>0.183619</td>
<td>0.381572</td>
<td>0.481218</td>
<td>0.6304</td>
</tr>
</tbody>
</table>

Residual variance (no correction) 0.081308  
HAC corrected variance (Bartlett kernel) 0.040913

### A.2 EViews7 Output of PP Test.

Null Hypothesis: EXCHANGE has a unit root  
Exogenous: Constant  
Bandwidth: 5 (Used-specified) using Bartlett kernel

<table>
<thead>
<tr>
<th>Adj. t-Stat</th>
<th>Prob.*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phillips-Perron test statistic</td>
<td>-1.476719</td>
</tr>
</tbody>
</table>

Test critical values:  
1% level: -3.435146  
5% level: -2.863545  
10% level: -2.567887

### Phillips-Perron Test Equation

Dependent Variable: D(EXCHANGE)
Method: Least Squares
Date: 08/26/11  Time: 11:46
Sample (adjusted): 2 1307
Included observations: 1306 after adjustments

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXCHANGE(-1)</td>
<td>-0.017108</td>
<td>0.005826</td>
<td>-2.936312</td>
<td>0.0034</td>
</tr>
<tr>
<td>C</td>
<td>1.186782</td>
<td>0.402624</td>
<td>2.947614</td>
<td>0.0033</td>
</tr>
</tbody>
</table>

R-squared: 0.006568  Mean dependent var: 0.004778
Adjusted R-squared: 0.005807  S.D. dependent var: 0.286197
S.E. of regression: 0.285365  Akaike info criterion: 0.331435
Sum squared resid: 106.1889  Schwarz criterion: 0.339359
Log likelihood: -214.4270  Hannan-Quinn criter.: 0.334408
F-statistic: 8.621929  Durbin-Watson stat: 2.531255
Prob(F-statistic): 0.003380

#### A.3 EViews7 Output of AR(1) Model

Dependent Variable: RETURN
Method: Least Squares
Date: 08/26/11  Time: 12:28
Sample (adjusted): 2 1000
Included observations: 999 after adjustments
Convergence achieved after 3 iterations

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>2.49E-05</td>
<td>0.000107</td>
<td>0.231425</td>
<td>0.8170</td>
</tr>
<tr>
<td>AR(1)</td>
<td>-0.283663</td>
<td>0.030369</td>
<td>-9.340439</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

R-squared: 0.080465  Mean dependent var: 2.48E-05
Adjusted R-squared: 0.079543  S.D. dependent var: 0.004546
S.E. of regression: 0.004361  Akaike info criterion: -8.030117
Sum squared resid: 0.018963  Schwarz criterion: -8.020294
Log likelihood: 4013.044  Hannan-Quinn criter.: -8.026384
F-statistic: 87.24379  Durbin-Watson stat: 2.019434
Prob(F-statistic): 0.000000

Inverted AR Roots: -0.28

#### A.4 EViews7 Output of ARMA(1,1) Model

Dependent Variable: RETURN
Method: Least Squares
Date: 09/07/11  Time: 11:38
Sample (adjusted): 2 1000
Included observations: 999 after adjustments
Convergence achieved after 6 iterations
MA Backcast: 1

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>1.45E-05</td>
<td>8.29E-05</td>
<td>0.174879</td>
<td>0.8612</td>
</tr>
<tr>
<td>AR(1)</td>
<td>0.185091</td>
<td>0.086714</td>
<td>2.134494</td>
<td>0.0330</td>
</tr>
<tr>
<td>MA(1)</td>
<td>-0.505725</td>
<td>0.076194</td>
<td>-6.637337</td>
<td>0.0000</td>
</tr>
</tbody>
</table>
### Forecasting the BDT/USD Exchange Rate using Autoregressive Model

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>R-squared</td>
<td>0.099899</td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.098092</td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.004317</td>
</tr>
<tr>
<td>Sum squared resid</td>
<td>0.018563</td>
</tr>
<tr>
<td>Log likelihood</td>
<td>4023.713</td>
</tr>
<tr>
<td>F-statistic</td>
<td>55.27131</td>
</tr>
<tr>
<td>Prob(F-statistic)</td>
<td>0.000000</td>
</tr>
<tr>
<td>Mean dependent var</td>
<td>2.48E-05</td>
</tr>
<tr>
<td>S.D. dependent var</td>
<td>0.004546</td>
</tr>
<tr>
<td>Akaike info criterion</td>
<td>-8.049476</td>
</tr>
<tr>
<td>Schwarz criterion</td>
<td>-8.034741</td>
</tr>
<tr>
<td>Hannan-Quinn criter.</td>
<td>-8.043876</td>
</tr>
<tr>
<td>Durbin-Watson stat</td>
<td>1.973859</td>
</tr>
</tbody>
</table>

**Inverted AR Roots**  
0.19  
**Inverted MA Roots**  
0.51
Expansion and Redefinition of Disadvantaged User Groups in Librarianship

By Vincent Enyeribe Unegbu
Babcock Business School, Ilishan Remo, Ogun State, Nigeria

Abstract - Non-inclusive definition of terms can lead to a myopic understanding of concepts. Many definitions of “Disadvantaged User Groups” were reviewed from which an expansive and an all inclusive definition of the term, in the light of literature reviewed and intuition, was arrived at. Definitive, clearer and more accommodative definition is proffered. A disadvantaged group would be people who are physically, mentally, socially, politically, economically, racially, culturally, religiously, and environmentally deprived of the privileges and rights due them from the government or the civil society. The paper solicits the government, philanthropic organizations and individuals, and non-governmental institutions to adjust their conception of disadvantaged group to embrace this new definition.

Keyword : Disadvantaged, Disadvantaged group, Disadvantaged user group.

GJMBR-A Classification : JEL Code : Y80

Strictly as per the compliance and regulations of:
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Vincent Enyeribe Unegbu

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Keywords: Disadvantaged, Disadvantaged group, Disadvantaged user group.

I. Introduction

A research work I did in a postgraduate course made me to understand that peoples understanding of “Disadvantaged User Group” is limited. It took me an ample time to convince my lecturer that the group I wanted to research on should be regarded as a disadvantaged group. Who should be classified as disadvantaged? What are the criteria to use in determining who is disadvantaged? Use of information depends on its availability and the effort put in acquiring it. People’s knowledge depends on the amount of information acquired and processed. So people limit their comprehension of disadvantaged group to the limited literature they have searched or available in the subject. For instance anyone who does not know about or does not have a computer or handset cannot use the World Wide Web.

Many people are excluded from the group where they actually belong because of ignorance and limited understanding. The benefit to be derived from such grouping is thereby denied them. Knowledge is not stagnant; belief of two decades ago might have changed while many who are not following the trend of development still live in the past. Change is not easy to embrace, many people who are used to the “old ways” find it very difficult to adapt. Conviction, persuasion, exposure, and tact are needed to get such people on the bandwagon. What You See Is What You Get (WYSWYG); in the same vein, in lineal perspective, what you read is what you know.

Exclusion of many groups in the definition of “Disadvantaged User Groups” should be a concern to people. But, how would other people know the concern of others about an issue if none of those concerned is outspoken? This is the reason for this paper. Academically it is difficult to have a definition that captures every meaning of a word or an idea or a phenomenon, but it is beneficial to say all that one knows about an issue in one compendium. That is wisdom.

II. Objectives of This Discourse

The main objective of this paper is to redefine “Disadvantaged Group” so that the definition will be more accommodating and embracing. Effort was made through elaborate literature review to make an inclusive and clearer definition of the term disadvantaged user group

The specific objectives are to:
1. Broaden the definition of disadvantaged user group to include the neglected ones.
2. Proffer reasons why the forgotten disadvantaged groups should be included.
3. Garner information from literature that support the inclusion of the added groups as disadvantaged groups also.
4. Solicit the public and private organizations, including UNESCO, to embrace the new definition of disadvantaged user group as suggested by this paper.

III. Review of Definitions of Disadvantaged Group

Talking about disadvantaged group in a society that is looking for special assistance, the tendency is to focus almost only on the physically and mentally impaired and on those who are confined to a place either legally (prisons) or politically (refugees) or by natural disaster (earth upheaval). There are other classifications of disadvantaged groups. The “user” in the group means someone having one inclination, one hope, one focus, one need. So a “Disadvantaged User Group” means a set of individuals having something in common that causes neglect or reject or denial to them.

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a) Illiterates as Disadvantaged User Groups

A BBC broadcast of 9th November 2005 states “not only is one-fifth of the world adult population illiterate, but 100 million children are not attending primary school, the UNESCO report says.” This is a violation of UNESCO Fourth Education for ALL report. For anyone to effectively participate in economic, social, and political life, literacy is crucial. So anyone who is not literate is disadvantaged. More so when it is the wish of the individual to be educated but government’s unconcern deprived him/her of it. Literacy is an ingredient for eradicating poverty. Commenting in the same BBC broadcast, the broadcaster quoting David Archer (2005) from Global Campaign for Education (GCE) said: “Literacy is the fertilizer needed for development and democracy to take root and grow. It is the invisible ingredient in any successful strategy for eradicating poverty”.

Professor J. A. Akinpelu (1994) contributing on education policy in Nigeria particularly for special groups, highlighted five groups but at the end included a neglected group. “The long neglected and forgotten minorities like the women, the nomads and riverine fisher folks, and the invisible groups like the handicapped – traditionally hidden from sight in our culture – and the drop-outs have to be reached and brought into the main stream of participative development” p. 159. Primary school drop-outs are disadvantaged groups in a society where education is not free. Poverty leading to inability to pay the children’s school fees may be part of the cause.

Badawi (2007) making a case for prostitutes in Kano, Nigeria, included the prostitutes as being disadvantaged because 90% of them were not educated. They were not aware and do not use protection against sexually transmitted diseases.

b) Dictionary Definitions of “Disadvantaged Group”

A dictionary definition of “disadvantaged” is “people who do not have good living conditions, a good standard of education, etc., considered as a group” (Cambridge.org, 2012).

It went on to use its adjective form which included “deprived, impoverished, discriminated against, and underprivileged” (thefreedictionary.com, 2012). The American Heritage Dictionary (2009) defined disadvantaged group as those “deprived of some of the basic necessities or advantages of life, such as adequate housing, medical care, or educational facilities”.

From the foregoing definitions, once disadvantaged does not mean always disadvantaged. One could come out from a condition or situation that grouped him as a disadvantaged person or group. So, disadvantaged user group is not a permanent condition or group. Disadvantagedness could be revised.

c) Disadvantaged Group From Economic Perspective

In California a case study was done on disadvantaged group from the perspective of economics. Disadvantaged group in that study are those whose income are 80% below the county’s median household income, (California, www.fhwa.dot.gov). The study also said that socio-economic characteristics and mobility limitations could be used to determine a disadvantaged group.

d) Disabled, Old People, Lone Parents, and Ethnic Minority as Disadvantaged Groups

Office for National Statistics, UK, using employment criteria, identified disabled people (which is the conventional one), as people aged 50 or over, lone parents, and ethnic minority as disadvantaged groups (statistics.gov.uk). Have you ever imagined that these set of people could be regarded as disadvantaged?

e) The Poor, the Homeless, and the Unemployed as Disadvantaged Groups

Alexander (2008) writing from Virginia, U.S.A. classified the homeless, the poor, and the unemployed as disadvantaged, and questioned why the homeless’ odor in a library should be of so such concern and discomfort instead of homelessness and hunger. Bermon (2005) put it in a more pathetic way, “why aren’t poverty, homelessness, and hunger the primary objects for our wrath, our discomfort?” In other words we should feel for the poor, the homeless and the hungry ones than being angry with them because of their odor. After all, what do we expect from them? Should they be deprived of the use of the library because of their odor thereby assigning double jeopardy to them?

f) Social Exclusion, Poverty, Ex-convicts as Disadvantaged Groups

In China, social exclusion is regarded as disadvantage to the group. Included in this group are citizens unemployed or with ill health, laborers with poor skills, teenagers in prisons, residents suffering a disaster, and peasants in remote country-side. Library Service is crucial for these vulnerable groups" (Zhaochun and Qunqing, 2008).

Supporting special privileges to the poor a blog of the American Library Association’s Hunger, Homelessness and Poverty Task Force (HHPTF); (ALA Blog, www.hhptf.org) has this to say, “This ‘Poor People’s Policy’ was developed to ensure that libraries are accessible to low-income citizens and to encourage a deeper understanding of poverty’s dimensions, its causes, and ways it can be ended”. (Gieskes, 2009). Continuing on policy 61 of the ALA Policy stated that the American Library Association “promotes equal access to information for all persons, and recognizes the urgent need to respond to the increasing number of poor children, adults, and families in America”, who are affected by limitations which included illiteracy, illness,
social isolation, homelessness, hunger, and discrimination and these hamper the effectiveness of traditional library services to them. For these reasons policy 61.1 objectives are to promote removal of all barriers to library and information services, particularly fees and overdue charges. Fourteen points were listed as the objectives for the policy. Among them are promotion of publication, production, and purchase of materials which address the issues of poverty and homelessness; programs to go beyond the traditional service-sites to poor children, adults, and families; to promote training opportunities for librarians to teach effective techniques for generating public funding to upgrade library services to poor people; and among others to promote among library staff the collection of food and clothing donation, and money to direct anti-poverty activities.

g) Working or New Definition for Disadvantaged Group

Going by the different literature on “disadvantaged group” one may be confused. There are overwhelming evidences to believe that the former definition of disadvantaged group which capitalized on physical and mental disability, incarceration, political chase, and disaster prone conditions are too limited. A more accommodating definition for disadvantaged group would be people who are physically, mentally, socially, politically, economically, racially, culturally, religiously, and environmentally deprived of the privileges and rights due them from the government or the civil society. Anything that hampers the effectiveness of library and information services to a group makes that group to become a disadvantaged group. By this definition we have included the prisoners, the refugees, the illiterates, the rural dwellers, the retirees, and those displaced as a result of natural disasters. Also included are those by nature of their occupation are deprived of government amenities. People living in remote areas without access to good roads and other infrastructures for good living are disadvantaged. Examples are nomadic people and riverine dwellers who are fishermen. Covered in that definition are also elementary school dropouts, those with barrier in language, people with different cultural and religious background.

In summary, a disadvantaged user group is any set of people who are denied access to any social public service because of calamity, adversity, or status.

IV. Conclusion

With support from literature, this paper has been able to suggest a new definition for “disadvantaged group”. Illiterates and poor people should be regarded as disadvantaged set of people like the prisoners, refugees and others. Bearing in mind the limitations of different disadvantaged groups, library and information services should be provided in the format that will be most appreciated and helpful to them. A drastic shift from the traditional ways of servicing the public is advocated for. Library and information services should be sent to them where they are and in the format meaningful to them. The euphoria of the Internet should not lead us to neglect those who are underprivileged. Let us be our neighbours’ keepers!

V. Recommendations

Article 26 Number 1 of the United Nations Universal Declaration of Human Rights says that:

Everyone has the right to education.

Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit.

Based on the above premise I recommend that countries that have not implemented UNESCO’s recommendation on free primary education should embrace it so as to remove illiteracy from the list of disadvantaged user groups. Free primary education should be legalized and if possible be forced on every child. Parents should be penalized if their wards are not encouraged to attend.

Literacy or education is a precursor for development and eradication of poverty. The resident community of children between 5 and 15 years should put in place a strategy to make sure that these children stay in school until they have secondary school leaving diploma/certificate.

Disadvantaged people cannot be eradicated so it is pertinent that they be accommodated and loved. Whatever help any organization or individual can render to disadvantaged people is appreciable.

Mobile library should be re-activated. Books should be sent to schools in remote places far from stagnated location of libraries. Though the Internet seems to have taken over the physical library yet there are people who are removed from this reality by poverty and illiteracy. So, mobile library is inevitable in other to reach those in the remote areas.

Governments, philanthropists, non-governmental organizations should include the added disadvantaged user groups in their record of those that deserve help.

Disadvantaged user groups should be redefined in line with this paper’s submission.
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10. Bookmarks are useful: When you read any book or magazine, you generally use bookmarks, right! It is a good habit, which helps to not to lose your continuity. You should always use bookmarks while searching on Internet also, which will make your search easier.

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18. **Pick a good study spot**: To do your research studies always try to pick a spot, which is quiet. Every spot is not for studies. Spot that suits you choose it and proceed further.

19. **Know what you know**: Always try to know, what you know by making objectives. Else, you will be confused and cannot achieve your target.

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21. **Arrangement of information**: Each section of the main body should start with an opening sentence and there should be a changeover at the end of the section. Give only valid and powerful arguments to your topic. You may also maintain your arguments with records.

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25. **Take proper rest and food**: No matter how many hours you spend for your research activity, if you are not taking care of your health then all your efforts will be in vain. For a quality research, study is must, and this can be done by taking proper rest and food.

26. **Go for seminars**: Attend seminars if the topic is relevant to your research area. Utilize all your resources.

27. **Refresh your mind after intervals**: Try to give rest to your mind by listening to soft music or by sleeping in intervals. This will also improve your memory.

28. **Make colleagues**: Always try to make colleagues. No matter how sharper or intelligent you are, if you make colleagues you can have several ideas, which will be helpful for your research.

29. **Think technically**: Always think technically. If anything happens, then search its reasons, its benefits, and demerits.

30. **Think and then print**: When you will go to print your paper, notice that tables are not be split, headings are not detached from their descriptions, and page sequence is maintained.

31. **Adding unnecessary information**: Do not add unnecessary information, like, I have used MS Excel to draw graph. Do not add irrelevant and inappropriate material. These all will create superfluous. Foreign terminology and phrases are not apropos. One should NEVER take a broad view. Analogy in script is like feathers on a snake. Not at all use a large word when a very small one would be
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33. **Report concluded results:** Use concluded results. From raw data, filter the results and then conclude your studies based on measurements and observations taken. Significant figures and appropriate number of decimal places should be used. Parenthetical remarks are prohibitive. Proofread carefully at final stage. In the end give outline to your arguments. Spot out perspectives of further study of this subject. Justify your conclusion by at the bottom of them with sufficient justifications and examples.

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**INFORMAL GUIDELINES OF RESEARCH PAPER WRITING**

**Key points to remember:**

- Submit all work in its final form.
- Write your paper in the form, which is presented in the guidelines using the template.
- Please note the criterion for grading the final paper by peer-reviewers.

**Final Points:**

A purpose of organizing a research paper is to let people to interpret your effort selectively. The journal requires the following sections, submitted in the order listed, each section to start on a new page.

The introduction will be compiled from reference matter and will reflect the design processes or outline of basis that direct you to make study. As you will carry out the process of study, the method and process section will be constructed as like that. The result segment will show related statistics in nearly sequential order and will direct the reviewers next to the similar intellectual paths throughout the data that you took to carry out your study. The discussion section will provide understanding of the data and projections as to the implication of the results. The use of good quality references all through the paper will give the effort trustworthiness by representing an alertness of prior workings.

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To make a paper clear

- Adhere to recommended page limits

**Mistakes to evade**

- Insertion a title at the foot of a page with the subsequent text on the next page

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XIII
Separating a table/chart or figure - impound each figure/table to a single page
Submitting a manuscript with pages out of sequence

In every section of your document:

- Use standard writing style including articles ("a", "the," etc.)
- Keep on paying attention on the research topic of the paper
- Use paragraphs to split each significant point (excluding for the abstract)
- Align the primary line of each section
- Present your points in sound order
- Use present tense to report well accepted
- Use past tense to describe specific results
- Shun familiar wording, don’t address the reviewer directly, and don’t use slang, slang language, or superlatives
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**Title Page:**

Choose a revealing title. It should be short. It should not have non-standard acronyms or abbreviations. It should not exceed two printed lines. It should include the name(s) and address(es) of all authors.

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The summary should be two hundred words or less. It should briefly and clearly explain the key findings reported in the manuscript--must have precise statistics. It should not have abnormal acronyms or abbreviations. It should be logical in itself. Shun citing references at this point.

An abstract is a brief distinct paragraph summary of finished work or work in development. In a minute or less a reviewer can be taught the foundation behind the study, common approach to the problem, relevant results, and significant conclusions or new questions.

Write your summary when your paper is completed because how can you write the summary of anything which is not yet written? Wealth of terminology is very essential in abstract. Yet, use comprehensive sentences and do not let go readability for briefness. You can maintain it succinct by phrasing sentences so that they provide more than lone rationale. The author can at this moment go straight to
shortening the outcome. Sum up the study, with the subsequent elements in any summary. Try to maintain the initial two items to no more than one ruling each.

- Reason of the study - theory, overall issue, purpose
- Fundamental goal
- To the point depiction of the research
- Consequences, including definite statistics - if the consequences are quantitative in nature, account quantitative data; results of any numerical analysis should be reported
- Significant conclusions or questions that track from the research(es)

Approach:

- Single section, and succinct
- As a outline of job done, it is always written in past tense
- A conceptual should situate on its own, and not submit to any other part of the paper such as a form or table
- Center on shortening results - bound background information to a verdict or two, if completely necessary
- What you account in an conceptual must be regular with what you reported in the manuscript
- Exact spelling, clearness of sentences and phrases, and appropriate reporting of quantities (proper units, important statistics) are just as significant in an abstract as they are anywhere else

Introduction:

The Introduction should “introduce” the manuscript. The reviewer should be presented with sufficient background information to be capable to comprehend and calculate the purpose of your study without having to submit to other works. The basis for the study should be offered. Give most important references but shun difficult to make a comprehensive appraisal of the topic. In the introduction, describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will have no attention in your result. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here. Following approach can create a valuable beginning:

- Explain the value (significance) of the study
- Shield the model - why did you employ this particular system or method? What is its compensation? You strength remark on its appropriateness from a abstract point of vision as well as point out sensible reasons for using it.
- Present a justification. Status your particular theory (es) or aim(s), and describe the logic that led you to choose them.
- Very for a short time explain the tentative propose and how it skilled the declared objectives.

Approach:

- Use past tense except for when referring to recognized facts. After all, the manuscript will be submitted after the entire job is done.
- Sort out your thoughts; manufacture one key point with every section. If you make the four points listed above, you will need a least of four paragraphs.
- Present surroundings information only as desirable in order hold up a situation. The reviewer does not desire to read the whole thing you know about a topic.
- Shape the theory/purpose specifically - do not take a broad view.
- As always, give awareness to spelling, simplicity and correctness of sentences and phrases.

Procedures (Methods and Materials):

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- Explain materials individually only if the study is so complex that it saves liberty this way.
- Embrace particular materials, and any tools or provisions that are not frequently found in laboratories.
- Do not take in frequently found.
- If use of a definite type of tools.
- Materials may be reported in a part section or else they may be recognized along with your measures.

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- Report the method (not particulars of each process that engaged the same methodology)
- Describe the method entirely
- To be succinct, present methods under headings dedicated to specific dealings or groups of measures
- Simplify - details how procedures were completed not how they were exclusively performed on a particular day.
- If well known procedures were used, account the procedure by name, possibly with reference, and that's all.

Approach:

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What to keep away from

- Resources and methods are not a set of information.
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- Leave out information that is immaterial to a third party.

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The page length of this segment is set by the sum and types of data to be reported. Carry on to be to the point, by means of statistics and tables, if suitable, to present consequences most efficiently. You must obviously differentiate material that would usually be incorporated in a study editorial from any unprocessed data or additional appendix matter that would not be available. In fact, such matter should not be submitted at all except requested by the instructor.

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- Present a background, such as by describing the question that was addressed by creation an exacting study.
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- Examine your data, then prepare the analyzed (transformed) data in the form of a figure (graph), table, or in manuscript form.

What to stay away from

- Do not discuss or infer your outcome, report surroundings information, or try to explain anything.
- Not at all, take in raw data or intermediate calculations in a research manuscript.
• Do not present the similar data more than once.
• Manuscript should complement any figures or tables, not duplicate the identical information.
• Never confuse figures with tables - there is a difference.

Approach
• As forever, use past tense when you submit to your results, and put the whole thing in a reasonable order.
• Put figures and tables, appropriately numbered, in order at the end of the report.
• If you desire, you may place your figures and tables properly within the text of your results part.

Figures and tables
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• Make a decision if each premise is supported, discarded, or if you cannot make a conclusion with assurance. Do not just dismiss a study or part of a study as "uncertain."
• Research papers are not acknowledged if the work is imperfect. Draw what conclusions you can based upon the results that you have, and take care of the study as a finished work.
• You may propose future guidelines, such as how the experiment might be personalized to accomplish a new idea.
• Give details all of your remarks as much as possible, focus on mechanisms.
• Make a decision if the tentative design sufficiently addressed the theory, and whether or not it was correctly restricted.
• Try to present substitute explanations if sensible alternatives be present.
• One research will not counter an overall question, so maintain the large picture in mind, where do you go next? The best studies unlock new avenues of study. What questions remain?
• Recommendations for detailed papers will offer supplementary suggestions.

Approach:
• When you refer to information, differentiate data generated by your own studies from available information.
• Submit to work done by specific persons (including you) in past tense.
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