Online ISSN : 2249-4588
Print ISSN : 0975-5853

Global Journal of Management & Business Research

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Volume 12 | Issue 13 | Version 1.0

ENG

New York Stock Exchange

Global Journal of Management and Business Research

Global Journal of Management and Business Research

Volume 12 Issue 13 (Ver. 1.0)

Open Association of Research Society

Incorporation No.: 0423089
License No.: 42125/022010/1186
Registration No.: 430374
Import-Export Code: 1109007027
Employer Identification Number (EIN):
USA Tax ID: 98-0673427

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Contents of the Volume

Global Journal of Management and Business Research
Volume 12 Issue 13 Version 1.0 Year 2012
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Relationship Building in Private Education

By Helen Wong & Raymond Wong
Hong Kong Polytechnic University, Hong Kong.

Abstract - Purpose : This paper aims to investigate the relationship between relationship commitment and student loyalty, and the key determinants of relationship commitment in private higher education.

Design/methodology/approach : A quantitative research study using questionnaire was adopted to examine the key factors affecting relationship commitment and the relationship between relationship commitment and student loyalty. 480 copies of questionnaire in Likert scales were distributed to current private higher education students in one of the largest education provider. A total of 444 valid questionnaire copies were collected which provided a response rate of approximately 92.5%.

Keywords : Private Education, Relationship Marketing, Loyalty, Commitment.

GJMBR-A Classification : FOR Code: 150403 JEL Code: I21, I25

Strictly as per the compliance and regulations of:

Relationship Building in Private Education

Helen Wong[α] & Raymond Wong[σ]

Abstract – *Purpose :* This paper aims to investigate the relationship between relationship commitment and student loyalty, and the key determinants of relationship commitment in private higher education.

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Findings : The study gives a valuable insight into how students perceive factors of relationship commitment and the relationship between relationship commitment and student loyalty. The results indicate that relationship commitment has positive and strong influence on student loyalty, and relationship benefits, relationship termination costs, and shared values have positive influence on relationship commitment. Among these three determinants, the construct of relationship benefits is found to be the most important factor affecting relationship commitment.

Research limitations/implications : As the study involved students from one private higher education institution, the results cannot be generalized to the private education as a whole.

Originality/value : The research successfully applied and studied marketing concepts in private higher education, which has previously not been discussed. It provides useful insight to the management of private higher education in building relationship with students and resources allocation.

Keywords : Private Education, Relationship Marketing, Loyalty, Commitment.

I. Introduction

Relationship marketing is important in business, but it is not clear whether the same applies in private education. Traditionally, people perceive business and education differently. Business is for profit and seeks competitive advantage in its dynamic environment (Jaworski et al., 2000; Hemsley-Brown and Oplatka, 2010). Business organizations are usually run by private individuals, and offer products or services to customers. They are efficient and responsive to the changing needs because of the competition in market place (Kwong, 2000). On the other hand, education is traditionally provided by governments (i.e. public education) and is non-for-profit. As education brings a better future to the society, countries and governments put tremendous efforts in developing education in order to strengthen the human capital of the society.

Besides public education, in order to raise the education level of citizens, many countries have also encouraged private organizations or parties to provide education in recent decades. Due to reduction in government funding, and the growing interest in education of private parties, there has been rapid growth in private educational organizations (Li, 2010). The education sector can be classified into two categories: one is owned by the government and heavily relies upon government funding (i.e. public education), and the other is owned by private parties and heavily relies upon students' tuition fee (i.e. private education). Private educational institutions rely heavily on tuition fee income and are accountable to students and students' families, while public educational institutions rely heavily on government funding and are accountable to the general public (Li, 2010; Levy, 2010). Besides, management style of private educational institutions is more business-like and they emphasize customer-first attitude while public educational institutions have more bureaucratic styles of management and provide services more for the well-being of the society than for-profit (Li, 2010; Kwong, 2000). According to Hennig-Thurau et al. (2001), the organization structure and culture are also different in public and private education; greater flexibility is found in private institutions.

Research from relationship perspective in the private education sector has been minimal, this research investigates whether relationship marketing concepts are applicable to private education. According to marketing concepts, having long-term relationships with students may provide competitive advantages to educational institutions because students provide a stable source of income to the institutions and they recommend their institutions to friends and relatives (Nguyen and LeBlanc, 2001). It is worthwhile to investigate whether relationship commitment is a factor affecting student loyalty in private education, and to get a better understanding of the key determinants of relationship commitment because this can help better resource allocation.

In relationship marketing, a higher level of relationship commitment leads to higher intention of the parties remaining in a relationship (Gronroos, 1990; Morgan and Hunt, 1994). An understanding of the association between relationship commitment and

Author α : Hong Kong Community College, Hong Kong Polytechnic University, Hong Kong. E-mail : cchelen@hkcc-polyu.edu.hk

Author σ : School of Accountancy, the Chinese University of Hong Kong, Hong Kong. E-mail : raykhwong@baf.msmail.cuhk.edu.hk

student loyalty from the relationship perspective is important for managements of educational institutions when building a stable and quality relationship with students. As relationship commitment is crucial to customer retention, a better understanding of key determinants of relationship commitment is also necessary (Hocutt, 1998). The main objectives of this research are: to examine the main direct effect of relationship commitment on student loyalty; and to examine key determinants of relationship commitment.

II. Literature Review

a) *Relationship Marketing*

In the present era of demanding customers and intense competition, relationship marketing has drawn attention from practitioners and academics (Sheth and Parvatiyar, 1995). Relationship marketing is considered as "establishing, developing and maintaining successful relational exchanges" (Morgan and Hunt, 1994, p. 22). "Relationship marketing is an integrated effort to identify, maintain and build a network with individual consumers and to continuously strengthen the network for the mutual benefit of both sides, through interactive, individualized and value-added contacts over a long period of time" (Shani and Chalasani, 1992, p. 44).

Education is people-based, involves a lengthy and formal relationship between education providers and students, and requires high level of customization in service delivery (Mazzard and Soutar, 1999). Educational institutions are considered as service organizations (Joseph and Joseph, 1997; Kotler and Fox, 1995), building relationships with students is important. Students' satisfaction is based on a stable relationship (Gruber et al., 2010).

b) *Relationship Benefits*

Providing benefits and value to customers is the means to encourage them to stay in their relationship with a particular company (Berry, 1983; Bitner, 1995; Kolter and Armstrong, 2004). The ability to provide superior benefits and value to customers is a prerequisite when establishing relationships with customers (Ravald and Gronroos, 1996). The relationship marketing theory suggests that in the competitive global marketplace, partner selection may be a key element in competitive strategy (Morgan and Hunt, 1994). Morgan and Hunt (1994) considered relationship benefits as the quality of services and goods relative to other suppliers. Relationship benefits are the superior benefits provided to customers, which are highly valued by customers. Students are customers of education and expect to get benefits in the relationship (Finney and Finney, 2010).

c) *Relationship Termination Costs*

A common assumption in relationship marketing is that termination has switching costs and seeking an alternate relationship leads to dependence (Heide and John, 1988; Jackson, 1985). "Termination costs" and "switching costs" are often interchangeable terms in research studies. Though Morgan and Hunt (1994) considered switching costs to be of an economic nature only, switching costs may also comprise psychological and emotional costs (Sharma and Patterson, 2000).

Adidam et al. (2004) defined relationship termination costs as the perception of net losses (financial, emotional, or time) that may result from dissolution of the relationship. In their public education study, the perceived costs to a business student include both economic and non-economic sides of switching costs; costs might include the loss of friendships or loss of credits on switching to another educational institution. The losses cannot be made good by an alternate supplier.

d) *Shared Values*

"Shared values" is a shared code or a shared paradigm that facilitates a common understanding or perception of collective goals and actions (Tsai and Ghoshal, 1998). Shared values are defined as "the extent to which partners have beliefs in common about what behaviors, goals and policies are important or unimportant, appropriate or inappropriate, and right or wrong" (Morgan and Hunt, 1994, p. 25). It means two parties having similar perceptions can enhance their communications and avoid misunderstanding.

Holdford and White (1997) found that pharmacy students who shared the same goals, ideals and codes of conduct with their public schools were more likely to commit to a relationship with the school.

e) *Trust*

A trustworthy party is one that is considered reliable and has high level of integrity and associated qualities of competence, consistence, fairness, honesty, responsibility, helpfulness and benevolence. Morgan and Hunt (1994) used reliability and integrity together to define and conceptualize trust. Morgan and Hunt (1994, p. 23) defined trust as "when one party has confidence in an exchange partner's reliability and integrity".

In public education, Adidam et al. (2004) conceptualized trust as confidence in an exchange partner's reliability and integrity basing on personal experiences individual student has had with his/her education institution.

f) *Relationship Commitment*

The building of relationship commitment is very important because the level of commitment determines relationship strength and the intention of the parties to remain in the relationship (Hocutt, 1998). Relationship commitment is defined as "an exchange partner believing that an ongoing relationship with the other is so important as to warrant maximum efforts at maintaining it, that is, the committed party believes the relationship is worth working on to ensure that it endures indefinitely" (Morgan and Hunt, 1994, p. 23). Relationship commitment entails a desire to develop a stable relationship and confidence in the stability of the relationship (Anderson and Weitz, 1992).

This research adopts Moorman et al.'s (1992) concept of relationship commitment as an enduring desire to maintain a valued relationship, and investigates the key determinants of relationship commitment in private higher education.

g) Student Loyalty

Loyalty is defined as "a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior" (Oliver, 1999, p. 34). Loyalty comprises of repurchase intention and word-of-mouth (Zeithaml et al., 1996). Repurchase intention implies doing more business with the company in future and considering the company to be the first choice. It is a customer's judgement about buying again a product or service from the same company while taking into account the current situation (Hellier et al., 2003). Word-of-mouth is to say positive things about the company and recommend the company to others.

Some studies on student loyalty have adopted the two aspects of loyalty identified by Zeithaml et al. (1996), i.e. repurchase intention and word-of-mouth. This research adopts the repurchase intention aspect of student loyalty because it aims to ascertain whether the existing sub-degree students of private higher education institutions would continue to pursue bachelor degree courses at their current education institutions in future.

III. Research Framework

The conceptual framework was based on concepts and findings from relationship marketing literature. The model was modified from the studies of Morgan and Hunt (1994), Adidam et al. (2004), and Holdford and White (1997), sought to illustrate the relationship between the factors: relationship benefits, relationship termination costs, shared values, and trust, and relationship commitment, and the relationship between relationship commitment and student loyalty (Figure 1).

a) Research Hypotheses

Relationship benefits generate positive impact on relationship outcomes, such as, continuation of a relationship (Gwinner et al., 1998; Patterson and Smith, 2001), site commitment (Park and Kim, 2003), commitment to the service business (Hennig-Thurau et al., 2002), exporter's commitment to importers in exporter-importer relationships (Obadia, 2010), and satisfaction in retail banking (Dimitriadis, 2010). Therefore, it was proposed the same in private higher education:

Hypothesis H1: Students' perception of relationship benefits has a significant positive impact on relationship commitment.

Dwyer et al. (1987) suggested that anticipation of high switching costs by customers generates commitment to an ongoing relationship. Besides the economic side of switching costs, they also consider socio-psychological costs, such as worry and loss of reputation, which contribute to the commitment. Switching costs affect customers' commitment in the financial services industry (Yanamandram and White, 2010). In industrial marketing and distribution channels, extant literature suggests that the relationship may continue to exist because of the high switching costs perceived by the buyer (Porter, 1980; Ping, 1994). Findings of Vasudevan et al. (2006), Burnham et al. (2003), and Patterson and Smith (2001) suggest that relational switching cost that involves psychological and emotional discomfort due to breaking of bonds and loss of identity is positively associated with commitment. Therefore, it was proposed the same in private higher education:

Hypothesis H2: Students' perception of relationship termination costs has a significant positive impact on relationship commitment.

Shared values have been found to have positive impact on relationship commitment (Morgan and Hunt, 1994). The parties share similar beliefs in behaviors, goals and policies. Similar perspectives, including shared language and shared narratives are important for sustaining ongoing relationships (Chua, 2002; Nahapiet and Ghoshal, 1998). Therefore, it was proposed that:

Hypothesis H3: Students' perception of shared values has a significant positive impact on relationship commitment.

Trust enhances commitment to a relationship by reducing transaction costs in an exchange relationship, reducing risk perceptions associated with the partner, and increasing confidence that short term inequities can be resolved in the long run. Trust has been found to be a factor affecting commitment in many previous studies (Spake and Megehee, 2010; Nusair and Li, 2010; Cassab and MacLachlan, 2009; Cater and Zabkar, 2009; Morgan and Hunt, 1994).Therefore, it was proposed that:

Hypothesis H4: Students' trust in the education institution has a significant positive impact on relationship commitment.

Tino (1975, 1993) suggested that commitment directly affects student loyalty. Adidam et al. (2004) and Holdford and White (1997), based on the model of Morgan and Hunt (1994), investigated the relationship between students and their public education institutions.

The findings suggested that relationship commitment had great positive impact on acquiescence and cooperation between students and education institutions and negative impact on propensity to leave. Therefore, it was proposed that:

Hypothesis H5: Students' relationship commitment to the education institution has a significant positive impact on student loyalty.

b) Research Design and Methodology

A quantitative research study using questionnaire was adopted to examine the key factors affecting relationship commitment, and the relationship between relationship commitment and student loyalty. 480 copies of questionnaire were distributed to current private sub-degree students in one of the largest higher education provider.

For the purpose of this research, a private higher education institution was identified from the list of higher education institutions available on the website of Education Bureau of the HKSAR Government. Enrolment of students in this institution accounted for approximate 11% of the total number of private sub-degree students in 21 higher educational institutions in Hong Kong. This institution was approached and it agreed to allow the researcher to administer the questionnaire survey to sub-degree students at the campus. Convenience sampling technique was used to approach the students because students are the direct customers of the education institutions.

Student loyalty was measured with three items, adopted from a previous study in education context (Nguyen and LeBlanc, 2001). Relationship commitment was measured with three items, and trust was measured with four items, adopted from Holdford and White (1997), a previous study in public education. Four items of relationship benefits and three items of shared values were adopted from previous studies in public education (Adidam et al., 2004; Holdford and White, 1997). Questions for measuring relationship termination costs were adopted from Sharma and Patterson (2000). The 7-point Likert-type scales were anchored by 1 (strongly disagree) and 7 (strongly agree) for all questions.

The content and construct validity of each variable had already been evaluated by the original authors, therefore, it is reasonable to assume that the content and construct validity of the multidimensional-item scales should accurately represent the variables concerned.

IV. Analysis And Result

a) Data Analysis

Confirmatory factor analysis was performed for all variables: relationship benefits, relationship termination costs, shared values, trust, relationship commitment, and student loyalty. Cronbach's alpha was used to test internal validity, the Cronbach's alpha coefficient greater than 0.7 is considered as satisfactory (Bryman, 2008). Structural Equation Model was used to test the positive association of hypotheses H1 to H5, and calculate the variance of relationship commitment explained by the factors and the variance of student loyalty explained by relationship commitment in the research model.

b) Result

A total of 444 valid questionnaire copies were collected which provided a response rate of approximately 92.5% out of the 480 copies sent out. 60.4% of the respondents were female. 98.2% of the respondents were in the age range of 18 to 25. 40.1% of the respondents were associate degree students and 59.9% were higher diploma students. Almost half of the respondents were studying business courses.

Reliability and validity were assessed to ensure the information is trustworthy. Cronbach's alpha was used to measure consistency among the items in each variable of the questionnaire, and a value of 0.7 or above is considered as acceptable and having internal consistency (Shin et al., 2000). The variables of this research had Cronbach's alpha values from 0.785 to 0.877 (Table 1) were therefore acceptable.

The covariance matrix produced values ranging from 0.229 to 0.819 for each pair of construct, which are lower than the recommended level of 1.0 (Koerner, 2000) (Table 2). The result suggests that the constructs are statistically distinct within the CFA model, and provides evidence of discriminant validity.

Hypothesis H1 and H2 are supported by empirical evidence. Relationship benefits and relationship termination costs show strong influence on relationship commitment, as indicated by high to moderate standardized coefficients 0.563 and 0.371 respectively. Shared values construct has a small direct effect on relationship commitment (standardized coefficient 0.116), Hypothesis H3 is supported. However, hypothesis H4 should be rejected, the standardized coefficient of -0.038 suggests that trust has non-significant influence statistically on relationship commitment in private higher education. Hypothesis H5 is supported by empirical evidence. Relationship commitment has a strong influence on student loyalty, as indicated by high standardized coefficient of 0.796. It can therefore be concluded that hypotheses H1, H2, H3 and H5 are strongly supported with empirical evidence in the research model. The factors affecting relationship commitment together explain 71.7% of relationship commitment ($R^2 = 0.717$), and relationship commitment explains 63.4% of student loyalty ($R^2 = 0.634$).

V. Discussion

a) Theoretical Implications

The results of this research support the direct effect of relationship commitment on student loyalty, and the direct effects of relationship benefits, relationship termination costs, and shared values on relationship commitment in private higher education which is consistent with most of previous research studies' results in business context. However, unlike the common finding in most relationship marketing literature that trust is a determinant of relationship commitment, the direct effect of trust on relationship commitment is found to be insignificant in this research. The rejection of predictive effect from trust on relationship commitment in private higher education environment provides a new angle to the application of relationship marketing concepts in education settings.

Most previous studies related to relationship marketing concepts were conducted in U.S. and Europe; little attention has been paid to Asian countries, particularly Hong Kong. This research verifies applicability of relationship marketing concepts in the East.

b) *Managerial Implications*

This research shows that relationship commitment has a substantive and positive effect on student loyalty in the private higher education industry. The higher the relationship commitment of students with an educational institution is, the higher is the student loyalty. The student will pursue further studies in the current private higher education institution if the student has high relationship commitment. Therefore, education providers have to focus on enhancing relationship commitment in order to increase student loyalty.

Education providers can use the results of the path analysis to understand preferences of private students (customers) and allocate resources to enhance the factors that affect students' relationship commitment which, in turn, enhances student loyalty. With the findings of this research, education providers can gain a better understanding of factors affecting relationship commitment, and therefore can plan to nurture them. Considering all the four factors (relationship benefits, relationship termination costs, shared values, and trust) affecting relationship commitment, the R^2 0.717 indicates that 71.7% of the variance of relationship commitment is explained by these four factors in the proposed model.

The construct of relationship benefits is the most influential determinant of relationship commitment in the private higher education. Relationship benefits include education quality, internship opportunities, placements, professional seminars, and company visits etc. (Adidam et al., 2004). Education providers have to improve these perceived relationship benefits continuously in order to raise relationship commitment of students.

The construct of relationship termination costs is the next influential factor. This provides signals to education providers that students' perceived costs, both economic and non-economic, are important consideration in building relationship commitment in private higher education. Education providers have to increase the relationship termination costs in order to raise students' relationship commitment with the education institution.

The construct of shared values is also a determinant of relationship commitment in the private higher education industry. The more the staff and students have similar values on education issues, such as learning behavior, assessments and work-load, the more the students will be committed to the relationship with the educational institution (Adidam et al., 2004). Although the influence of shared values on relationship commitment is not as strong as that of relationship benefits and relationship termination costs, private education providers still have to raise the perceived shared values between students and education institution in order to increase relationship commitment of students.

Unlike the common finding in relationship marketing literature that trust is a determinant of relationship commitment (Morgan and Hunt, 1994), the direct effect of trust, characterized as having confidence in partner's reliability and integrity, on relationship commitment, is found to be insignificant in this research. The path coefficient from trust (TR) to relationship commitment (RC) is not significant (H4: $\beta = -0.038$), which suggests trust has non-significant influence statistically on relationship commitment, in the private higher education context. This result provides new insights into relationship marketing in the private higher education context. This finding is not surprising because the primary intention of private sub-degree students is to get degree places after the 2-year sub-degree study. Sub-degree students may consider studying at the current education institution as a stepping stone to degree programmes, and their desired degree programmes can be offered in other education institutions. In the study of Grayson and Ambler (1999), the results suggested that the influence of trust on relational outcomes was moderated by length of relationship. They commented that the length of relationship may change the nature of association between relational constructs, and there is value in future research to investigate the relational dynamics with respects to the length of relationship. In the current research, students just spend two years in the current sub-degree study and they have a strong desire to get degree places in their desired education institutions, therefore, trust has non-significant influence on their commitment towards their current education institution.

Apart from the length of relationship, in order to get better understanding on the influence of trust on commitment, Moorman et al. (1992) suggested that other factors, such as economic factors and power, may affect how relationship operates, and future research can examine how trust interacts with these factors in affecting relational outcomes. Ganesan and Hess (1997) also suggested future research can study the impact of moderators, such as phase of relationship, reputation of the organization, and level of environmental uncertainty, on the link between trust and commitment. In the current research, it studies the direct effect of trust on commitment, while the impact of moderators which mentioned by Moorman et al. (1992) and Ganesan and Hess (1997) has not been investigated. In future, the current research can be extended to investigate the moderating impact of these moderators on the relationship between trust and commitment in order to understand the trust-commitment link better.

VI. Limitations and Future Research

Limitations

Firstly, due to time constraints, a cross-sectional study was conducted, which was unable to take the actual behaviour of respondents into account.

Secondly, measurement scales used were adopted from previous studies. As the features of private higher education context may be different from features of other contexts, the adopted scales might not be as effective as scales tailor-made for a particular context. Constructs that capture contextual characteristics have not been discussed in this research. The characteristics of higher education may affect the findings of the research.

Thirdly, some constructs that were thought to affect relationship commitment in previous literature were not included in this research. Only 71.7% of variance of relationship commitment is explained by relationship benefits, relationship termination costs and shared values, implying that there should be other factors affecting relationship commitment; and only 63.4% of variance of student loyalty is explained by relationship commitment.

Fourthly, the impact of moderators on the link between trust and relationship commitment was not included in this research.

Future Research

Firstly, future research can consider developing measurement scales for education in eastern environment. This may help education institutions' managements make better decisions.

Secondly, future research can consider conducting a longitudinal study to trace the changing preferences and behaviors of students (customers). The use of multiple time frames allows researchers to track behavioral intentions of students (customers) over time.

Thirdly, future research can consider adding constructs that capture contextual characteristics. This is important because of the rapid expansion of education in most parts of the world. The current results show that 71.7% of variance of relationship commitment is explained by three major factors and 63.4% of variance of student loyalty is explained by relationship commitment. Obviously, there are some unexplained portions which have not been captured in this research. The non-captured portions may be related to contextual characteristics.

Fourthly, future research can consider investigating the impact of moderators on the link between trust and relationship commitment. This may help better understanding of the influence of trust on commitment.

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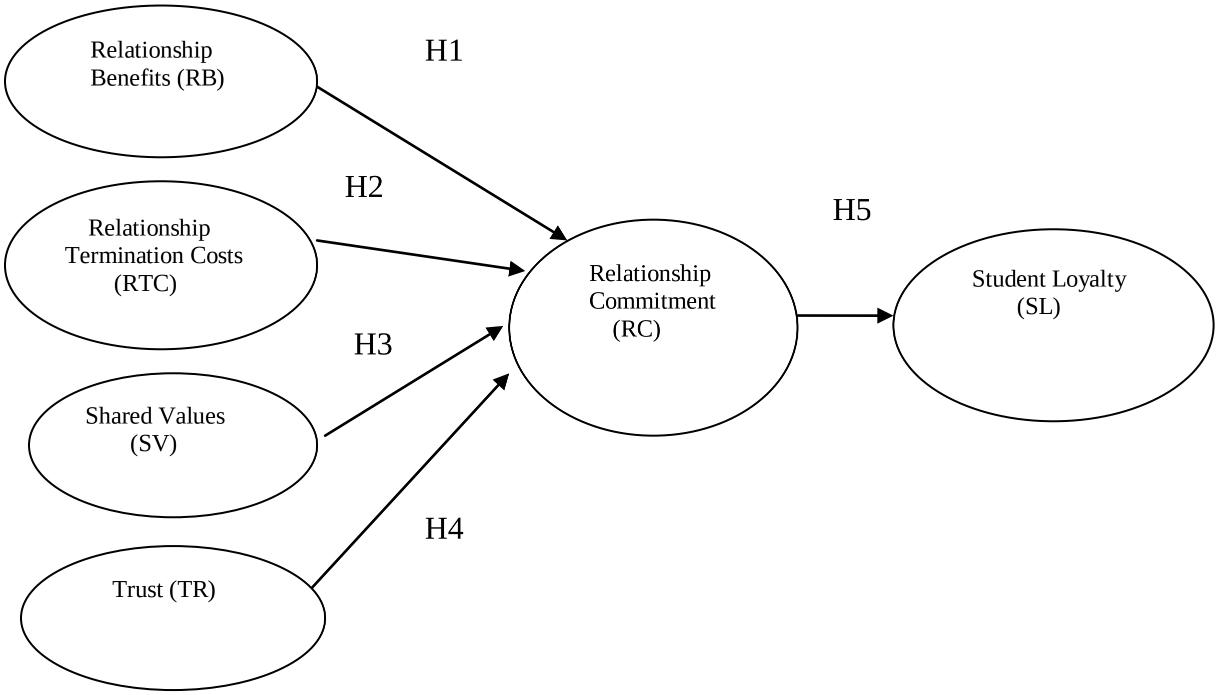
Figure

Figure 1 : Conceptual Model of Relationship Commitment on Student Loyalty



Tables

Table 1 : Reliability of the six constructs

	No. of items	Cronbach's Alpha	Composite Reliability
Relationship Benefits	4	0.785	0.804
Relationship Termination Costs	5	0.858	0.863
Shared Values	3	0.855	0.859
Trust	4	0.871	0.873
Relationship Commitment	3	0.877	0.880
Student Loyalty	3	0.834	0.857

Table 2 : Covariance matrixes of the six constructs in the CFA model

		RB	RTC	SV	TR	RC
RTC	Estimate	0.458				
	S.E.	0.046				
	Estimate + S.E.*2	0.550				
SV	Estimate	0.314	0.475			
	S.E.	0.051	0.044			
	Estimate + S.E.*2	0.416	0.563			
TR	Estimate	0.119	0.398	0.670		
	S.E.	0.055	0.047	0.034		
	Estimate + S.E.*2	0.229	0.492	0.738		
RC	Estimate	0.735	0.655	0.432	0.248	
	S.E.	0.030	0.034	0.046	0.051	
	Estimate + S.E.*2	0.795	0.723	0.524	0.350	
SL	Estimate	0.682	0.564	0.390	0.252	0.769
	S.E.	0.033	0.038	0.046	0.050	0.025
	Estimate + S.E.*2	0.748	0.640	0.482	0.352	0.819

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Global Journal of Management and Business Research
Volume 12 Issue 13 Version 1.0 Year 2012
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Nigerian Pension Reforms and Management: New Strategies for Rewarding Past Intellectuals Towards Sustainable Development in the Third World

By Akabom-Ita Asuquo, Aniefiok Udoh Akpan & Arzizeh Tiesieh Tapang
University of Calabar

Abstract - The study investigated the Nigerian Pension reforms and management as veritable strategies of rewarding past intellectuals towards sustainable development in the third world. The main aim of the study was to determine the influence of pension reforms on the welfare of the retired civil servants in Nigeria with particular reference to Cross River State. In order to achieve the objective; direct and guide the study; three research questions were formulated and developed into hypotheses. Data for the study were collected with the use of structured questionnaire. Data obtained were analyzed using simple percentage and Pearson Product Moment Correlation Coefficient. Results and findings revealed that there exists a significant relationship between pension reforms and the welfare of the Pensioners.

Keywords : Pension reforms, retirement scheme, contributory pension, civil servants, pension management.

GJMBR-B Classification : FOR Code: 150312, 150311 JEL Code: O16, O47

NIGERIANPENSIONREFORMSANDMANAGEMENTNEWSTRATEGIESFORREWARDINGPASTINTELLECTUALSTOWARDSSUSTAINABLEDEVELOPMENTINTHETHIRDWORLD

Strictly as per the compliance and regulations of:

Nigerian Pension Reforms and Management: New Strategies for Rewarding Past Intellectuals Towards Sustainable Development in the Third World

Akabom-Ita Asuquo[α], Aniefiok Udoh Akpan[σ] & Arzizeh Tiesieh Tapang[ρ]

Abstract - The study investigated the Nigerian Pension reforms and management as veritable strategies of rewarding past intellectuals towards sustainable development in the third world. The main aim of the study was to determine the influence of pension reforms on the welfare of the retired civil servants in Nigeria with particular reference to Cross River State. In order to achieve the objective; direct and guide the study; three research questions were formulated and developed into hypotheses. Data for the study were collected with the use of structured questionnaire. Data obtained were analyzed using simple percentage and Pearson Product Moment Correlation Coefficient. Results and findings revealed that there exists a significant relationship between pension reforms and the welfare of the Pensioners. Also, a significant relationship exists between workers' ability to save while working and their welfare when retired. Moreover a significant relationship exists between pension reform objective of ensuring that pensioners do not suffer by removing all cumbersome processes of pension payment and the welfare of pensioners. Based on the findings, it was recommended amongst others that the state government should always demand for periodic briefs as frequently as possible to aid in the assessment of the progress of the pension reform scheme and also ensure the achievement of the scheme's objectives in a bid to ensuring sustainable development.

Keywords : Pension reforms, retirement scheme, contributory pension, civil servants, pension management.

I. Introduction

The issues of pension reforms and welfare schemes in Cross River State are sources of major concern to Government and pensioners. The concerns border on:

- Delays in releasing pensions and gratuities to pensioners upon retirements.
- Wrong computations of pensioners' benefits.
- Deliberate hold back of pensioners' benefits for flimsy excuses, thereby causing untold suffering to the retirees and families.
- Some officials corruptly enrich themselves with pensioners' sweat by falsifying and adding non-existing names to pensioners' list, thereby swelling up pension costs or bills.
- Forcing pensioners to queue up endlessly under rain and sun just for the payment of pensions.
- Inability to identify better methods, procedures, ways and means of accounting for pensioners and caring for their welfare is a source of concern.

Granted the foregoing, this study was poised to examine the methods and process of accounting on one hand, the necessity of government to embrace the Pension Reform Act, 2004, adopt the reform to Cross River State environment and on the other hand, take advantage of the multiplier effect of pension reforms.

a) *Objectives of the study*

The main objectives of this study were to:

(1) Examine the influence of the pension reforms objective of ensuring that pensioners receive their pension as at when due and the welfare of pensioners.

(2) Determine if the pension reform objective of ensuring that workers save for their old age after service has any influence on the welfare of pensioners.

(3) Examine if the pension reform objective of ensuring that pensioners do not suffer deprivation, negligence, untimely death among others by removing all cumbersome processes on pension payment has any influence on the welfare of the pensioners; and

(4) Make recommendations to the authority concerned with the administration of pension in Cross River State in particular and Nigeria as a country.

b) *Research questions*

The following questions were constructed for the study:

Author α : PhD, FCCA. Department of Accounting, Faculty of Management Sciences, University of Calabar, Calabar Cross River State – Nigeria. Email : drakabom3@gmail.com

Author σ : Ph.D., ACA Department of Accounting, Faculty of Management Sciences, University of Calabar, Calabar Cross River State – Nigeria.

Author ρ : M.Sc. Department of Accounting, Faculty of Management Sciences, University of Calabar, Calabar Cross River State – Nigeria.

(1) To what extent is the pension reform objective of ensuring that retired persons receive their obligatory income as at when due related to the welfare of the pensioners?
(2) In what ways has the pension reform objective of ensuring that all workers save for the unforeseen period relate to the welfare of the pensioners?
(3) To what extent does the pension reform objective of ensuring that pensioners do not suffer after retirement by removing all cumbersome processes of pension payment relate to the welfare of the retired persons?

c) Research hypotheses

The following were the hypotheses formulated for the study:

(1) There is no significant relationship between the pension reform objective of ensuring that pensioners receive their pension as and when due and the welfare of the pensioners.
(2) There is no significant relationship between the pension reform objective of ensuring that all workers save for the rainy day and the welfare of the pensioners.
(3) There is no significant relationship between the pension reform objective of ensuring that pensioners do not suffer after service by removing all cumbersome processes of pension payment and the welfare of the pensioners.

II. Literature Review

a) Concept of Pension Reforms and Welfare Scheme

Pension is an amount of money paid regularly by an employer or principal to a staff that is considered too old or too ill to work, Daland (2005). Tola (1999) agrees when he advised government staff; "You may wish to work all through but a time will come when the body can no longer carry you that is the time you are to retire and rest."

It is obvious that retirees having been used to the regiment and daily chores of employment have to be taught the process of re-socialization, re-focusing and re-starting fresh lifestyle. The new lifestyle process enables retirees adjust to different economic, social, cultural and political conditions which may not have weighed so much on them. Hence the need for post retirement life plan to stem retirees tensions, uncertainties, apprehensions and early deaths after retirements.

Tola (1999) likened pension to the termite, and noted that "failure to prepare for the rainy day is to prepare to be swept by the rain."

The world economies used to be divided into ideological blocks until the fall of Soviet Socialist Republic (USSR) now Russia. One lesson from these economic systems viz; capitalist, socialist, communist or mixed economy explains the basis of property ownership, distribution of excess income and the treatment of the citizenry. In welfarist economy, the emphasis has always been on the alleviation of abject poverty of the commoners.

Commoners (i.e. the proletariat) according to Karl Marx, are the masses denied access to the means of production. This is why the idea and concept of pension and welfare crept up in so many advanced countries in the early 19th century.

According to Abromovits (2003) in his article; "Contributory pension scheme: the case of Brazil "A pension system is essentially an income security program which provides benefit to beneficiaries who may be retirees, pensioners or the destitute. The benefits may be defined or flat.

She noted that when there is pension scheme, distinction exists thus:

- Defined Benefit (DB); only the employer funds the pension scheme.
- Defined Contribution (DC) plan; both the employers and employees contribute and fund the scheme.
- Non-contributory Pension Scheme (NC) is a pure cash transfers to beneficiaries rather than savings or insurance scheme. This is a social pension targeting the elderly, destitute, the unemployed and others to alleviate poverty, sickness and reduce crimes.

It can be stressed that non contributory pension or zero pillar pension was very common among Africans who always took care of their elderly, the sick and so on in the society. Again Abromovits(2003) and Osuagwu (2001) observed that non-contributory pension has no eligibility criterion and was the first form of contributions in the 19th century in countries such as Brazil (1999), Denmark (1891), New Zealand (1898), Australia (1908), Sweden (1913), UK (1861) and so on.

For instance, Brazil introduced an unconventional pension measures in the 1920s called traditional urban contributory pensions to expand coverage rates. These measures included non-contributory rural scheme in 1971 followed by social assistance pension in 1974.

In 1988 in her new constitution was enshrined with these pension schemes. This implies that Brazil constitutionalised her deepening pension reforms from experience spanning over one hundred years.

Balogun, (2006:7) in his article "Understanding the new Pension Reform Act (PRA) 2004, observes that:

Pension schemes exist to provide post retirement benefits to employees … The primary goals of a pension system should be to provide adequate, affordable, sustainable and robust retirement income, while seeking to implement welfare improving schemes … An adequate system seeks to provide sufficient benefits to prevent old age poverty, smoothen a reliable means to lifetime standards and acceptable lifestyle."

The article added that an affordable system is that which is within the financing capability of employees and does not unduly displace other social and economic imperatives. A sustainable system is the one that is financially sound, funded and maintained over a foreseeable horizon under a broad set of reasonable assumptions.

A robust system is the type that has the capacity to withstand major shocks, including those coming from economic, demographic and political volatility.

Iwara (1999) and Balogun (2006) opine that, the design of a pension system or reform must clearly recognize that pension benefits are claims against future economic output. To fulfill this primary goal, therefore, pension systems when reformed must contribute to future economic output. Reforms, it is supposed, should be designed and implemented in a manner that supports growth, development and diminishes possible distortions in a capital and labour markets.

The public operated Defined Benefit pay as you go (PAYG) Scheme which heavily relied on budgetary provisions that were not forth coming coupled with rising salaries, hence, pension benefits. Demographic shift due to rising life expectancies, weak and inefficient pension administration characterize public sector, very low and sometimes an outright noncompliance ratio due to lack of effective regulation and supervision of the scheme in the private sector killed the National Provident Fund Scheme and it failed to provide periodic benefits. Even at this, many private sector employees were not covered by any form of pension schemes (Bogomolova, 2005 and Robbins, 1989).

In an articled titled "Investments and Risks Management under the New Pension Scheme," Dalang (2006:30) observes that pension has become a topical issue, one that has engaged the commitment of government, attention of employers and employees not only in Nigeria but in many emerging and developing economies of Africa, Asia, and Latin America. Even as this study progresses, U.S President, George W. Bush planned to privatize social security by introducing individual accounts regime for beneficiaries.

This may not be unconnected with the World Bank landmark report of 1994 christened "Averting the Old-age Crisis" that becomes a reference point or a benchmark for pension reforms across the global economies. Latin America and post soviet transition went headlong to pension reforms which were made compulsory by the World Bank. Since 1994, eleven countries have now passed laws introducing mandatory savings and ten out of these, Chile showing the lead, have implemented these laws. In Europe and central Asia, fourteen countries introduced individual accounts or Retirement Savings Accounts (RSA) and ten have actually made the change including, France, Japan, South Korea, Germany, New Zealand, Canada, Sweden, Norway, Loneland, U.K. etc (World Bank Commissioned Report, 1994 & 2005).

After a critical assessment of the various pension schemes of the various countries, the World Bank on 21st February, 2005, released a new report titled "Old Age Income Support in the 21st Century" the report emphasized the need for change as most pension schemes in the world do not deliver on their social objectives. They create distortions, impose marginalization, old-age poverty, post retirement sufferings and ultimately lead to untimely retirement death. Above all, distort market economies and are financially unsustainable because they are expensive to run and the process fraudulent even by those mandated to administer the pensions.

In an attempt to reposition pensions, the report stated that any pension reform should consider;

i. The informal sector which incidentally makes up for more than half of the law force.
ii. Catering for people who will be poor throughout their lives, and
iii. Those that will be physically challenged.

It is the spirit of improving the economic well-being of retirees in their post-retirement lifestyle that the Federal government of Nigeria carried out a general overhaul of the defined benefit hinged on Pay As You Go (PAYG) 2004. PRA 2004, adopted defined contribution (DC) policy and provided for social security and welfare untold post-retirement poverty, anxieties and reduce retirees early deaths due largely to frustration experienced in getting their retirement benefits (Adeloye, 1999 and www.worldbank.org/etools/doc).

b) *The National Pension Act and Pension Accounting*

Balogun (2006:7) and Asuquo (2008:10) agree that pension schemes exist to provide post retirement benefits to employees. In Nigeria, pension was introduced during the colonial era to provide old age income and security to British citizens working in Nigeria upon retirement. The first legislative instrument to back pension matters was the pension ordinance 1951 which took a retrospective effect from 1st Jan. 1946. National provident fund was established in 1961 after NB in 1954 and UAC 1957, to address pension matters of private organizations. 18 years later, pension act no, 102 of 1979 as well as armed forces pension act no. 103 of 1979 were enacted.

The Police and other government agencies pension was enacted under pension act no. 75 of 1987, followed by the local government pension edict which culminated into the establishment of the local government staff pension board of 1987 in 1993, the national social insurance trust fund was established by Decree no. 73 of 1993 to replace NPF. Prior to the pension reform act of 2004, most public organizations operated basically a defined benefit pay as you go (PAYG) scheme.

Final entitlements of PAYG were paid based on;

(1) Length of service e.g. Cross River State Services
(2) Annual terminal environments
(3) The age of retirement

The defined benefit scheme is still being funded by the Cross River State Government and budgetary provisions or allocations made. When there are made, pension section of the department of establishment and service matters under the head of service of the state in collaborations with the pension unit in the office of the State Accountant-General administers and compiles retirees' benefits.

Balogun (2006:8) observed interalia:

"In the last two and a half decades, most pension schemes in the public sector had been poorly funded or unfunded, owing to inadequate budget allocations budget releases which seldom came on schedules and were far short of due benefits. This situation had resulted into unprecedented and unsustainable outstanding pension deficits estimated at over ₦2 trillion before the commencement of the Pension Reform Act in 2004. the proportion of pension of salaries increased from 16.7% to 30% between 1995 and 1999."

Akinyemi (2008:42) and Asuquo (2002:19) corroborated this fact and stated that the administration of the Defined Benefit Scheme was generally weak, inefficient and non-transparent. There was and still no authentic data base on pensioners while 14 documents were required to file pension claims. Among other things Balogun (2006:7) and Akinyemi (2006:44) identified as hindrances to effective pension scheme in the State are:

- Restrictive and sharp practice in the investment and management of pension funds.
- Process of documentation, application and registration became very cumbrous that computation officers and clerks cashed on and were looting the system dry and blue.
- Delays in release of funds to pension further compounded the predicament of the pensioners and retirees.

Hence, Balogun (2006:7) noted … this further exacerbated the problem of pension liabilities in Cross River State to the extent that pensioners are dying on verification queues. And at the federal level, most of the over 300 parastatals schemes were bankrupt before the pension reform act 2004 came on board. It is on records that any form of retirement benefit arrangement did not cover employees in formal and informal sectors. Most pension schemes were hinged on "resignation" rather than retirement principles.

It is inferred from this work that prior to PRA 2004, the pension scheme was regulated without standard or effective supervision and highly diversified in Nigeria. It was against this backdrop that the federal government constituted various committees headed by Chief Ajibola Ogunsola and Mr. Fola Adeola at different times to look at the challenges of pension schemes in Nigeria and proffer solutions. Fola Adeola's committee report was enacted into the Pension Reform Act (PRA) and come into operation on 1st July 2004, Balogun (2006:8).

This process is where the Cross River State Government should introduce into the system. If the executive arm has no political will to do this, the legislative arm should make bold steps to review Cross River State Pension matters and carry a deepening surgery of the pension and bring it up to date and standard.

III. Research Methodology

The research design in this study was ex-post facto approach. In effect, there was no manipulation of the independent variables used in this study. Besides, variables like ensuring that workers received their pension as at when due, ensuring that workers save and ensuring that pensioners do not suffer by removing all cumbersome processes were already in existence and influencing the welfare of pensioners. More so, since this study involved a large population this approach helped the researcher to find out, describe and explain existing phenomena and draw generalization on the population based on the data collected from the sample.

a) Research area

The research covered Cross River State of the Federal Republic of Nigeria. The area is located at the south eastern fringes of Nigeria between latitude 4° 27 and 5° 32 north of the Equator and longitude 50 and 9° 28 east of Greenwich Meridian. It falls within the south-south geopolitical zone, a recent structure in Nigeria. There are three senatorial districts in the state, namely: northern, central and southern senatorial district and the state capital located in Calabar. The State comprises eighteen local government areas, namely: Abi, Akamkpa, Akpabuyo, Bakassi, Bekwara, Boki, Calabar Municipality, Calabar South, Etung, Ikom, Obanliku, Obubra, Obudu, Odukpani, Ogoja, Yakurr and Yala. The state is more a civil service state than an industrial one.

b) Population of the study

This study involved all pensioners in Cross River State as of 2011 financial year. Information from the Cross River State Pension Board revealed that there are a total of 8797 pension workers in the state distributed in all the eighteen local government areas.

c) Sampling procedure

Stratified random sampling procedure was adopted to select the representative sample for the study. Foremost, two local government areas were randomly selected from each of the three senatorial districts. This gives a total of 6 local government areas that were chosen and used for the study. In each of the selected local government areas a list of all the pensioners was obtained from the Pension Board of Cross River State and 134 pensioners were randomly chosen from each of the selected local government areas and used for the study. This gives a total of 800 respondents that were selected and used for the study.

d) The sample

The sample for the study was made up of 800 workers randomly selected and used for the study. This comprised 522 males and 278 females.

3.5 Instrumentation

The instrument used for this study was Pension Reform and Welfare Questionnaire (PRWQ). The PRWQ was a- 25 item questionnaire constructed by the researcher and aimed at eliciting information from the respondents on the variables of study. The items were based on existing literature on impact of pension reforms on the welfare of pensioners. The questionnaire consisted of three sections (A, B and C).

Section A contained items seeking information on the demographic characteristics of respondents such as name of local government area, age, sex, level of education. Section B contained items seeking further information to measure the three independent variables of the study as mentioned earlier. Section C contained items to test the only dependent variable of the study welfare of pensioners.

Items of section B and C were designed on 4-points Likert Scale type with "SA" for strongly agree, "A" for agreed, "D" for disagreed and "SD" for strongly disagreed respectively. The items here were positively and negatively worded.

e) Validation of the instrument

The content and face validity of the instrument (PRWQ) of the study was established by the researcher. The instruments were presented to experts in quantitative analysis, Faculty of management Sciences University of Calabar to ascertain that the items on the instrument were related to the hypothesis which was required to test. The feedback from the experts showed that the items on the instruments were adequate in generating data required to test the hypotheses.

f) Reliability of the instrument

To ensure that the instrument measures consistently what it is purported to measure, a trial study was conducted in one of the sampled sub-area replicates. Using the developed instrument to achieve this, the questionnaire was administered twice to (100) randomly selected inhabitants in one of the sub area replicates in Calabar (knowing that these were not going to take part in the actual study). After filling the questionnaires for the first time, they were retrieved and scored.

A week later, the instrument was taken to the same group of persons after explaining to them the reasons for the exercise. Again, after filling the instruments, they were retrieved and scored. The reliability estimate derived from the analysis was 0.989. This was taken to be high enough and this judging the instrument for this study consistent and reliable to be used for generating data for the actual study. Generally, the reliability estimate of 0.50 should be considered enough to render instrument reliable. From the pilot study the following estimates of the reliability of the instrument (based on each independent variable) were obtained (Table 1).

Table 1 : T-retest reliability result of the study instrument

Variables	No. of items	Testing	Mean	SD	r_{xy}
Ensuring that pensioners receive their pension as at when due	6	1st	13.34	3.65	0.67
		2nd	14.76	2.32	
Ensuring that workers save	6	1st	14.89	3.27	0.78
		2nd	14.56	3.85	
Ensuring that pensioners do not suffer	6	1st	15.78	2.87	0.71
		2nd	14.74	2.03	
Welfare of the pensioners	6	1st	15.36	3.54	0.92
		2nd	16.12	2.25	

Source: Field work (2011)

Global Journal of Management and Business Research Volume XII Issue XIII Version I Year 2012

IV. Analysis Of Data

a) *Results and test of hypotheses*

Table 2 : Pearson Product Moment Correlation Coefficient analysis of the relationship between pension reform objective of ensuring that pensioners receive their pension as at when due and the welfare of the pensioners, N = 800

Variable	Mean	S.D	r-cal
Pension reform objective of ensuring that pensioners receive their pension as at when due	14.56	2.32	0.53
Welfare of the pensioners	15.34	2.61	

**P<0.05, df = 798, critical r 0.195*

The result in Table 2 revealed that the calculated r-value of 0.53 was found to be greater tan the critical r-value of 0.196 needed for significance at 0.05 alpha level of significance with 798 degrees of freedom. The result therefore implies that there exists a significant relationship between pension objective of ensuring that pensioners receive their pension as at when due and eh welfare of the pensioners.

i. *Hypothesis two*

There is no significant relationship between the pension reform objective of ensuring that workers save and the welfare of the pensioners. The dependent variable in this hypothesis is the welfare of the pensioners and the independent variable is pension reform objective of ensuring that workers save.

Table 3 : Pearson Product moment correlation coefficient analysis of the relationship between pension reform objective of ensuring that workers save and the welfare of the pensioners, N = 800

Variable	Mean	S.D	r-cal
Pension reform objective of ensuring that workers save	13.89	2.45	0.36
Welfare of the pensioners	15.34	2.61	

**P<0.05, df = 798, critical r 0.195*

The result in Table 3 revealed that the calculated r-value of 0.36 was found to be greater than the critical r-value of 0.196 needed for significance at 0.05 alpha level of significance with 798 degrees of freedom. With this result the null hypothesis is rejected. It therefore, means that there exists a significant relationship between pension objective of ensuring that workers save and the welfare of the pensioners.

ii. *Hypothesis three*

There is no significant relationship between the pension reform objective of ensuring that pensioners do not suffer by removing all cumbersome process and the welfare of the pensioners. The dependent variable in this hypothesis is the welfare of the pensioners while the independent variable is pension reform objective of ensuring that pensioners do not suffer.

Table 4 : Pearson Product moment correlation coefficient analysis of the relationship between pension reform objective of ensuring that pensioners do not suffer by removing all cumbersome processes and the welfare of the pensioners

Variable	Mean	S.D	r-cal
Pension reform objective of ensuring that pensioners do not suffer by removing all cumbersome processes	15.76	3.21	0.48
Welfare of the pensioners	15.34	2.61	

**P<0.05, df = 98, critical r 0.195*

The result in Table 4 revealed that the calculated r-value of 0.48 was found to be greater than the critical –value of 0.196 needed for significance at 0.05 alpha level of significance with 98 degrees of freedom. The result therefore implies that there exists a significant relationship between pension objective of ensuring that pensioners do not suffer by removing all cumbersome processes and the welfare of the pensioners.

V. Discussion And Summary Of Findings

The finding of hypothesis one of this study revealed that there exists a significant relationship between pension reform objective of ensuring that pensioners receive their pension as at when due and the welfare of the pensioners. This finding is in order with Asuquo (2003) who found in his study that the welfare of pensioners in Cross River State had tremendously increased after the last pension reform of 2004. He equally noticed that before the last pension reform of 2004, most pensioners in the state used to stay for more than 6 months before receiving their pension.

The finding of research hypothesis two revealed that there exists a significant relationship between pension reform objective of ensuring that all workers save and the welfare of pensioners. This finding is in corroboration with Balogun (2006) who noted that most pensioners suffer because they do not save much during their working days. Most of these workers who were not aware of the necessity to save while working, always believe that things will be good all the times. Thus when retired they have nothing to care for themselves and consequently become beggars.

The findings of research hypothesis three revealed that there exists a significant relationship between pension reform objective of ensuring that pensioners do not suffer by removing all cumbersome process of pension payment and the welfare of the pensioners. This finding conforms to the findings of Bogomolova (2005) who in his wok on the welfare of pensioners, noticed that most pensioners queue for days before receiving their pension packages. He also notice that the process of compiling documents was so tedious that most retired persons used to surrender in the cause of the process. Also in line with the findings of this study is the findings of Asuquo (2002) who noticed that most of the cumbersome processes such as queuing for several hour-days or delay in compilation of pension document have seriously been taking care of in most states in Nigeria that pensioners are now able to receive their pension with little or no stress.

a) Conclusion

Based on findings arrived at from this study the following conclusions were made: Pensioners in Cross River State as in most states in Nigeria are now able to receive their pension as at when due. That is, they do not have to go for several months or years without their pension. The culture of saving for the rainy days has been inculcated into workers of Cross River State. As such, those that are just retiring after the 2004 Pension Scheme have something in their pockets during the rainy days. Lastly, all the cumbersome processes that accompanied pension payment have been removed to significant extent. Consequently, pensioners no longer queue for several hours before receiving their pension and the compilation of pension documents is no longer a difficult process.

b) Recommendations

Based on the empirical and non-empirical findings of the study, the following recommendations were made for improvement of pension fund management in Nigeria as a whole and Cross River State in particular:

(1) Cross River State House of Assembly should set up a technical or steering committee to study the Pension Reform Act 2004 and how it can be adopted in the State.
(2) The Pension Reform Edict should be complemented fully with the systemic structures.
(3) Set up and empower regulatory apex body with Liaison Office at the three senatorial districts for better co-ordination.
(4) The State Government should demand for periodic briefs as it may deem fit of the modus operandi of the pension scheme in the State.
(5) Ensure that the State regulatory body enshrines continuously capacity building as a matte of policy
(6) Ensure that informal and the private sectors are on board the platform of pension reforms.
(7) Every pensioner should be made to collect his or her money easily through any bank of the beneficiary's choice by virtue of nearness.
(8) Pension should be worked out and paid to the beneficiaries just like monthly salary so that the aged and the sick will not have to come and queue for days while waiting to be credited with pension arrears. It is a strong belief of the researcher that if the above stated recommendations are well implemented, sustainable development would be ensured in Nigeria as the third world countries.

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Global Journal of Management and Business Research
Volume 12 Issue 13 Version 1.0 Year 2012
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Cost of Governance on Economic Development in Nigeria

By Stephen Ejuvbekpokpo
Delta State University, Abraka, Nigeria.

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GJMBR-B Classification : *FOR Code: 150303 JEL Code: P46*

COST OFGOVERNANCEONECONOMICDEVELOPMENTINNIGERIA

Strictly as per the compliance and regulations of:

Cost of Governance on Economic Development in Nigeria

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Abstract - The study aims at investigating the impact of cost of governance on economic development in Nigeria. Cost of governance is captured by recurrent and capital administrative expenditures, while gross domestic product is used as a proxy for economic growth. Using data from 1970 to 2010 and the Ordinary Least Squares (OLS) technique of analysis, the study reveals that cost of governance hampers economic development in Nigeria. Therefore, there is the need to place institutional constraints on public office holders and technocrats in order to minimize the extraction of rent from the state and enhance the availability of public funds for development projects and vital sectors of the economy.

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I. Introduction

The prosperity of any nation hinges on efficient government. The government helps to sustain the social contract that binds every member of the state. Thus, the price that is paid for a state to be prosperous is for it to have an established government that enforces the social contract. Members of an ordered society, called a state, must pay taxes sufficient to carry out the functions assigned to the state.

In Nigeria, costs associated with the running of the government have increased dramatically over the years such that an increasingly reduced proportion of public revenue is available to support and implement the primary functions of government (CBN, 2005). Consequently, the major purposes of government have been hindered.

A point of departure is to consider how the federal Government budget is divided strictly between recurrent and capital expenditures while recurrent expenditure as a percentage of total government expenditure was 79.22% at the beginning of the 1970s, it has declined to 43.03% by the end of the 1970s. IT rose to 49.30 by the end of the second Republic in 1983, further rising to 63.36% by the end of the 1980s. The dramatic rise in export earnings due to the oil boom of the 1970s resulted in a reduction in the proportion of the budget allocated to recurrent expenditure.

Correspondingly, the drastic fall in the price of crude oil in the early 1980s equally raised the proportion of the budget apportioned to recurrent expenditure. Though there was a decline in the proportion of the budget allocated to recurrent expenditure, from 60.10% in 1990 to 36.56% in 1998, it has since risen to 80.29% in 2003. The justification for using recurrent expenditure as a percentage of total budget as an important indicator of the cost of governance stems from the belief that capital expenditure impacts more positively on the economy in respect to employment, investment and other growth-inducing activities (Adewole and Osabuohien, 2007).

Total administrative expenditure as a percentage of gross domestic product (GDP) was a high as 8.72% in 1977 but fell to an all time low of 2.04% in 2002. According to Adewole and Osabuohien (2007), if we assumed that government administrative expenditure supports the GDP of any given society, then an administrative expenditure of nearly 9 kobo went into the production of N1 worth of goods and services for the period of 1977 to 2002.

Over the subsequent years, the administrative costs of producing N1 worth of goods and services fell to 2 kobo in 1989. It rose to 4 kobo in 1999 and then to 7 kobo in 2002. According to Haber (2004), much of the high costs of governance are largely due to the absence of institutional structures that direct attention away from predation to production. When the primary function of the state is essentially redistributive or predatory, productive activities become less significant as a driving force of economic activities. It is against this background that this empirical work is motivated to analyze the effects of the continuous rise in costs of governance on economic development in Nigeria.

II. Literature Review

a) The Cost of Governance

The cost of governance is the money spend on administrative processes. It is also known as administrative expenditure. Adewole and Osabuohien (2007) decomposed cost of governance into two: recurrent administrative expenses and capital administrative expenses. They defined cost of governance as costs associated with the running of government. In other words, these are costs incurred by the government is running this affairs. The government helps to sustain the social contract that binds every member of the state.

Similarly, Fluvian (2006) defined cost of governance as any expenditure in maintaining government administrative structures. He also equates cost of governance to total administrative expenditure,

Author : Economics Department, Delta State University, Abraka, Nigeria. E-mail : ejirosteve2@yahoo.com

Global Journal of Management and Business Research Volume XII Issue XIII Version I Year 2012

which is a part of total federal government expenditure in Nigeria. He said that the justification for using total administrative expenditure as cost of governance stems from the fact that administrative expenditures are incurred in governing processes.

According to Drucker (2007), cost of governance is government budget allocated to both capital and recurrent expenditures on maintaining government administrative structures, which appears to be very enormous in Africa the question of efficiency in governance is, therefore, to ensure that public funds are spent judiciously, while public goods and services are sufficiently provided.

The distribution of Public goods and services in Nigeria is based on the principle of equity. Natural and human resources may skew income distribution in favour of endowed groups when the market is allowed to be the principal mechanism for resource allocation. Free markets are, therefore, more likely to be hindered when pronounced disparities exist in the distribution of natural and human capital endowments among groups that exist in a particular society. This mostly explains why the nationalists of northern extraction did not agree at first with the idea of independence in Nigeria, since their limited investment in human capital would put them at a disadvantage in a post - independent Nigeria (Adewole and Osabudien, 2007).

Nigeria, therefore, put up a political arrangement that ensured that the commanding heights of the economy were left in the domain of the public sector. With the benefit of hind sight, one could say this arrangement signaled the beginning of patronize activities that stifled the market and productivity, promoted rent seeking, brought an imbalance between efforts and rewards, and raised the cost of governance in Nigeria. Cost of governance, according to Afolugbo (2004), is therefore the cost incurred in running the government. It is the cost of performing political duties, and discharging civil services to the public.

b) *Economic Theory of the State and the Cost of Governance*

The structure of government inherited at independence is largely a reflection of colonial influence. The colonial powers arbitrarily divided the African continent so that ethnically unrelated peoples were forced into political matrimony for the formation of a state (easterly and Levine, 1997) Colonial governments established "extractive institutions" in places where unfavourable weather had serious health consequences for them and created European style institutions in places favourable for habitation (Afolugbo, et al, 2004).

Thus, weak institutions, amply represented by growth – inhibiting political structures, became the dominate feature of resource rich multi- ethnic societies. Afolugbo, et al (2004) added that the opportunistic behavioiur of ethnic leaders, particularly in a mineral-rich polity such as Nigeria, eventually produced a government structure that had a negative toll on social and economic progress.

According to Iyoha and Oriakhi (2002), a larger than optimal civil service, dominated mainly by that section of the country with significant human capital deficiencies is bound to raise governance costs and institutionalize the mechanisms for rent extraction. This is a major problem in Nigeria.

Another institutional factor that raises cost of governance is the provision of security by the state. For instance, a public good like law and order (security for short) has a high degree of public interest, upon which there is a broad consensus that it could be more cheaply provided by government, particularly by a central government, if we admit that in reality there is no pure public good, we should understand why profit-maximizing firms could equally provide complementary security services.

However, government provides that bulk of security services. Thus, the role of the private sector in the security sector is minimal. We recognize that the different levels of government would be able to organize security effectively. According to Adewole and Osabuohien (2007), the absence of the centralization of security affects its efficiency and drives up cost of making security available.

This model is drawn mainly from the insights provided by Olsen (1965) and Fates, et al (2002). In conventional economic theory, the state is a product of cooperation. In other words, rational human who live within a defined territory discover a net gain in cooperation rather than in competition. It could be likened to a group of many perfectly competitive firms who form a collusive unit called a monopoly.

From a political economy perspective, the state is the by – product of rational individuals who believe that state formation would be better than living as individual or families. The state, therefore, as well as being the government's instrument of operation, is a natural monopoly, for no two organizations with equal powers of force over a defined territory can co-exist successfully and maintain relative peace.

Lastly, the state is formed for the benefit of the people. It enables individuals to co-exist peacefully by avoiding violence and reducing tendency for communal and individual clashes. Fates, et al (2002) added that if people can resist the temptation to steal, or extract rent for selfish reasons, there will be prosperity in the state. However, this is unlike the Nigerian situation. Most politicians are corrupt, selfish and passive. They specialize in looting public treasury. Consequently, pronounced poverty is a key feature of this kind of society. For there to be growth and development, resources must be channeled towards production.

c) The Rising Cost of Governance in Nigeria

Governance represents more than a means of providing common good, as it can be related to the government capacity to help the citizens ability to achieve individual satisfaction and material prosperity. Therefore, governance could be compared to the management, supply and delivery of public services to a nation.

According to Fluvian (2006), there are specific factors responsible for the rising cost of governance in Africa. First, there is the issue of inflation. Public project costs are unduly inflated by corrupt politicians. There should be equity. Adewole and Osaabwohien (2007) added that the rising cost of governance in Nigeria is a price we have to pay for undue consideration for equity.

Similarly, the issue of misuse of public funds is another cause of the rising cost of governance in Nigeria (Warimen, 2007). Political leaders inflate the costs of public projects to embellish themselves. Adewole and Osabuohien (2007) also said that the supply of security beyond the optimal level will lead to limited prosperity. In other words, the excess money spent by government on a particular set goods affects development, since resources are scarce and should be optimally utilized.

Furthermore, there is population increase. An increase in population implies that there is pressure in the limited available the resources. Fluvian (2006) also said that increase in population implies that more demand for public goods and services, such as education, health services, etc. the need to give every ethnic group adequate representation is another reason for increasing cost of governance.

Another major cause of the persistent rise in cost of governance in Africa vis-a – vis Nigeria is the extra large civil service sector. This has been described as an institutional factor by Afolugbo, et al (2004). Most public workers in Africa are redundant due to employment of excessive work staff to reduce unemployment. Employees are more than the optimal size, which led to inefficiency and unnecessary increase in cost.

III. Theoretical Framework

Given the fact that resources are limited, an increase in the cost of governance implies that there will be decrease in available funds for productive purposes. Thus, adequate resources need to be allotted to vital sectors such as agriculture, industry and education. This arrangement exploits the opportunities offered y comparative advantage of costs in governance and costs in production.

Consequently, this study is based on the theory of comparative cost Advantage. To enhance the pace of development, more public funds must be allocated to development projects and there must be reduction in cost of governance. The optimal size of government and the civil service is required for governance to be effective and efficient. According to Olivia (2007), in a nation with government cabinet that is larger than optimal and / or a civil service sector that is extra large, there will be a rising cost of governance.

The theory of comparative cost Advantage is based on opportunity cost analysis. A rising cost of governance will definitely lead to decreasing cost of production or industrialization and public services such as health, education, security, etc. Olivia (2007), therefore, claimed that the opportunity cost of increasing governance is decreasing finance for productive activities.

To enhance growth and development, governance must be cost-effective and the civil service sector must be efficient; and there must be increasing investment of public funds in productive sectors of the economy. The civil service sector must be reduced to manageable but optimal size. In Nigeria, the civil service sector is extra large with gross inefficiency and exorbitant cost to the government.

When a state is constituted properly it is possible for the society to end up with an optimal mix of both public and private goods that will maximize social welfare. For economic efficiency, private goods can be more cheaply provided by private firms and public goods by a collective organization – the government.

At equilibrium, according to Adewole and Osabuohien (2007), output can no longer be increased since both the private and the public sectors produce goods in which they have comparative advantage. Thus, the last naira spent on private goods will raise output by as much as the last naira spent on public goods, in Nigeria however, the private sector is more efficient than the public sector, which is characterized by rising costs.

This foregoing analysis is important because the cost of governance is minimal when each (private and private sectors) is only allowed to do what it can do best. Providentially, the free market imposes adequate discipline on the players in a way that drives them to produce at minimal cost. But where well-defined rules are lacking politicians are not constrained to seek to minimize the cost of governance (or administrative expenditure). This is the Nigerian experience.

IV. Model Specification

A general growth model is specified in the study. Gross domestic product is used as a proxy for economic development; while cost of governance is captured by total administrative expenditure, which is decomposed into recurrent administrative expenditure and capital administrative expenditure. The model can, therefore, be specified thus:

$$GDP = f(REX, CEX) \quad - \quad - \quad - \quad (1)$$

Put in an explicit form, the above model becomes:

$$GDP = \alpha_0 + \alpha_1 REX + \alpha_2 CEX + u_1 \quad - \quad - \quad - \quad (2)$$

Global Journal of Management and Business Research Volume XII Issue XIII Version I Year 2012

Where,

$$\alpha_1 < 0 \text{ and } \alpha_2 < 0$$

According to economic theory expectations, there is an inverse relationship between cost of governance (represented by administrative expenditure) and gross domestic product. An increase in cost of governance reduces the availability of public funds for development projects which invariably hampers growth and development. Thus, an increase in recurrent administrative expenditure (REX) and /or in capital administrative expenditure (CEX) hinders development.

Consequently, increase in costs of governance (or administrative expenditure) has negative impact on gross domestic product.

The model specified in the study, as could be seen above, is a multiple regression model which is more reliable in terms of the estimates of the parameters than a single regression model. Various statistical and econometric tools will be adopted in interpreting the results. These include the coefficient of determination, f-test, t-test and Durbin-Watson statistic.

V. Discussion Of Findings

The result obtained from the analysis is presented below:-

GDP	=	2.21 – 0.52REX – 0.45 CEX
Std. Error	=	(0.63) (0.16) (0.20)
t-stat	=	[3.48] [-3.31] [-2.24]
R- Squared	=	0.93
F – stat.	=	259.73
Dw – stat.	=	2.01

From the above result, a unit rise in recurrent administrative expenditure will lead to 0.52 unit fall in gross domestic product; while a unit rise in capital administrative expenditure will cause gross domestic product to fall by 0.45 unit. This is in line with the theoretical expectations, both recurrent and capital administrative expenditures have negative impact on gross domestic product.

The t–statistic of recurrent administrative expenditure in absolute terms (3.31) is greater than the t-critical value (2.02), at the 5% level of significance. This indicates that recurrent administrative expenditure is statistically significant in explaining changes in gross domestic product in Nigeria. Similarly, the t- statistic for capital administrative expenditure in absolute terms (2.24), at the 5% level of significance, is greater than the t-critical value (2.02), which also indicates that capital administrative expenditure is statistically significant in changes in gross domestic product in Nigeria.

The coefficient of determination (0.93) indicates that 93% of the variations in gross domestic product is explained by both recurrent and capital expenditure. In other words, 93% of the variations in gross domestic product is caused by cost of governance. The F-statistic (259.73) is greater than the f-critical value (3.23), at the 5% level of significance. This implies that both recurrent and capital administrative expenditures are statistically significant in explaining changes in gross domestic product. This also indicates that the overall fitness of the model is good.

The Dw-statistic (2.01) is approximately 2.00, using the rule of thumb. This implies that there is absence of first order serial correlation (or autocorrelation) in the model.

VI. Conclusion And Recommendations

Some findings are made from the results presented and interpreted above.

First, the study reveals that cost of governance (represented by both recurrent and capital administrative expenditure) has a negative impact on gross domestic product in Nigeria. An increase in cost of governance implies that there is decrease in government expenditure on public projects in vital sectors of the economy. This is because resources are scarce. An increase in expenditure on administration reduces expenditure on development projects, which adversely affect growth and development.

Second, the increase in cost of governance indicates that there is high level of corruption and inefficiency, which make available funds barely sufficient to finance projects in agricultural and manufacturing sectors. Consequently, an increase in cost of governance, represented by administrative expenditures, has a significant impact on gross domestic product.

In the absence of strong political institutions, the reduced cost of governance could only be achieved if a benevolent set of public officer is in power. Since that is highly unlikely, there is every need to draw some vital conclusions which will guide policy making.

The cost of governance in Nigeria has a negative but significant impact on gross domestic product in Nigeria. A rise in the level of governance cost hampers the pace of economic growth and development in the country. The rising cost of governance reduces the availability of public funds for development projects.

In order to reduce cost of governance, there is the need to place institutional constraints on public office holders and technocrats in a way that minimizes the extraction of rent from the state. This is the better path to follow if the cost of governance is to be drastically reduced in Nigeria.

Also, Public funds should be judiciously utilized. In other words, every naira of public funds showed be spent to maximize social welfare. A huge proportion of government revenue should be expended on development projects and in vital sectors of the economy, such as agricultural and manufacturing sectors.

The Nigerian legal system should be overhauled to achieve efficient dispensation of justice. This will help to reduce corrupt practices, such as inflation of costs of public projects, "kick-backs" before contracts are awarded, abandoning of public projects, etc. also, property rights should be well defined to ensure the smooth operation of the free market system.

There should be an optimal cabinet size to reduce cost of governance. The larger than optimal size of the executive cabinet and civil service sector are major causes of increasing cost of governance in Nigeria. It has also led to inefficiency in the public sector and waste of public fund.

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Global Journal of Management and Business Research
Volume 12 Issue 13 Version 1.0 Year 2012
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Some Emerging Research Areas in Marketing

By Rana Muhammad Umar, Salman Saleem & Hina Usman
Muhammad Ali Jinnah Universtity Islamabad Pakistan.

Abstract - The purpose of this study is to explore the emerging research areas in marketing. The literature from the various journals is reviewed to find out the evidence from different contexts that which areas are gaining the attention of researchers. On the basis of literature review, the first part of study explains how to find out an emerging research area in particular discipline as well as emerging trends in research in different areas of marketing. 2nd part the study focuses on the theory development and argues that the theory development in marketing has been neglected throughout in different paradigms of management. And at the end the remarks of the authors are concluded.

GJMBR-A Classification : *FOR Code: 150505,150504 JEL Code: M31*

SOMEEMERGINGRESEARCHAREASINMARKETING

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Some Emerging Research Areas in Marketing

Rana Muhammad Umar[α], Salman Saleem[σ] & Hina Usman[ρ]

Abstract - The purpose of this study is to explore the emerging research areas in marketing. The literature from the various journals is reviewed to find out the evidence from different contexts that which areas are gaining the attention of researchers. On the basis of literature review, the first part of study explains how to find out an emerging research area in particular discipline as well as emerging trends in research in different areas of marketing. 2nd part the study focuses on the theory development and argues that the theory development in marketing has been neglected throughout in different paradigms of management. And at the end the remarks of the authors are concluded.

I. Introduction

The marketing researchers have been very much concerned about the emerging areas of research in the behavioral as well as the structural aspects of Marketing. Many conceptual models have been developed in this regard by the researchers to calculate the outcome of different concepts. The present research paper will be involving two perspectives. In first part of literature review we shell argue that what are several ways of finding out emerging research areas in some field of study. In the second part we shell give suggestions for the new emerging areas in marketing research. The study also contains some discussion about brand management consumer behavior and marketing management.

The most of constructs in brand in early 1990s were just operationally calculated by the researchers and there was no focus on the theory development for certain constructs. Final portion of the paper will provide a bird eye view on the ways of development of some theory which is very important aspects of research.

The changing socio cultural conditions generate many new opportunities for research because when societal norms and cultural values are changed the earlier approved researches are needed to be work upon again. In such situations as this new researcher face difficulty in research because the field becomes wider with these changing upheavals. Current study is fruitful for the new scholars especially in developing countries where the students have least resources to spend on the research activities and to go through the large research literature to find the emerging trends in marketing. This paper will provide a significant help also to students and practitioners. It will help them in more systematic way as they will be able to work on some theory in a more fruitful way.

Author α.: Muhammad Ali Jinnah Universtity Islamabad Pakistan. E-mail : umar_fuu11@yahoo.com

Author σ: Federal Urdu University of Arts, Science and Technology Islamabad Pakistan. E-mail : salmankhan302@yahoo.com

Author ρ : Federal Urdu University of Arts, Science and Technology Islamabad Pakistan. E-mail : hinausman99@yahoo.com

II. Literature Review

Most of the literature existing in marketing is particular to the context oriented research, or the theory testing approach. But with the passage of time new research areas were explored. The new research areas involve not only operating the constructs but also the advancements as well as development of theories. Both of these aspects are discuss following

a) Indicators for the research areas

It is important to know, how a researcher can find that which are new emerging areas of a perticular paradigm are. This question has been researched. For example Guo, Weingart and Borner (2011) Argued that we can have an insight about emerging areas in a discipline from three indicators firstly some specific words are used repeatedly and increasingly. Secondly all of a sudden the new authors in lager number and with larger zeal and zest are attracted towards that area and thirdly the references are cited for different disciplines. This model can be applied to different fields to indicate the emerging areas of research.

b) Avoid industry specific measures in scholarly research

In above paragraph we have discussed indicators of emerging trends which will help the researchers to locate emerging areas. Here we have to indicate a very important factor which is related to the selection of research area. Researchers have been concerned to know the determinants of different important constructs of consumer behavior which is very important variable of the brand management. The conceptual contribution in this regard is increasing and concepts are becoming industry specific. Some independent variable used for consumer behavior In Mobile phone industry is not valid for some other industry. Lamarre, Galarneau and Boeck (2010) argued that the most important constructs in consumer behavior are the acceptance & adoption, trust, satisfaction & loyalty, attitudes towards mobile marketing and value creation to study mobile industry. Shankar, Venkatesh, Hofacker and Naik (2010) proposed the conceptual framework consists of three

Global Journal of Management and Business Research Volume XII Issue XIII Version I Year 2012

entities, the consumer, the mobile, and the retailer. The framework addresses related issues such as mobile consumer activities, mobile consumer segments, mobile adoption enablers and inhibitors, Key mobile properties, key retailer mobile marketing activities and competition. But the problem is this, when a single concept has different measures for different industries it will hinder the development of theory for that particular concept (Price, 1972). Our proposition is that researcher should find out the generic determinants of different concepts.

c) Stakeholders not 4 P`s or customer

Marketing have been encountering different forms of myopia, now a days companies are getting involve in a new form of myopia which can call customer myopia. They are getting so serious to look after the interest of only one external stakeholder i.e. customers. A company should always look after the interest of all stake holders. The need of the stakeholders approach have inspired the researcher, it gave many research questions to the new researchers (Bhattacharya & Korschun, 2007). Hatch and Schultz (2010) in their model have given two dimensions to develop a theory of co creation branding one of those two dimensions was to engage stakeholders. Smith, Drumwrigh and Gentile (2010) reported that only focus on customers and their needs leads to a marketing myopia the best option is to consider all the stakeholders.

d) Emerging trends in online advertising

Online advertising is a fruitful media for a company. In Western Europe, United States, and to some extent in Asia the online advertising is emerging as a compelling component of marketing. The importance of some concepts for example search marketing, rich media, contextual advertising, behavioral targeting, social marketing, and video advertising is very much highlighted in research (Boone, Sacci & Glant, 2010). This situation gives direction towards different research questions.

e) Working Consumers

Consumers often in the literature are named as producers but this role cannot be taken into account empirically. This is an emerging research area in the consumer's research to raise question about role of consumers. New researcher can identify the general measures of this concept. A little research has carried out in this regard. Cova and Dalli (2009) tried to take into account this particular role of consumers; moreover they argued that the value of market offerings is considered to rely on the immaterial labour of consumer.

f) Financial impact Due to Brands

Brand is very much intangible asset of a company; generally it is argued that it worth more than the tangible assets. It has been very much debatable issue how we can calculate? And how much financial return is generated with the help of these intangible assets? Marketers have traditionally used to create the reflections to calculate such financial returns but still there are ambiguities about the accuracy of these returns. Krasnikov, Mishra & Orozco (2009) found the strong positive impact of brand awareness and brand association among the customers on the financial return of the company, further they suggested that there is a need to develop the better instruments to calculate the financial return. Thus the researchers are having a focus on this issue these days.

g) Luxury Brands

Social motivation has been a very big concern of marketing researchers. A continuous research to explore the determinants of social motivation exists in sociology as well as marketing. One of these determinants found in marketing is luxury brand. Research for the luxury brand is an emerging research area in marketing. Wilcox, Kim and Sen, (2008) stress that the more research is required on Luxury brand management for example the consumption behavior in context of luxury Brands.

Theoretical perspective

h) Theoretical tool box sustain the marketing research

Traditionally it has been considered that the marketing scholars have not taken sufficient interest in the theory development. It becomes a hinderance in the adequate contribution of marketing in the area of strategic management. Marketing scholars have to focus in the development of theory. Connelly and Jr (2011) argued that the theories transaction cost economics, resource dependence theory, agency theory, population ecology, institutional theory, the resource-based view of the firm, upper echelons theory, social network theory, and signaling theory can offer the foundations for sustainability of marketing.

i) Theory Development

When we opt for theory development we have two options we can take some grounds for research and come up with the rational findings it is called deduction, another way is to develop a theory is by observations in this method a systematic process is involved. For example Locke (2007) suggested in his study we can develop the theory by starting the game with some philosophical truth in second step we should arrange the data which is collected through observation, on the basis of this data we should formulate a concept, and now at this stage we must have casual evidence for our concept then we should argue from the existing literature for example from other theories or sources, at the end we have to integrate our findings and decide on the boundary conditions for our theory. Advancement of theory always remains an emerging area not only in marketing but in whole management literature.

III. Methodology

In this paper we have surveyed the literature and then come up with some of the emerging areas in the research of marketing. The research papers from the last 3 years were reviewed and tried to come up with brief and compact findings which would be helpful for new researchers.

IV. Conclusion

In this paper we have identified different emerging areas of the research in perspective of marketing. And we have arrived at the result that there are so many areas which are still unexplored and it is the source of encouragement for new scholars. To take it as challenge to explore constructs, and play a role in advancement of marketing theories.

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Global Journal of Management and Business Research
Volume 12 Issue 13 Version 1.0 Year 2012
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Developing and Testing a Model of Antecedents and Consequences of Organization Commitment

By Ghazala Naz, Abid Ali, Imran Afzal & Zia-ur-rehman

Preston University Islamabad

Abstract - This purpose of this paper is to investigate and scrutinizes the antecedents of organization commitment and its outcomes in the major universities of Islamabad. This study used stratified sampling method sample size consisted of 250 employees of four major Universities of Islamabad (CIIT, MAJU, AIR, Preston). This study used a questionnaire to collect data which comprised of the questions regarding antecedents of organization commitment and its consequences using 5 point Likert scale. A total of 210 valid questionnaires were received with a response rate of 84%. Data was analyzed through different statistical software and tools such as SPSS and AMOS (Analysis of Moment Structure) for model analysis and Structural equation modeling.

Keywords : Organization Commitment, Team Work, Knowledge Management, Organization Performance.

GJMBR-A Classification : FOR Code: 150311 150312 JEL Code: L16, M12

DEVELOPINGANDTESTINGAMODELOFANTECEDENTSANDCONSEQUENCESOFORGANIZATIONCOMMITMENT

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Developing and Testing a Model of Antecedents and Consequences of Organization Commitment

Ghazala Naz[α], Abid Ali[σ], Imran Afzal[ρ] & Zia-ur-rehman[Ѡ]

Abstract - This purpose of this paper is to investigate and scrutinizes the antecedents of organization commitment and its outcomes in the major universities of Islamabad. This study used stratified sampling method sample size consisted of 250 employees of four major Universities of Islamabad (CIIT, MAJU, AIR, Preston). This study used a questionnaire to collect data which comprised of the questions regarding antecedents of organization commitment and its consequences using 5 point Likert scale. A total of 210 valid questionnaires were received with a response rate of 84%. Data was analyzed through different statistical software and tools such as SPSS and AMOS (Analysis of Moment Structure) for model analysis and Structural equation modeling. Confirmatory Factor Analysis was used to confirm the validity of the instrument. The conceptual model of the study was tested and analyzed through AMOS. The result reveals that there is a positive and significant effect of the variables viz. knowledge management, team work, on organization commitment. The study further revealed a positive and significant effect of organization commitment on organization performance. After the analysis of research conducted in different universities of Islamabad it is recommended that executives need to develop such system in which the management and distribution of knowledge must be easily assessable to all levels within the organization.

Keywords : Organization Commitment, Team Work, Knowledge Management, Organization Performance.

I. Introduction

It's generally accepted by the organizational theorists that human resource is the most imperative asset of an organization because things has to done through employees. In other terms, the achievement of any organization in realizing its objectives actually depends upon the performance of its employees. Performance is considered to be related with the concepts of ability, opportunity, motivation and commitment. All organizations, whether public or private, need satisfied as well as committed employees to be effective and efficient in their execution, in addition to the other factors. Employees, who are dedicated, work vigorously and creatively toward the accomplishment of organizational goals is one of the most important inputs to organizational success. Consequently, the challenge for organizations is to ensure that their employees are satisfied and hence committed towards the accomplishment of organizational goals.

Human resource is a very significant and unique asset of an organization. The victorious management of any organization's human assets is very important, exciting and challenging task, especially at the instant when world has become a global village and economies are in stage of change. The lack of talented and committed employees in the growing prospects of the modern day worker has additionally increased the involvement of the human resource management and execution of its function.

Impact of knowledge management on organization commitment is very important and interesting issue to be researched throughout the world especially in Pakistan. It has been observed and summarized that teams are easy to form and simple to manage, capable of producing mutually efficient and effective outcomes. Organization performance is defined as overall performance of organization and expansion in the growth of firm's sales, increase in market share, number of customers and profit on investment.

a) Problem Statement

"This study aims to find out as to how knowledge Management, Team Work, improve Organizational commitment, it also finds out the effect of organization commitment on organization performance."

b) Research objectives

- To identify relationship between Knowledge Management and Organizational Commitment.
- To know the effect of team work on organizational commitment.
- To explore the relationship between organization commitment and its impact on organization performance.

II. Literature Review

a) Knowledge Management

Knowledge management is defined as how the executives can produce, communicate as well as use knowledge for the benefit of organization and individuals

Author α : Department of Management Sciences Preston University Islamabad Pakistan.
Author σ : Department of Management Sciences Muhammad Ali Jinnah University Islamabad Pakistan.
Author ρ : Government College University Lahore.

it highlights not only the significance of Knowledge Management, but also identify its importance for individuals and managerial actions (Bailey & Clarke, 2000). In the last two decades management gurus and academicians have researched knowledge management as an instrument for the achievement of innovation and competitiveness. In any economy the source for long-term competitive advantage is knowledge (Nonaka, 1998) cited in (Koh et al., 2005).

b) Team Work

Team performance requires time to develop, team required leadership which is important for building a team and maintaining team development through different stages (Ingram, 1996). Many writers suggest teams are very simple to formulate and manage, competent of producing outcomes, efficiently and effectively. In actual there are certain problems incorporated in team that includes, negative synergy, lack of accurate and quick decision making, role conflict, and unclear goals. Team was not cost effective sometime as lots of team members don't work up to the mark as they think team will do their work. This above mentioned concept is known as social loafing. This is the phenomena that two people might be better than one, but the quality of decision making and management of goals and team structure of individual member is more useful and accurate than of two members participating in a team. Collaboration has been required to make sure that unity of purpose was both structured and worked toward and appropriate feedback to all group members has been important to team (Staniforth & West, 1995).

c) Organization Commitment

This research has been conducted in twenty private manufacturing companies in Igbo states Nigeria regarding the relationship among working conditions and employee commitments. The finding of this study showed that these manufacturing firms have the potential to make contribution in industrial future. There are number of workers who are satisfied because of the extrinsic equity factors of work which found to be a strongest interpreter of employee commitment as compare to intrinsic components. To build a strong and competent workforce in an enterprise success and industrial growth entrepreneur must invest in the long term objectives of the workforce and balance their interests accordingly (Ukaegbu, 2000). In this study the researcher has examined the impact of employee commitment on individual non work career satisfaction. Data upon employee's attitudes has pointed out that the individual consequences of employee's commitment has been positively supported the concept that emotional attachment to a work organization will yield personal benefit of individual. These findings disagree with the concept people unavoidably pay a higher personal cost for higher level of commitment (Romzek, 1989).

d) Organization Performance

Analysis of performance and its measurement is vital for navigating the organization to comprehend its strategic as well as operational goals. And afterward the performance indicator and their relationship with goals and action have to be established and analyzed. Existing organization doesn't reflect the modeling approach in accurate manner. This research paper attempted to fill the gap between organization performance indicators, in organizational modeling framework. (Popova & Sharpanskykh, 2010). For turning organizational goal to reality by measuring and analyzing organizational performance plays a vital role. Performance is evaluated by estimation of qualitative and quantitative indication such as number of customers, profit and cost incurred by organization. (Popova & Sharpanskykh, 2010). In this research study it is suggested that compound measure of performance has been reflected more precisely the organization performance as opposed only quantitative or financial measures. Organization performance was defined as overall performance of organization and expansion in the growth in sale of firm, increase in market share, number of customers and profit in investment. (Photis & Panayides, 2007)

III. Methodology

a) Sample

The variability in the targeted population was less as the population was comprised of the employees of universities situated in Islamabad city i.e. CIIT, Preston, MAJU and Air university. For collection of data a cross-sectional survey questionnaire was administrated in universities of Islamabad. The researcher administrated questionnaires among the administration and faculty members who have sufficient knowledge about the area being research. Overall, response rate was (210 questionnaires) 84%. The sample size as well as the response rate obtained from respondents in the research study enhanced the validity and reliability of the results.

b) Instrument

In this study the researcher have used the 5 likert-type scale ranging from "Strongly agree" (weighted 1) to "Strongly disagree" (weighted 5). Organizational commitment has been reviewed by using a measure that was developed by (Mowday, Steers, & Porter, 1979) using fourteen items through likert-type responses inquired into each dimension respondent were asked to rate the items on 1-5 Likert scale.

The instrument developed by the (Choi & Lee 2000) was used to measure Knowledge Management that was comprised of four items and respondent were asked to rate the items on 1-5 Likert scale.

In this research study the scale for team work has been taken from the customized version Operating Room Management Attitudes Questionnaire (ORMAQ) (Helmreich, Sexton & Merritt 1997) cited in (Flin, R., et al. 2003)). Nine items likert-type scale respondent were asked to rate the items on 1-5 Likert scale.

Organization performance has been measured by using the scale of (Lopez et al., 2005; Kaplan & Norton., 1992) 5 items Organization performance scale in which respondent were asked to rate the items on 1-5 likert scale which consist of ten items and have certain subscales.

AMOS module is also available with SPSS software to use SME. AMOS is used to test the overall model developed by researchers.

c) Research Model

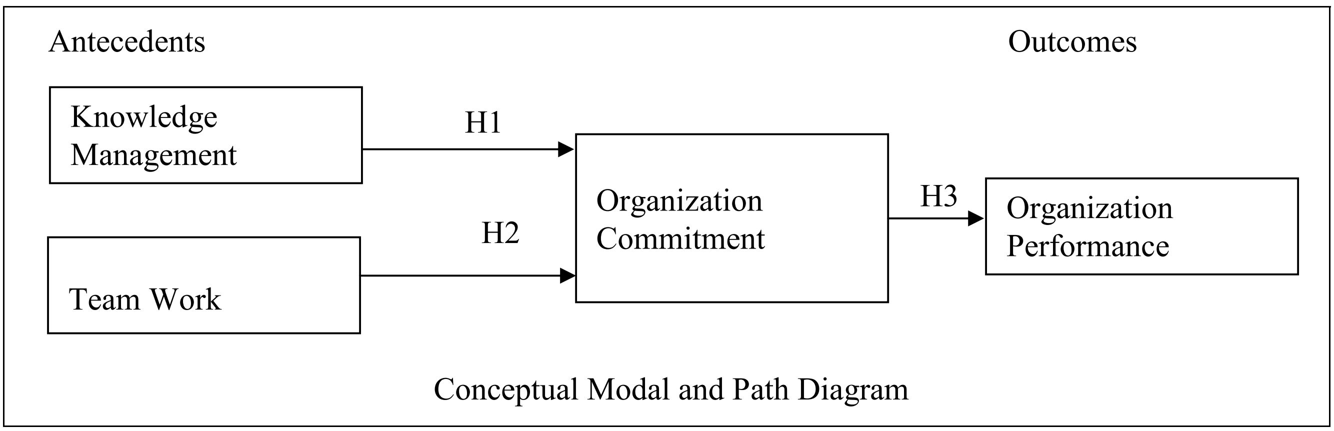


Figure 1 : Proposed model of antecedent and consequences of organization commitment

d) Demographic frequency table

Table 1 signifies the demographic details of the respondent's demographics variable are described as the characteristics of a human population. In this research study the demographics variable its frequency and percentage is given in the Table 1.

Table 1 : Demographic details of the participants

Variable	Category	Frequency	Percentage
Gender	Male	130	61.9
	Female	80	38.1
Age Group	Under 20	2	1
	21-30 Years	130	61.9
	31-40 Years	51	24.3
	41-50 Years	8	3.8
	51-60 Years	11	5.2
	61 Years and Older	8	3.8
Marital Status	Single	119	56.7
	Married	90	42.9
	Divorced	1	0.5
Universities	CIIT	113	53.8
	Air University	33	15.76
	IIU	1	0.5

	MAJU	11	5.2
	Preston	52	24.8
Year of Experience	Less than 1 Year	25	11.9
	1-3 Years	74	35.2
	4-6 Years	61	29
	7-10 Years	18	8.6
	11-15 Years	13	6.2
	16-20 Years	4	1.9
	21 Years or longer	15	7.1

e) Correlation matrix (Pearson)

Table 2 shows the result of descriptive statistics as well as the correlation coefficients between the variables of the study. n = 210

Table 2 : Descriptive statistic and coefficient of correlation

	Mean	Std. Deviation	OC	KM	TW	OP
OC	2.13	.655	1			
KM	2.24	.695	.485**	1		
TW	2.12	.525	.466**	.430**	1	
OP	2.02	.458	.421**	.457**	.304**	1

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

Organization commitment and knowledge management are significantly correlated ($p<.01$) and have positively moderate relationship between them value is (0.485**). Evident from the result Organization commitment and Team work significantly correlated ($p<.01$). There is positive and moderate relationship (.466) between organization commitment and team work. Organization commitment and organization performance have significant relationship between them ($p<.01$) and the value (0.421**) shows positively moderate relationship.

f) Knowledge Management

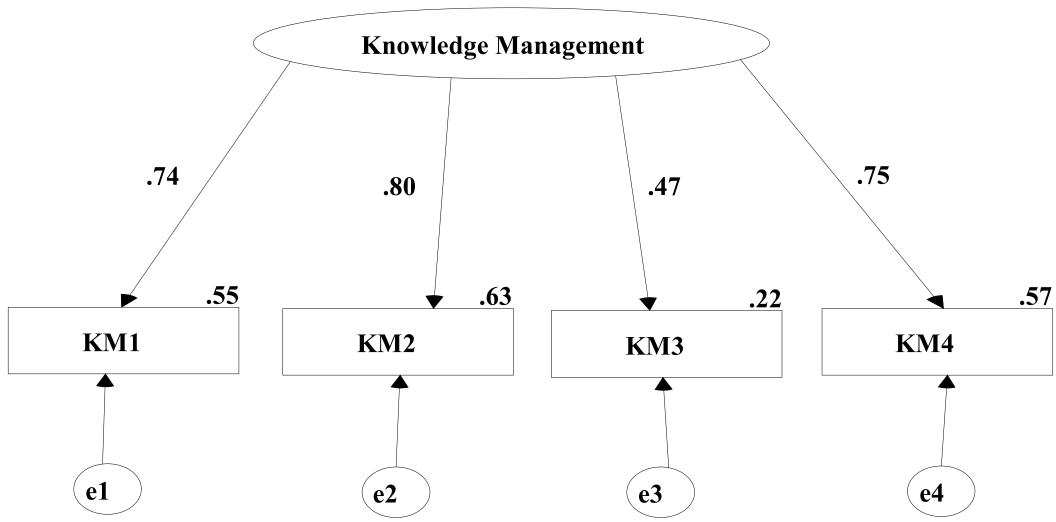
KM was presented by four items and the result is based on the CAF (Table 3) the constructs of KM indicate an excellent fit of 16.871 where the degree of freedom =2, $p<0.001$ the value of $\chi 2$/df ratio was 8.435. The goodness fit (GFI), adjusted goodness of fit (AGFI), comparative fit index, Tucker-Lewis coefficient (TLI) indices was 0.961, 0.806, 0.942, 0.827. The values if these scores are close to 1.0 that shows the perfect fit. (Bentler, 1992, Bentler & Bonett 1987).

Table 3

$\chi 2$	df	p-value	$\chi 2$/df	GFI	AGFI	CFI	TLI	RMSEA	PCFI	AIC
16.871	2	.000	8.435	.961	.806	.942	.827	.189	.314	32.871

While considering the factor loading the standardize coefficient estimates values was between 0.466-0.795. Which is consider good because it's above acceptable level of 0.3 having p-value<0.001. R-squared values are (0.55, 0.63, 0.22, 0.57,) that specify the percentage of variation in each indicator (KM1, KM2, KM3, KM4,) that was explicate by the factor KM. from the analysis of result it's found that the KM2 represent the best indicator for this construct having value 0.08 which is pursued by KM4 having value of 0.75, and among them lowest is KM3. The best indicator of KM the two best highest values represent the "Knowledge shared in from of well codified and documented manuals" and these four items measure the construct "Knowledge Management".

Figure 2 : Statistic results and factor loading of knowledge management



g) Team Work

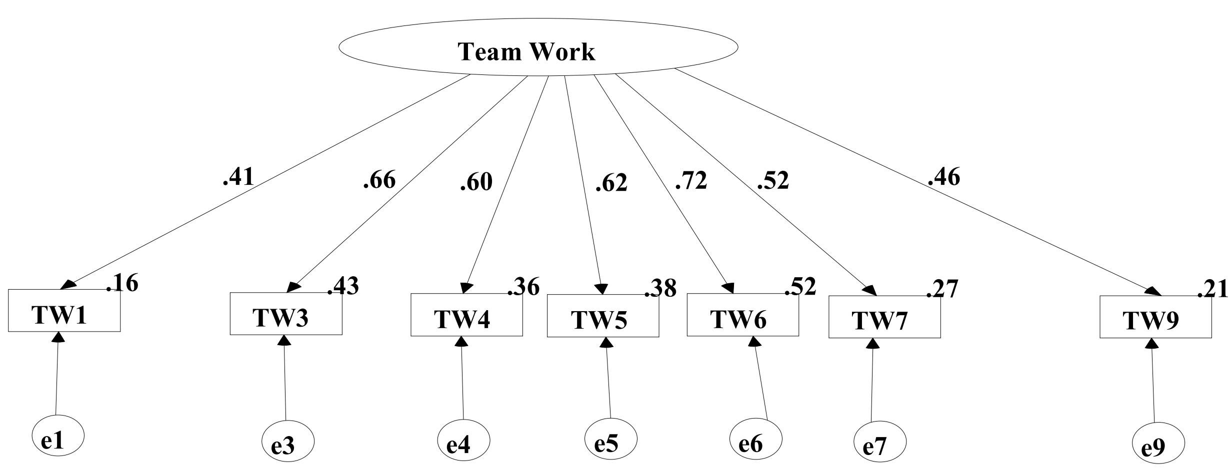
TW is presented by nine items and based on result of the CFA (Table 4) TW constructs indicates an excellent fit with χ2 statistic of 81.061 (degree of freedom =27, p<0.001) with the χ2/df ratio having a value of 3.002. The goodness fit index (GFI) was .920, adjusted goodness of fit index (AGFI) was .867, comparative fit index (CFI) was .839, and Tucker-Lewis coefficient (TLI) was .785. The next set of fit statistics focus on the root mean square error of approximation (RMSEA) which is .098.

Table 4

χ2	df	p-value	χ2/df	GFI	AGFI	CFI	TLI	RMSEA	PCFI	AIC
26.338	14	.023	1.881	.965	.930	.958	.937	.065	.639	54.338

According to the factor loadings analysis the SCE are (.164, .431, .357, .381, .524, .272, .212) these all are considered good. The R-squared value of each indicator was (.16, .43, .36, .38, .52, .27, .21) of this constructs which are graphically displayed in (Figure 2) which indicates percentage of variation in each indicator (TW1, TW3, TW4, TW5, TW6, TW7, TW9) that was analyzed by the factor TW. From the analysis of result it's found that the open discussion among team members to resolve the problem (TW6) is best indicator having value 0.72 and among them lowest is TW7.

Figure 3 : Statistic results and factor loading of team work



h) Organization Commitment

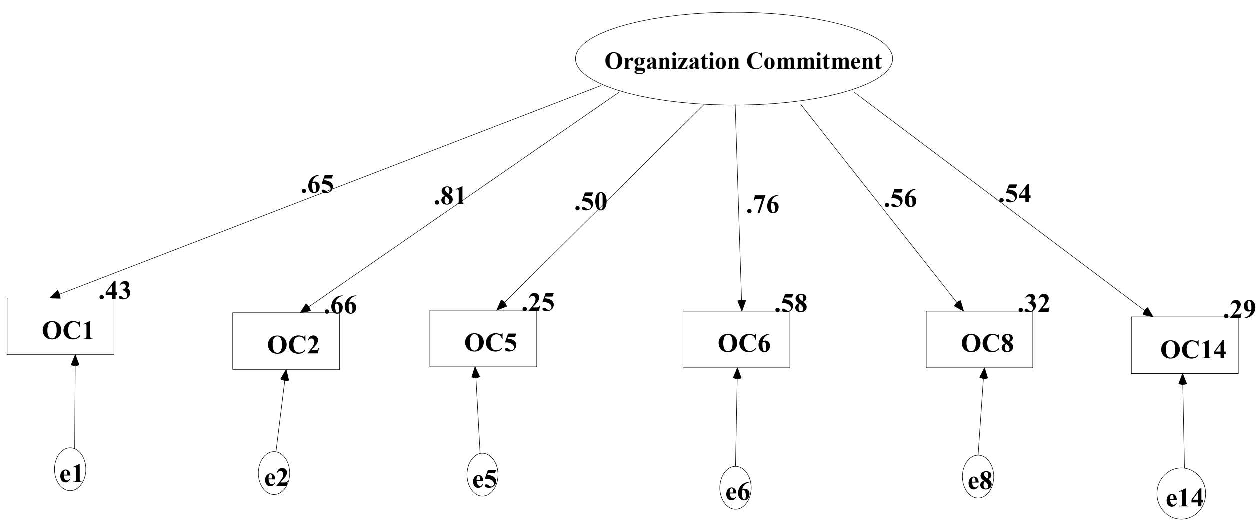
OC is presented by six items and based on result of the CFA (Table 5) OC constructs indicates an excellent fit with χ2 statistic of 33.618 (degree of freedom = 9, p<0.001) with the χ2/df ratio having a value of 3.735. The goodness fit index (GFI) was .948, adjusted goodness of fit index (AGFI) was .878, comparative fit index (CFI) was .933, and Tucker-Lewis coefficient (TLI) was .888. The next set of fit statistics focus on the root mean square error of approximation (RMSEA) which is .114.

Table 5

χ2	df	p-value	χ2/df	GFI	AGFI	CFI	TLI	RMSEA	PCFI	AIC
33.618	9	.000	3.735	.948	.878	.933	.888	.114	.560	57.618

According to the factor loadings analysis the SCE are (.652, .809, .501, .761, .562, .53) these all are considered good. The R-squared value of each indicator was (.43, .66, .25, .58, .32, .29) of this constructs which are graphically displayed in (Figure 3) which indicates percentage of variation in each indicator (OC1 OC2 OC3 OC4 OC5 OC6) that was analyzed by the factor OC From the analysis of result it's found that presenting your organization as best in front of friends (OC2) is best indicator having value 0.81 and among them lowest is OC5.

Figure 4 : Statistic results and factor loading of organization commitment



i) Organization Performance:

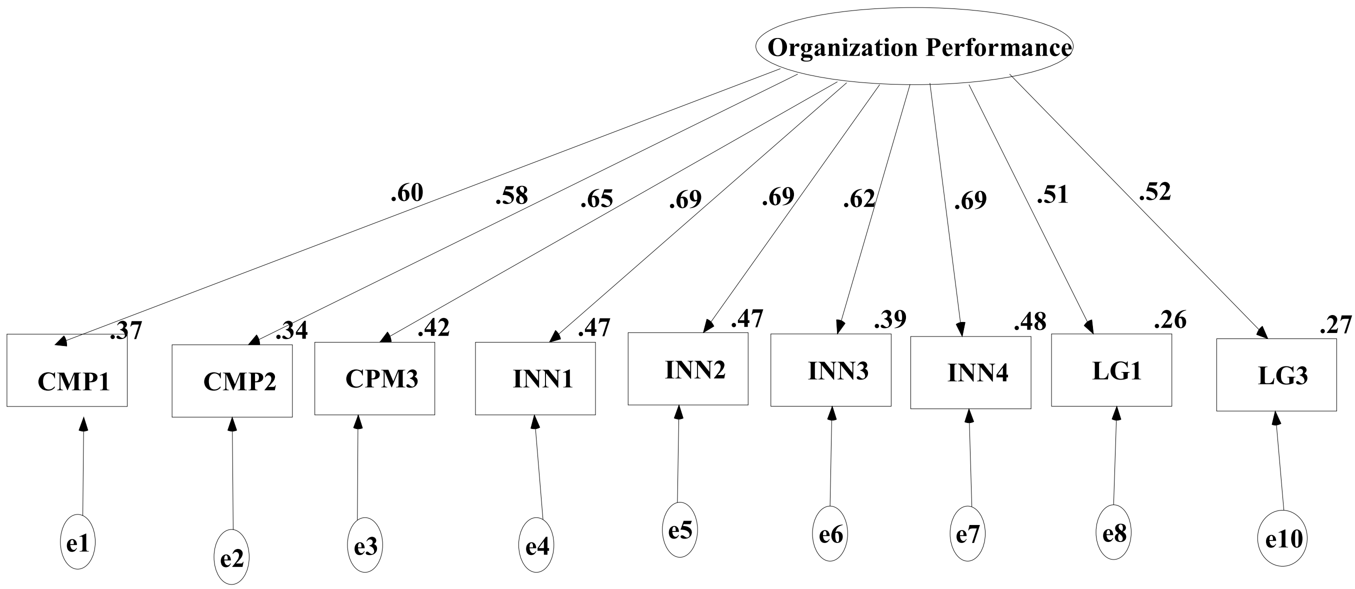
OP is presented by nine items and based on result of the CFA (Table 6) OP constructs indicates an excellent fit with χ2 statistic of 132.722 (degree of freedom = 27, p<0.001) with the χ2/df ratio having a value of 4.91. The goodness fit index (GFI) was .870, adjusted goodness of fit index (AGFI) was .784, comparative fit index (CFI) was .830, and Tucker-Lewis coefficient (TLI) was .774. The next set of fit statistics focus on the root mean square error of approximation (RMSEA) which is .137.

Table 6

χ2	df	p-value	χ2/df	GFI	AGFI	CFI	TLI	RMSEA	PCFI	AIC
132.722	27	.000	4.91	.870	.748	.830	.774	.137	.623	168.722

According to the factor loadings analysis the SCE are (.605, .581, .649, .686, .687, .621, .689, .513, .523) these all are considered good. The R-squared value of each indicator was (.37, .34, .42, .47, .39, .48, .26, .27) of this constructs which are graphically displayed in (Figure 4) which indicates percentage of variation in each indicator (CMP1 CMP2 CMP3 INN1 INN2 INN3 INN4 LG1 LG3) that was analyzed by the factor OP From the analysis of result it's found that Your Organization continually experiment new ideas and approaches on work performance (INN4) is best indicator having value 0.69 and among them lowest is LG1.Chi-Square= 132.722

Figure 4 : Statistic results and factor loading of organization performance



j) Model Testing

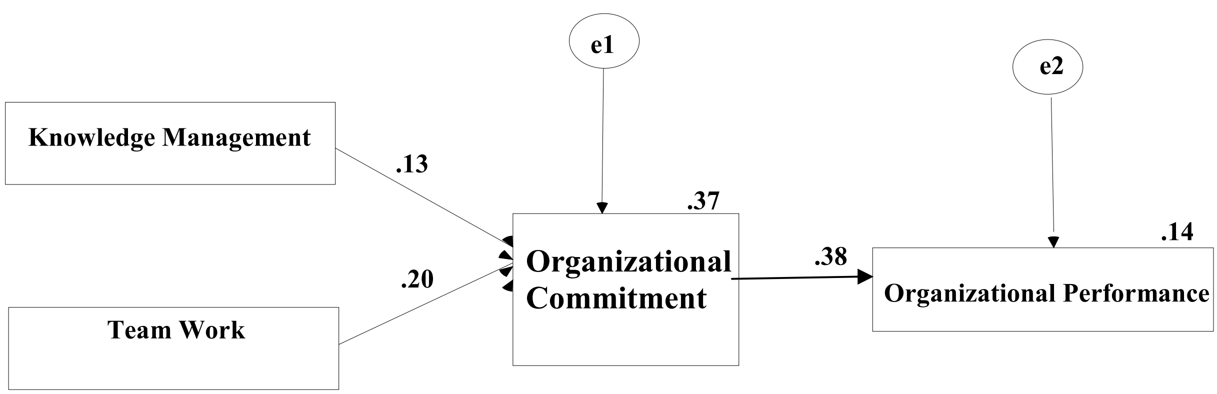


Figure 5 : standardized path coefficient of antecedents and consequences of organization Commitment

Table 7

χ2	df	p-value	χ2/df	GFI	AGFI	CFI	TLI	RMSEA	PCFI	AIC
257.937	15	.000	17.19	.702	.444	.544	.362	.278	.398	283.937

k) Hypotheses Testing

Values of standardized regression Weights has been given in table 8 at (p<0.5)* and (p<.01) ** on the basis of these values hypothesis has been accepted and rejected.

Table 8 : Standardized Regression Weights

			Estimate	S.E.	C.R.	Results
OC	<---	KM	.177*	.044	2.525	Accepted
OC	<---	TW	.297**	.059	4.739	Accepted
OP	<---	OC	.305**	.063	4.637	Accepted

(p<.05)* (p<.01) **

H1: Knowledge Management has significant effect on organization commitment.

The value of standardized regression estimate for KM-OC model is 0.177 which indicates that organization commitment changes by 0.177 units by the unit change in knowledge management. The value of standardized regression estimate (β) is significant (p<.05) which indicates that knowledge management has a significant impact on organizational commitment. The hypothesis H1 is therefore accepted.

H2: Team Work has significant effect on organization commitment.

The value of standardized regression estimate (β) for TW-OC model is 0.297 which indicates that unit change in team work brings change in organization commitment by 0.297 units. The value of standardized regression estimate (β) is highly significant (p<.01) which indicates that team work has a significant impact on organization commitment. Therefore the hypothesis H2 is accepted.

H3: Organization Commitment has significant effect on organization performance.

The value of standardized regression estimate (β) for OC-OP model is 0.305 which indicates that unit change in Organization Commitment brings change in Organization performance by 0.305 units. The value of standardized regression estimate (β) is highly significant (p<.01) which indicates that organization commitment has a significant impact on organization performance. Therefore the hypothesis H5 is accepted.

IV. Discussion & Managerial Implication

To remain competitive and enhance organizational commitment, it is imperative to engage workforce which is skilled, possess knowledge and imbued with the passion to grow in their career pursuit. Employees imbued with these capabilities would be generally committed towards organizational goals. They would understand that personal objectives alignment with organizational goals is a hall mark to achieve win-win situation. The results of this study also support this management concepts (R=.18) which reveals that 18% change take place in organizational commitment having knowledge employees. It therefore, becomes sestina that to engender knowledge management and develop motivated workforce, organization need to engage knowledge employees. It would provide them competitive edge. The results of this study are in line with the work done by various scholars. Research in this area also highlights the improved understanding that what might be the factors that motivates employees to share their knowledge at work. In accordance with (Hislop, 2003) it has been suggested that organization commitment is very important variable that influence knowledge management initiatives as well as the employees attitude towards sharing knowledge with others.

In current management practices, usage of employee's abilities is being accorded greater significance. Committed employee would think and act in a most dynamic manner however, using his full potentials. Once there potentials are harnessed in a team work, it has provided impetus to the organizational growth. Since employees in team own their responsibilities therefore, they demonstrate full commitment towards their assigned task. It facilitates organizations to make best use of the potential in a team segment. This study also supports this concept of team work and organizational commitment through demonstration of the results of these two variables in form of (R) value is (.30), which means that harnessing of team work would improve organizational commitment by 30%. Results of this study are also supported by the work done by the different scholars. In accordance with the study of (Elloy, 2005) the result of the research enlighten that the team which were led by the leaders who actually have the characteristics to be super leader have higher level of organization commitment self-esteem and job satisfaction.

Committed workforce would finally contribute towards the enhancement of organization performance. There could be improvement in the process, introducing new functions and undertaking various odious tasks willingly that will result in the organization performance in monetary terms. Result of this study shows that as regard to the organizational commitment and organizational performance (R=.31) it means 31% variation would be observed if the employees are motivated and will lead to higher organization performance. Study done by other scholar in the same context proved similar results (Steyrer, Schiffinger, & Lang, 2008) that show the organizational commitment have significant relationship with organizational performance for all engaged performance measures.

V. Limitations And Delimiting Factors

While this study has provided valuable insight, there are some limitations, which may limit generalisability:

- This research is based on data from different universities of Islamabad that permits the researcher to collect all data from faculty members of all universities of Pakistan. The obtained information was summarized on the information collected from the faculty members of four different universities situated in Islamabad.
- Due to limited time period and financial resources this study was conducted on a sample size of 250 faculty members of four different universities. This sample size is not sufficient to imitate analysis of Organizational commitment of all universities that are operating in Islamabad.

- The method used for data collection is commonly used in research study, i.e. questionnaire methods. Different methods can be used for data collection which includes face to face interviews, group discussion and if we change the instrument we might have different results from same sample.
- The four major universities of Islamabad have been taken as a sample, among these universities three were private and one semi government (Public) university, researcher analyzed the data generally. There wasn't any comparison that has been conducted between universities because of the difference in the nature and characteristics of universities.

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Global Journal of Management and Business Research
Volume 12 Issue 13 Version 1.0 Year 2012
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

The Roles of Record Keeping In the Survival and Growth of Small Scale Enterprises in Ijumu Local Government Area of Kogi State

By Ademola, G. Olukotun, Samuel O. James & Ifedolapo Olore

Kogi State University, Anyigba.

Abstract - Record keeping is the recording of business transactions in systematic manner so that the financial position of an organization can be ascertained at any point in time. It has become the foundation on which modern businesses depends. The objective of this paper therefore is to look at the records to be kept by an organization, their features and the importance of book/record keeping to the growth of an organization. Data were collected using the primary and secondary sources. The primary sources include the use of questionnaire and personal interview while existing literature forms the bulk of the secondary source. The data collected were presented using table while chi-square was used in analyzing the data. It was found out from the data analysis that majority of our respondents do not keep business records and therefore do not even know whether their businesses are growing or not. It is therefore recommended that small scale entrepreneurs to keep up to date and accurate records of their business.

Keywords : Bookkeeping, Growth, Survival, Entrepreneurs, Small Scale.

GJMBR-A Classification : FOR Code: 150312,150302 JEL Code: L25, L22, L53

THEROLESOFRECORDKEEPINGINTHESURVIVALANDGROWTHOFSMALLSCALEENTERPRISESINIJUMULOCALGOVERNMENTAREAOFKOGISTATE

Strictly as per the compliance and regulations of:

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I. Background To The Study

Sometimes in October, 2000 a workshop was organized for about a hundred and twenty (120) participants. It was on a Thursday and all of them were asked to accurately say how much money they had spent between Monday and that time on thursday. After thinking about three to four minutes, many of them started mentioning various amounts but immediately they mentioned them, they'll remember they did not include some items and they give another figure. This went on and on for the next three minutes.

Then, the participants were asked to write down what they had spent between monday and thursday. After about ten minutes, they ALL AGREED that they couldn't accurately remember what they had spent between that period of time. We asked them why? While some chorused "because we did not write them down" others chorused "because we did not keep the records".

This therefore, goes to show that record keeping is not only inevitable for individuals, it is the organizations life wire. If nothing at all, from the above, record keeping helps us to know what is spent and what it is spent for. This is the crux of this paper – examining the roles and importance of record keeping in the survival and growth of small scale enterprises.

It is very interesting to note that even in the Bible, record keeping is of great importance to God and to individuals. In the Book of Esther chapter 6:1, we read that the king could not sleep and he commanded to bring "the book of records" and it was found "written" in the Book, how Modecai saved the life of king Ahasuerus. That was how Modecai, already destined to be killed was honoured. The importance of record keeping can therefore, not be overemphasized both in our contemporary lives and particularly in our businesses.

Jesus Christ was able to overcome the temptation of Satan through the WRITTEN WORDS. When Satan tempted him at first, Jesus replied "it is written" (Mathew 4:4). Again, to the second temptation, Jesus answered again, that "It is written" (Mathew 4:10) and finally to the final temptation, Jesus answered again that "it is written". This goes to show the importance of written records at all times.

In Islam, the issue of record keeping is important. Even though, the words written records were not used, the Quran used words like Prescribed, Decreed and Ordained. For example, in the holy Quran, sura 2 v 183, it was written there that fasting has been prescribed to you as it was to the people before you. This means that fasting has long been written for them to observe.

a) A Brief History On Ijumu Local Government

Ijumu local government with its headquarter at Iyara was re-created in 1991. It was first created in the old Kwara in 1983 but was scrapped in 1984 by the then military government. The council consists of 16 wards. By the 2006 population census, the local government had a population of 119,929.

Author α: Department Of Banking and Finance, Faculty of Management Sciences, Kogi State University, Anyigba.
E-mail : olukgaby@yahoo.ccom
Author σ : Department Of Banking And Finance, Faculty Of Management Sciences, Kogi State University, Anyigba.
Author ρ : Department Of Banking And Finance, Faculty Of Management Sciences, Kogi State University, Anyigba.

The local government (LG) has natural resource endowment. The minerals include clay, columbite, dolomite, cassiterite (tin ore), kaolin, marble, tantalite, cashew, palmoil, plantain, cocoa e.t.c. The LG also has great agricultural potentials i.e. arable land farm is available in large quantity. However, the people of the local government are enjoying the quality of life they should. They live in poverty and are not enjoying the basic necessities of life.

In the field of education, the local government is constrained by dilapidated classrooms, congestion, unacceptable students-teachers ratio, inadequate teaching and learning materials and facilities. All these hinder the provision of qualitative basic education.

In the area of health, there are only 40 health facilities in the local government, relative to its population of 119,929 (a ratio of 1:2900). This is high, unacceptable and is responsible for the decline in health care delivery.

Agriculture is still at the subsistence level, thereby making farmers and members of the local government vulnerable to poverty. This invariably hinders food security in homes and invariably, the entire local government.

In the area of rural infrastructure, most of the communities (particularly the agricultural communities) are inadequately linked by feeder roads to the market. Access to safe drinking water is also constrained by incessant breakdown of hand pump boreholes and erratic electricity supply to the state owned water works in the L.G.A. headquarters.

In the area of rural market, farm produce are exchanged in many of its rural markets scattered around the communities-but the market lacked the basic physical features of a market, such as permanent structures (lock up shops, sanitary facilities, e.t.c.).

The absence or near absence of all these, i.e. the inability of the rural population to access quality livelihood, safe drinking water, health care facilities, energy, required nutrition, basic education, motorable roads, sanitary facilities and markets has left majority of the local government at the mercy of poverty. The widows, orphans, abandoned children and the physically challenged are most vulnerable to the burden of poverty.

From the above scenario, the local government realized that one of the things to do to reduce rural poverty was to support the establishment of small scale enterprises. In other words, it realized the need for the transformation of the local government from the predominant agrarian economy to the supportive secondary and tertiary productive sectors. This transformation can best be achieved through a well developed, appropriate and articulated small and medium enterprises (SMEs) scheme. The local government was therefore to create the enabling environment for the development of SMEs through private public partnership. The local government promised to support the establishment of 100 SMEs in 2011, 50 cassava processing enterprises, oil palm processing and cashew production.

Much as the local government was desirous to assist the SMEs because of the significant roles they can play in reducing unemployment, youth restlessness and invariably rural poverty, the SMEs have not been living up to expectations. Many of them failed within the first year of their establishment. The problem arose majorly from management incompetence. On further investigation, it was revealed that most of the owners lack elementary knowledge of book keeping and the people employed by them were not better either. What effect has it had on the local governments attempt at transforming the rural areas?

b) *Statement of Research Problem*

Many authors have written on the subject of small scale business failure. Many reasons have been given for their failures. The problem however, remains that many of the authors did not link business failure to the lack of or inadequate record keeping.

According to Uzoma (1991), the causes of business failure includes competition, lack of capital, location and premature expansion. Osagbemi (1981) assets that the major factors responsible for small business failure includes lack of luck, insufficient money, insufficient preparation, lack of business connections, low level of business education, lack of experience, poor health, lack of managerial ability etc. According to Osuala (1993), the causes of business failure includes management incompetence, lack of experience, lack of capital, over investment in fixed assets, poor customer credit practices, unplanned expansion and improper attitudes such as laziness, extensive vacationing, over-extension and unethical behaviour.

Infact, according to Onuoha (1998) in their survey of over 317 entrepreneurs in Aba, Nnewi, Onitsha, and Porthacourt, it was discovered that the following were given as the reasons for business failures – lack of capital, inadequate sales, insufficient preparation, heavy operating costs, inventory difficulties, lack of business connections, bad debts, lack of management ability, poor credit practices, lack of luck, low level of business education, poor location, unplanned expansion programmes, poor health and poor knowledge of the market. Most of these authors saw business failure arising from reasons other than those related to record keeping.

However, in recent times, increased attention has been focused on the importance of inadequate record keeping as a source of business failure.

In 1993, Dun and Bradstreet a company that operates a credit rating service in the United States conducted a survey of what they considered to be the causes of business failure. The result showed that finance accounted for 47.3%, Economic factors 37.1%, Disaster 6.3%, Neglect 6.3%, Fraud 3.8%, Strategy 1.0%, and Experience 0.6%, (Longenecker, Moore, Petty, 1997).

The crux of this research work therefore, is to look at the importance of record keeping to the growth and survival of some selected small scale business organizations in Ijumu Local Government Area of Kogi State.

i. *Objectives of the study*

The objectives of this paper include:

1. An examination of the role of small scale enterprises in the economy.
2. To examine the objectives of record keeping by an organization, the records to be kept and the basic features of such records.
3. To examine the role of record keeping to the growth and survival of small scale enterprises.

ii. *Hypothesis formulation*

A hypothesis was formulated for testing

Ho: Inadequate record keeping does not have any significant effect on the growth and survival of small scale enterprises in Ijumu Local Government Area.

Hi: Inadequate record keeping has significant effect on the growth and survival of small scale enterprises in Ijumu Local Government Area.

II. Literature Review

Small scale enterprises has been defined variously by many individuals and institution using various yardsticks such as numbers of employees, volume of sales, value of assets, or the volume of deposit in banks.

Central Bank of Nigeria defined small scale enterprises as all businesses with a total assets investment of less than one million, an annual turnover of less than one million and with a total number of employees of less than fifty. (World Bank Mapping 2001).

The National Economic Reconstruction Fund (NERF) defined small and medium enterprises with a criterion that projects to be financed by the firm should have a total fixed asset cost (including land) of not more than N10million.

The Industrial Research Unit of Obafemi Awolowo University defined small scale business as one whose total asset in capital, equipment and working capital are less than N250,000 and employing fewer than 50 full time workers.

The Federal Ministry of Industry (in respect of the small scale industries credit scheme) sees small scale industry as any manufacturing, processing or service industry with capital investment not exceeding N150,000 in machinery and equipment alone.

According to Atijosan (1998), a small business is any manufacturing, processing or servicing industry that satisfies any or all of the following conditions:

i) Capital, but excluding cost of land and not excluding N750,000
ii) Staff strength not exceeding 50 persons and wholly Nigerian owned
iii) A manufacturing, processing or servicing industry, exceeding the units of investment stated is relatively small compared to prevalent size of plant and the technology is fairly labour intensive.

For the purpose of this work, we shall adopt the definition of Atijosan (1998) i.e. small scale enterprises have capital of not exceeding N750,000, excluding the cost of land and having a staff strength of not more than 50 people.

The importance of small scale enterprising cannot be overemphasized in any economy. According to Onuoha (1998), their roles include – stimulation of indigenous entrepreneurship, transformation of traditional industry, creation of employment, linkage effects, utilization of resources, contributes to regional activity, and cooperation, reduction in rural-urban immigration, interdependence of business, innovation, increase in standard of living.

According to Ibenta (2005), small scale enterprises have received increasing attention in recent years because this sub-sector of the economy makes a significant contribution to employment, value-added production, feeder industry services, industrial dispersal and development of local technology. Longnecker, Moore, and Petty (1997) sees the contribution of small scale enterprises to include the provision of new jobs, introduction of innovation, stimulation of economic competition, aiding big businesses and the production of goods and services efficiently. According to Okafor, (2000), this is made possible by the SME's industrialization strategy that is characterized by small size, simple management structures, simple production technology, fast growth potentials based on the exploitation of local resources endowment.

Small scale enterprises are catalysts for catalysts for world's economic growth and development which have dominated the industrial sector of both developed and underdeveloped countries. Aruwa (2006) believed that Nigeria's industrial sector is dominated by small and medium scale enterprises (SMEs) which accounts for 90% in terms of number of enterprises, as compared with other developed countries where more than 98% of all their enterprises belong to SME sector, about 80% of the total industrial labour force in Japan is SME, 50% in Germany, 46% in USA are employed in smaller firms. Similarly the International Finance Corporation (IFC) and Corporate Affairs Commission in 2001 further justified that Nigeria's industrial sector is dominated by SMEs, estimated to be about 90% of the sector employing less than 50% of the people (HPACI 2002). Given the place occupied by the SMEs in Nigeria's industrial sector, it is expected that the success of the Nigerian economy would be partly dependent on the success of the SMEs. Nwoye (1991) pointed out clearly that SMEs are catalysts for Nigeria's economic growth and development. He believe that through so many SMEs, Nigeria has great potentials for success and growth, sales of large volume of goods e.t.c. Even though, some of them have adequate capital, many of them fail due to poor financial management operations.

Record keeping has become the foundation on which the totality of modern business depends. This is because without it, it will be impossible to ascertain the level of profitability and the level of business susceptibility to fraud. Record keeping and good record management is also essential for any corporate body to function effectively.

According to Vickery (1973), it's the art of recording pecuniary or business transactions in a regular and systematic manner. In the words of Onuoha (1998:321), it is the art of recording business transactions in such a systematic manner so that the financial position of the business can be ascertained readily at anytime.

The Longman Dictionary defined record or book keeping as writing about something or put on a computer so that the information is stored for use. Osaze and Anao (1990), Ajayi (1997), Aruwa (2005) and Reed (2005) described book or record keeping as the art of keeping record of figures of all transactions in a regular and systematic manner, such that the records kept will provide various books of account which would be in permanent form or for the purpose of providing means by which an enterprise can be conducted in an orderly manner.

Bookkeeping is the recording of financial transactions. Transactions include sales, purchases, income, and payments by an individual or organizations. Bookkeeping is usually performed by a bookkeeper. Bookkeeping should not be confused with accounting. The accounting process is usually performed by an accountant. The accountant creates reports from the recorded financial transactions recorded by the bookkeeper and files forms with government agencies. There are some common methods of bookkeeping such as the Single-entry bookkeeping system and the Double-entry bookkeeping system. But while these systems may be seen as "real" bookkeeping, any process that involves the recording of financial transactions is a bookkeeping process.

A bookkeeper (or book-keeper), also known as an accounting clerk or accounting technician, is a person who records the day-to-day financial transactions of an organization. A bookkeeper is usually responsible for writing the "daybooks." The daybooks consist of purchases, sales, receipts, and payments. The bookkeeper is responsible for ensuring all transactions are recorded in the correct day book, suppliers ledger, customers ledger and general ledger. The bookkeeper brings the books to the trial balance stage.

a) Bookkeeping systems

Two common bookkeeping systems used by businesses and other organizations are the single-entry bookkeeping system and the double-entry bookkeeping system. Single-entry bookkeeping uses only income and expense accounts, recorded primarily in a revenue and expense journal. Single-entry bookkeeping is adequate for many small businesses. Double-entry bookkeeping requires posting (recording) each transaction twice, using debits and credits.

b) Single-entry system

The primary bookkeeping record in single-entry bookkeeping is the cash book, which is similar to a checking (cheque) account register but allocates the income and expenses to various income and expense accounts. Separate account records are maintained for petty cash, accounts payable and receivable, and other relevant transactions such as inventory and travel expenses.

c) Daybooks

A daybook is a descriptive and chronological (diary-like) record of day-to-day financial transactions also called a *book of original entry*. The daybook's details must be entered formally into journals to enable posting to ledgers. Daybooks include:

- Sales daybook, for recording all the sales invoices.
- Sales credits daybook, for recording all the sales credit notes.
- Purchases daybook, for recording all the purchase invoices.
- Purchases credits daybook, for recording all the purchase credit notes.
- Cash daybook, usually known as the cash book, for recording all money received as well as money paid out. It may be split into two daybooks: receipts daybook for money received in, and payments daybook for money paid out.

d) Petty cash book

A petty cash book is a record of small value purchases usually controlled by imprest system. Items such as coffee, tea, birthday cards for employees, a few dollars if you're short on postage, are listed down in the petty cash book.

We can therefore say record keeping is the systematic control of an organizations record throughout their life cycle, in order to meet operational business needs, statutory and fiscal requirements and community expectations.

The objectives of record keeping are many. This is more so when it is realized that information is every organization's most basic and essential asset and in common with any other business asset, recorded information requires effective management. The specific objectives of record keeping include the following: Longenecker, Moore, Petty (1997:477).

1. To provide an accurate, thorough picture of operating results.
2. To permit a quick comparison of current data with prior years operating results and budgetary goals.
3. To offer financial statement for use by management, bankers and prospective creditors.
4. To facilitate the prompt filing or reports and tax returns to regulatory and tax collecting government agencies.
5. To reveal employees fraud, theft, waste and record keeping errors.
6. To allow for fast, accurate, and reliable access to records, ensuring the timely destructions of redundant information and the identification and protection of vital and historically important records.
7. It is necessary when a firm is seeking fund from a bank for expansion.

A good record keeping system has some basic features. They include the following:

1. Simple to use
2. Easy to understand
3. Reliable
4. Accurate
5. Consistent
6. Designed to provide information on a timely basis.

According to the National Archives of Scotland (2005), the guiding principle of management is to ensure that information is available when and where it is needed in an organized and efficient manner and in a well maintained environment. These principles include the fact that the records must be:

1. Accurate: records must accurately reflect the transactions they document.
2. Authentic: it must be possible to prove that records are what they purport to be.
3. Accessible: must be readily available when needed.
4. Complete: must be sufficient in content, context and structure.
5. Comprehensive: it must record the complete range of an organization's business.
6. Complaint: records must comply with any record keeping requirements resulting from legislation, audit rules etc.
7. Effective: records must be maintained for specific purposes and the information contained in them must meet those purposes.
8. Secure: records must be securely maintained to prevent unauthorized access, alteration, damage, or removal.

The records to be keep by any organization include the following:

a. Accounts receivable
b. Accounts payable
c. Accruals
d. Inventory records
e. Bank records
f. Sales records
g. Payroll records
h. Personnel records
i. Cash records
j. Purchase records

The benefits of record keeping cannot be over emphasized. According to Appleby (1978) if the records are kept over a period of time, they give background picture which can help organizational change. Continuing, he said it is not only accounting records that must be kept. Infact personal records enable an accurate evaluation of personnel to aid administration of job selection. The specific benefits of record keeping include the following:

1. It helps to avoid business failure (Onuoha 1998)
2. It is useful for financial management planning and control
3. It helps to make sound decisions
4. It gives background picture which helps organizational change.
5. It is critical to business survival

Even a study of British business failure in 1992 reported the perception of owners and overwhelmingly, the owners identified problems in operational management as the major reasons for their failures and this included poor book and record keeping, under capitalization and poor debt management.
Most small business management decisions lack careful analysis and their financial records are at best fragmentary (Longenecker et. al. 1997).

Many writers however, did not see any link between business failure, growth and survival from the point of record keeping – even though Onuoha (1998) said "to be able to ascertain the condition of the business at any point in time, there is the need to depend on accurate records and financial statements"

Clauteir and Under down (2002), H0dget (1992), Ajayi (1997), Reed (2005) and Aruwa also emphasized that small scale businesses must keep proper and adequate records or books not only for the orderly conduct of the enterprise but also because it helps entrepreneurs reduce the possibilities of early failure, increase chance of business survival, serve as a basis for planning and controlling business operations, increases the chances of profitability and also helps to keep business in a sound and healthy state to face competition. They emphasized that small scale entrepreneurs must keep the following records, if they want to succeed; source documents (invoice, receipt, bank teller e.t.c.) which are recorded in subsidiary books (purchases and sales day books e.t.c.) and posted to different ledgers (debtors, creditors and the general ledgers), and is checked by trial balance and subsequently, the final financial reports (balance sheet and income statement.)

III. Methodology

The major source of data used is the primary source. Data were collected using questionnaires. Secondary data were also used to complement whatever information was obtained from the primary data. The secondary data sources include textbooks, journals, newspapers etc.

Ijumu Local Government Area was chosen for thoroughness. Even though it is only one of the 21 local government areas in the state, whatever is obtained could be used for generalization. Non random sampling was used i.e. the five largest communities were chosen as sample because 80% of the small scale enterprises in the local government are located in those communities. Whatever is obtained here can also be used for generalization as the situation remains virtually the same all over the state.

There were too many small scale enterprises to choose from. This is because apart from pure water production, patent medicine store and possibly the running of a restaurant, most of the small scale businesses did not see the need for the registration of their businesses with the government and the law is not too forceful about it. It is therefore difficult to say with precision the number of those enterprises that obtains in the local government.

An approximate total number of 600 enterprises were in existence as at the time of the survey (approximate because a large number were not registered). Some of the figures were obtained from the umbrella organizations of the associations. The six hundred is broken down as follows-: Pure water production (8), Automobile mechanics (160), Hair dressing and barbing saloon (88), Restaurant (48), Spare part sellers (60), Provision and cosmetics stores (76), Block making industry (38), Welders (38), Business centres (38) and Patent medicine stores (46).

Non-probability sampling method (purposive sampling method) was used. This is the deliberate selection of the particular units of the universe constituting a sample on the basis that the small mass so selected out of the huge one will be typically representative of the whole. On the basis of this, it was decided that instead of going round the whole communities, it was better to choose the five largest communities in the local government and distribute the questionnaires there. The respondents so chosen are bigger and more experienced. Their answers are therefore more reliable and can be used for generalisation.

A total of 200 questionnaire were distributed in five communities in Ijumu Local Government Area of Kogi State i.e. 40 questionnaires per community. The communities chosen are Ayetoro Gbede, Iyara, Ekinrin Ade, Iyamoye and Ogidi. These communities were chosen because they are the five largest communities in the Local Government Area. A total of 172 questionnaires were returned out of which 150 were correctly filled. Our analysis is therefore based on 150 respondents.

a) Methods of data analysis

Data collected were analyzed using both the qualitative and quantitative methods.

The analytical tools used in analyzing the data collected for the study include descriptive statistics and chi-square. The descriptive statistics used were tables, percentages. Chi-square was used to test the hypothesis formulated. The formulae for chi-square used is

$$X^2 = \frac{\sum (F_o - F_e)}{F_e}$$

Where

F_o= observed frequency from the respondents.
F_e=expected frequency
X^2 =chi-square
The degree of freedom= (r-1)(k-1)

Where

r = no of rows
K =no of columns
1=constant value.

b) Data presentation

Table 1 : Analysis of Respondents by Age, Sex, Marital Status and Educational Qualification

Age	No. of respondents	Sex	No. of respondents	Marital Status	No. of respondents	Educational Qualification	No. of respondents
20-30	25	M	90	Married	88	No Education	50
30-40	45			Single	58	Pri. Education	25
40-50	65	F	60	Divorce	4	WAEC	58
50-60	15					OND/NCE	10
						Nursing	5
						First Degree	2
Total	150		150		150		150

Source : Field Study, 2011

Table 2 : Types of Small Scale Entrepreneurs Surveyed

S/No.	Type	No. of Respondents	Percentage (%)
1	Pure water production	10	6.66
2	Automobile mechanic	30	20
3	Hair dressing & barbing saloon	20	13.35
4	Restaurant	15	10
5	Spare part sellers	10	6.66
6	Provision and cosmetic store	20	13.35
7	Block making industry	10	6.66
8	Welders	15	10
9	Business centre	10	6.66
10	Patent medicine store	10	6.66
	Total	150	100

Source : Field Survey, 2011

From table 1, we can see that majority of the respondents are in the age bracket between 30 and 50, (73%). This is not surprising because some of the small scale enterprises identified require strength (energy) i.e. Automobile mechanic, block making, welding, and spare part. This selling is also evident when we look at the sex distribution of respondents. 60% are males and 40% are females. This can be explained by the fact that most of the jobs are male dominated i.e. the four jobs mentioned above are exclusively for men while the remaining are shared by both men and women. Majority of the respondents are also married. Majority of the respondents have one form of education or the other. Where necessary i.e. patent medicine store, the owners are nurses.

1. What type of business do you operate?

Table 3 : Table showing types of business ownership.

Responses	No. of Respondents	%	Total Respondents	%
Sole – proprietorship	135	90	135	90
Partnership	15	10	15	10
Total	150	100	150	100

Source : Field Survey, 2011

From table 3 above, it is observed that 90% of the respondents (majority) own their businesses (sole-proprietorship) while the remaining 10% are into partnership, family businesses or the coming together of two-three friends(block making and automobile mechanic).

2. How long have you been in business?

Table 4 : length of time the people have been in business

Responses	No. of Respondents	%
1 – 5 years	70	47
6 – 10 years	50	33
11 years & above	30	20
Total	150	100

Source : Field Survey, 2011.

Table 4 above, shows the percentage of respondents that has been in business between 1 – 5 years, (47%), 6 – 10 years (33%), 11 years and above (20%). At least 50% of the respondents have been in business for over five years.

3. Do you keep proper written records?

Table 5 : Responses on whether respondents keep proper written records or not.

Responses	No. of Respondents	Total (%)
Yes	20	13
No	130	87
Total	150	100

Source : Field Survey, 2011.

It is observed in table 5, that 13% of the total respondents kept proper written records, while 87% do not keep proper written records. Majority of those interviewed therefore do not keep proper written records of their activities

4. Why don't you keep proper written records?

Table 6 : Table showing why respondents don't keep proper written records

Responses	No. of Respondents	Total (%)
I don't know how to keep proper records	90	69
Its time consuming	18	14
I keep it in my head	12	9
I own the business. I don't have to keep any record	10	8
Total	130	100

Source: Field Survey, 2011

Table 6, shows that 69% of the 130 respondents do not know how to keep proper records, 14% of the respondents said it is time consuming, 8% said they own their businesses, so they don't have to keep proper written records while the remaining 9% said they keep the records in their heads. We can therefore see that majority of the respondents do not know how to keep written records.

5. Do you have a bank account?

Table 7 : Table showing whether respondents have bank accounts or not.

Responses	No. of Respondents	Total (%)
Yes	120	80
No	30	20
Total	**150**	**100**

Source : Field Survey, 2011

Table 7 shows that 80% of the respondents have a bank account, while 20% of the 150 respondents do not have a bank account. Majority of the respondents therefore have bank account despite the fact that they don't have written records.

6. Why did you open a bank account

Table 8 : Responses on why respondents opened bank accounts.

OPTIONS	NO. OF RESPONDENTS	PERCENTAGE
My son asked me to open it	10	8
Microfinance bank staff persuaded me to open	18	15
Safety of their sales	60	50
Maybe one day, the bank can assist us	20	17
Others	12	10
TOTAL	120	100

Source : Field Survey, 2011

From table 8, we can see that majority of the respondents (50%) opened bank accounts only for them to keep their money or deposit their sales. Only 20(17%) ever thought of opening the account on their own for the benefit of getting financial assistance from the banks. For 28 respondents (23%), they were persuaded to open the account. They did not open the accounts on their on volition.

7. Have ever applied for bank loan?

Table 9 : Table showing whether respondents applied for bank loan before or not.

Responses	No. of Respondents	Total (%)
Yes	100	83
No	20	17
Total	**120**	**100**

Source : Field Survey, 2011.

From the table above, it is observed that 83% of the 120 respondents who have bank accounts applied for bank loan before now while 17% never did.

8. Were you granted the loan?

Table 10 : Table showing number of respondents who had been granted bank loan

Responses	No. Respondents	Total (%)
Yes	15	15
No	85	85
Total	**100**	**100**

Source : Field Survey, 2011

Table 10 above shows that 15 out of the 100 respondents were granted the loan they applied for, while 85% were not granted the loan. Majority of the applicants were not granted the loan they requested for.

9. Why were you not granted the loan?

Table 11 : Table showing why respondents were not granted bank loan.

Responses	No. of Respondents	Total (%)
Lack of proper record keeping in the shop	60	71
Inability to justify the need for the loan	14	16
others	5	6 7
improper preparation of the loan request	6	
Total	**85**	**100**

Source : Field Survey, 2011

It is observed in the table above, that 60(71%) of the 85 respondents were not granted the loan because they had no proper record keeping. 14(16%) because of their inability to justify the loan. 6(7%) because of their improper preparation for the loan request, and 5(6%) were not granted the loan for other reasons.

10. Why don't you have a bank account?

Table 12 : Table showing why respondents do not have bank accounts.

Responses	No. of Respondents	Total (%)
The bank's requirements	6	20
are too many	10	33
The bank do not assist	3	10
us	4	13
I can keep the money		
myself	7	24

I do not have enough money to put in the bank I prefer cooperative to the bank		
Total	30	100

Source : Field Survey, 2011.

From table 12, we can see the reasons given by the respondents on why they do not have bank accounts. Majority of them 10(33%) do not have bank account because the bank do not assist them; 7(24%) said they prefer cooperative groups, while 6(20%) said the bank's requirements are too many for them to cope with. We can see that a greater percentage (53%) of the reasons for not opening a bank account has to do with problems associated with the banks.

11. Are you experiencing growth in your business?

Table 13 : Responses on whether respondents are experiencing growth or not.

Responses	No. of Respondents	Total (%)
Yes	25	23
No	15	13
I don't know	70	64
Total	110	100

Source : Field Survey, 2011.

In table 13, it is observed that 64% of the 150 respondents do not know whether they are experiencing growth in their various businesses, while 13% of the respondents are not due to various reasons .23%, are experiencing growth. Majority of the respondents therefore do not know whether they are experiencing business growth or not.

12. Why don't you know whether you are experiencing growth or expansion in your business or not?

Table 14 : respondents opinion on if whether they experiencing expansion in their business or not.

RESPONSES	NO. OF RESPONDENTS	PERCENTAGE
Because I don't keep records	45	64
Because I do not care to know	8	11
Nobody has mentioned it to me	6	9
I have not caught the sales clerk stealing	3	5
We do not do stock taking	8	11
TOTAL	70	100

Source; Field Survey, 2011.

From the above table, it can be seen that majority of the respondents (60%) do not know whether their businesses are growing or not because they did not keep the records of the business. The remaining 36% did not care to know, did not do stock taking or said it has not mentioned to them.

Table 15 : Calculation of Chi-Square

RESPONSE	F_o	F_e	F_o-F_e	$(F_o\text{-}F_e)^2$	$(F_o\text{-}F_e)^2/F_e$
Because I don't keep the records	45	14	31	961	68.64
Because I don't care to know	8	14	-6	36	2.57
Nobody has mentioned it to me	6	14	-8	64	4.57
The sales clerk is honest	3	14	-11	121	8.64
We do not do stock taking	8	14	-6	36	2.57
TOTAL	70				86.99

$F_e = \sum F_o/N = 70/5 = 14$

From the table, the value of calculated X^2 is 86.99 and the table value of at 5% level of significance with d*f* of 6 is 9.488. The decision rule state that reject Ho if table value is less than the calculated and vice versa.

Since calculated value (86.99) is grater than the table value (9.488), therefore the Ho is hereby rejected. It is therefore concluded that inadequate record keeping has effect on the survival and growth of small scale enterprises in Ijumu Local Government Area of Kogi State.

c) Summary of findings

Below are our findings from our data analysis:

(1) Majority (87%) of the small scale entrepreneurs interviewed does not keep proper written records.

(2) Majority (69%) of the small scale entrepreneurs who do not keep proper written records said its because

they do not know how to keep the records. Other reasons given for not keeping their records include the fact that it is time consuming, they can keep the record of their sales in their heads and due also to the fact that they own their businesses.

(3) Majority (80%) of our respondents, even though they do not keep their book, they have bank accounts.

(4) Half (50%) of the respondents who have bank accounts have it purposely for the safety of their money sales. 23% were actually persuaded to open the banks accounts while 17% (12) people opened for the reason that (may be) one day, the banks may come to their aid.

(5) Entrepreneurs who do not have bank accounts said they don't because the banks requirements are too many and they do not have enough money to put there. Majority of them however said the banks do not assist them.

(6) Majority (80%) of the entrepreneurs surveyed has also applied for bank loan.

(7) Out of the total number of people that applied for bank loan, only 15% were granted. Majority of them were not granted.

(8) Majority (71%) of the loan applications rejected arose from the fact that the business organizations did not keep the record of their activities. Other applicants were unable to justify the need for their loan request. The remaining requests were rejected because the loan requests were not properly prepared.

(9) It was found out that many of the small scale entrepreneurs interviewed did not even know whether their businesses are growing or not. 70 (64%) of the respondents do not know whether their businesses are growing or not. 25 (23%) of the respondents said their businesses are growing.

(10) Many of the respondents 45 (64%) who said they did not know whether their businesses are growing or not said they do not know because, they did not keep the record of their activities. Others did not care to find out (11%). 11% also did not do stock taking.

IV. Discussion Of Findings

The importance of small scale enterprises cannot be overemphasized in any economy – be it developed or developing. They feed the large industrial concerns with raw materials, they employ a large number of Nigerians and they stimulate indigenous entrepreneurship, utilization of rural resources and the development of local technology.

Majority of the small scale enterprises interviewed did not keep a record of their activities. Many of them do not keep the records because they do not know how to keep the records or that they kept the records in their heads. Others said it is time consuming. Whatever the reasons adduced timely and accurate records must be kept by business organizations so that they can achieve the objectives for which they were set up. Whatever record is kept in the head is only for a time being and it is misleading as it could be forgotten even within the shortest period of time.

The small scale entrepreneurs are yet to fully appreciate the role of the banks (Commercial and Microfinance) as partners in progress. Even though, many of them opened banks accounts, they did not open objective of seeking assistance for expansion. Many of them opened the bank accounts primarily for the safety of their sales (50%). 23% of them were even persuaded before they went to open the account they opened. Only 17%of the respondents are of the opinion that the opening of the account might lead to a working relationship with the bank in the future.

Despite the fact that only 7% of the respondent opened their accounts with the intention that one day, they could benefit from the bank, in form of one assistance or the other, majority of them (83 %) have applied for bank loan – possibly because of lack of finance or the required fund. However, only 15% of those that applied for the loan were granted when asked why the loans were not granted to majority (71%) of the applicants, it was discovered that the banks rejected the applications because most of the business organizations did not keep their records. Most of the records required/requested by the banks were not readily available or could not be provided by the small scale entrepreneurs. They include sales records, purchase record, inventory records, accounts receivable records etc. These are the records needed by the banks which will keep them "make up their mind" a bond loan request. This should not be as this has gone to slow that record keeping is important for the organization, not only for its own internal use but also in case of financial assistance from banks for expansion. Some of them couldn't justify the need for the loan while the remaining could not prepare their loan request properly. Entrepreneurs should endeavour to have basic knowledge of book keeping so as to record their day to day transactions.

The few small scale entrepreneur who were not having bank accounts said they don't because the banks requirements are too many while others said they don't have the money to keep in the bank. If they have kept their books, they possible would have been able to boost their sales and have the money to keep in the bank. However, majority of those who do not have bank account said why should they, since bank does not assist them. Even though the situation is like this, the banks can bend backward to do more work about encouraging the entrepreneur, to keep their money in the banks so that they can benefit from bank loan. They can relate their conditions without necessarily compromising their standard.

Many of the entrepreneur surveyed do not even know whether they are experiencing growth in their business is because records are not kept of their activities they don't any point in time, they don't know whether there's increase in sales or not, they don't know (accurately) how much they are knowing or how much they are owing them. All these are the ingredients for business growth and survival. Many of them are just running the enterprises not bothering to know whether it is growing. Many said they "believe" the business is growing because, there's no evidence of decline. This however is not true because by the time they will realize it, the business must have collapsed. The surest way to know is by the records kept OVER TIME. A comparative analysis can then be made over (either) a year or minimally six months. Even though some alleged they have not caught the sales clerk stealing, they could be stealing without their written records; they could be stealing without knowledge. Since fraud can be committed even through written records, it is MORE DANGEROUS not to keep any at all.

V. Conclusion

Managers must keep accurate, meaningful, and timely information if they are to make good decisions. This is particularly true concerning financial information about a firm's operations. Experience suggests that inadequacy of the accounting system is a primary factor in small business failures. Small business organization should the keep the necessary records not only to survive but also to grow. As a matter of policy, entrepreneur should keep the following records –sales record, purchase record, accounts receivable records, inventory records, stock records on daily, weekly or monthly basis (as the case my be).

Many entrepreneurs think that employing capable hands to keep adequate data of business operations is the concern of the big business only. Little did they know that good accounting services can help keep their business in sound state. Therefore, for them to achieve good financial management, there must be proper and adequate record or book keeping of all business transactions.

a) Recommendations

1. It is recommended that sole-proprietorship and partnership businesses should employ sales clerk, (if they can afford it) who have knowledge of book keeping and they should cultivate the habit of preparing trading, profit and loss account.
2. Business enterprises should have corporate accounts and run them well
3. The government should organize seminars that will teach entrepreneurs on how to keep proper written records entrepreneurs themselves as a matter of policy should on their own go for seminars that would teacher improve their record keeping knowledge.
4. Microfinance banks should work with SSE to open account with them and encourage them to keep their daily sales in the banks
5. Entrepreneurs should avail themselves of the opportunist to learn book keeping.
6. Stock taking should be done on a monthly basis.

To see that poverty reduction is sustained, many people have to keep their records so as to ensure the survival of the small and medium scale enterprises.

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Global Journal of Management and Business Research
Volume 12 Issue 13 Version 1.0 Year 2012
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

The Relationship between Capital Structure & Profitability

By Prof. (Dr). T. Velnampy & J. Aloy Niresh
University of Jaffna, Sri Lanka.

Abstract - Capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. The successful selection and use of capital is one of the key elements of the firms' financial strategy. Hence, proper care and attention need to be given while determining capital structure decision. The purpose of this study is to investigate the relationship between capital structure and profitability of ten listed Srilankan banks over the past 8 year period from 2002 to 2009.The data has been analyzed by using descriptive statistics and correlation analysis to find out the association between the variables. Results of the analysis show that there is a negative association between capital structure and profitability except the association between debt to equity and return on equity. Further the results suggest that 89% of total assets in the banking sector of Sri Lanka are represented by debt, confirming the fact that banks are highly geared institutions. The outcomes of the study may guide banks, loan-creditors and policy planners to formulate better policy decisions as far as the capital structure is concerned.

Keywords : *Capital structure, Profitability, Debt, Equity, Return on Equity.*

GJMBR-A Classification : *FOR Code: 150202 JEL Code: O16, P12, M21*

THE RELATIONSHIPBETWEENCAPITALSTRUCTUREPROFITABILITY

Strictly as per the compliance and regulations of:

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Abstract - Capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. The successful selection and use of capital is one of the key elements of the firms' financial strategy. Hence, proper care and attention need to be given while determining capital structure decision. The purpose of this study is to investigate the relationship between capital structure and profitability of ten listed Srilankan banks over the past 8 year period from 2002 to 2009.The data has been analyzed by using descriptive statistics and correlation analysis to find out the association between the variables. Results of the analysis show that there is a negative association between capital structure and profitability except the association between debt to equity and return on equity. Further the results suggest that 89% of total assets in the banking sector of Sri Lanka are represented by debt, confirming the fact that banks are highly geared institutions. The outcomes of the study may guide banks, loan-creditors and policy planners to formulate better policy decisions as far as the capital structure is concerned.

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I. Introduction

This study focuses on the association between capital structure & profitability of listed banks in the Banks, Finance & Insurance sector. Capital structure is one of the most puzzling issues in corporate finance literature (Brounen & Eichholtz, 2001). The concept is generally described as the combination of debt & equity that make the total capital of firms. The proportion of debt to equity is a strategic choice of corporate managers. Capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. Hence, proper care and attention need to be given while determining capital structure decision. In the statement of affairs of an enterprise, the overall position of the enterprise regarding all kinds of assets, liabilities are shown. Capital is a vital part of that statement. The term "capital structure" of an enterprise is actually a combination of equity shares, preference shares and long-term debts. A cautious attention has to be paid as far as the optimum capital structure is concerned. With unplanned capital structure, companies may fail to economize the use of their funds. Consequently, it is being increasingly realized that a company should plan its capital structure to maximize the use of funds and to be able to adapt more easily to the changing conditions. (Pandey, 2009)

Basically, banks engage in financial intermediation to ensure efficient mobilization & disbursement of funds to the real sector of the economy. Though other financial institutions exist to engage in the intermediation process banks are considered the most important financial intermediaries. An ultimate goal of a firm is the maximization of wealth or value of that firm (Miller & Modigliani, 1958, 1963; Miller, 1977). The relationship between capital structure and profitability has been the subject of remarkable milestone over the past decade throughout the irrelevance theory. In the seminal article, presented by MM's (1958) irrelevance theory, they argued that capital structure is unrelated to firm's value. In the presence of corporate income tax and the cost of capital in MM's (1963) they argued that the market value of the firm is positively related to the amount of long term debt used in its capital structure.

The relationship between capital structure and profitability is one that received considerable attention in the finance literature. The study regarding the effects of capital structure on profitability will help us to know the potential problems in performance and capital structure. The modern industrial firm must conduct its business in a highly complex and competitive business environment. Therefore, these types of research findings will be benefited in selecting the capital structure to achieve the optimum level of firm's profitability. This study shows the statistical analysis carried out seeking to discover is there any relationship between capital structure and profitability of the listed banks in the Banks, Finance & Insurance sector.

II. Research Problem

According to Buser (1981), the capital structure decision of a bank is similar to that of a non financial firm. Although there are considerable inter industry differences in the capital structure of firms due to the unique nature of each industry's business and the intra-firm variations attributed to the business and financial risk of individual firms.

Most studies found a negative relationship between profitability and leverage. Within this framework, Titman & Wessels (1988) contend that firms

Author α : Professor/Dean, Faculty of Management Studies & Commerce, University of Jaffna, Sri Lanka.
E-mail : tvnampy@yahoo.co.in
Author σ : Department of Accounting, Faculty of Management Studies & Commerce, University of Jaffna, Sri Lanka.
E-mail : aloy157@gmail.com

with high profit levels, all things being equal, would maintain relatively lower debt levels since they can realize such funds from internal sources. Furthermore, Kester (1986) found a significantly negative relation between profitability and debt/asset ratios. Rajan & Zingalas (1995) also confirmed a significantly negative correlation between profitability and leverage in their work. Despite the above empirical works, some authors are of a different opinion. These authors observed a positive relationship between profitability and debt levels in their studies. For example, Taub (1975) in a regression analysis of four profitability metrics against debt ratio found significantly positive association between debt and profitability. Abor (2005) also found a significantly positive relationship between total debt and profitability. From the foregoing discussions based on the available empirical literature, it is crystal clear that results from investigations into the relationship between capital structure and profitability are inconclusive and requires more empirical work.

An important question facing companies in need of new finance is whether to raise debt or equity. In spite of the continuing theoretical debate on capital structure, there is relatively little empirical evidence on how companies actually select between financing instruments at a given point of time in order to attain optimum profitability. Hence, the main problem of this research is to study how the capital structure influences on signaling the bank's profitability in Sri Lanka?

III. Objectives

The objectives are geared towards the following:

- To find out the relationship between capital structure and profitability.
- To find an optimal capital structure that would be associated with the best performance.
- To suggest the banks in a way to increase profitability through adapting a better strategic framework of capital structure.

IV. Review Of Literature

Capital structure is referred to as the way in which the firm finances itself through debts, equity and securities. It is the composition of debt and equity that is required for a firm to finance its assets. The capital structure of a firm is very important since it is related to the ability of the firm to meet the needs of its stakeholders. The Board of Directors or the financial manager of a company should always endeavor to develop a capital structure that would lie beneficial to the equity shareholders in particular and to the other groups such as employees, customers, creditors and society in general (Pandey, 2009).

Brander & Lewis (1986) andMaksimovic (1988) provided the theoretical framework that links capital structure and market structure. Contrary to the profit maximization objective postulated in industrial organization literature, these theories, like the corporate finance theory, assume that the firm's objective is to maximize the wealth of shareholders and show that market structure affects capital structure by influencing the competitive behavior and strategies of firms. According to Brander & Lewis (1986) firms in the oligopolistic market will follow the strategy of maximizing their output for improving profitability in favorable economic conditions. In unfavorable economic conditions, they would take a cut in production and reduce their profitability. Shareholders enjoy increased wealth in good periods, but they tend to ignore decline in profitability in bad times as unfavorable consequences are passed on to lenders because of shareholders' limited liability status. Thus the oligopoly firms, in contrast to the firms in the competitive markets, would employ higher levels of debt to produce more when opportunities to earn high profits arise. The implied prediction of the output maximization hypothesis is that capital structure and market structure have positive relationship.

Lalith, P.S (1999) investigated the capital structure of Srilankan companies and found that the use of long-term debt is relatively low in Srilankan companies. The mean leverage in Sri Lanka is estimated as 13.5%, long term debt to equity ratio is 24% while the total debt to equity ratio is 104.1%. This evidence suggested that the use of debt financing in Sri Lanka is significantly low in comparison to G7 markets.

According to the Business Dictionary profitability is the ability of a firm to generate net income on a consistent basis. Ratio is used as a benchmark for evaluating the performance of a firm. Ratios help to summarize large quantities of financial data and to make qualitative judgement about the firm's profitability. One of the most important financial decisions facing companies is the choice between debt and equity capital (Glen & Pinto, 1994). This decision can effectively and efficiently be taken when managers are first of all aware of how capital structure influences firm profitability. This is because; this awareness would enable managers to know how profitable firms make their financing decisions in particular contexts to remain competitive. In the corporate finance literature, it is believed that this decision differs from one economy to another depending on country level characteristics.

Chiang Yat Hung, Chan Ping Chuen Albert & Hui Chi Man Eddie (2002) shows the inter-relationship between profitability, cost of capital and capital structure among property developers and contractors in Hong Kong. The data for this research paper was collected from Datastream, an electronic financial database. The analysis of this paper shows that gearing is generally higher among contractors than developers and capital gearing is positively related with asset but negatively with profit margins.

Peterson & Rajan (1994) found a significantly positive association between profitability and debt ratios in a study designed to investigate the relationship. Ooi (1999) argues that profitable firms are more attractive to financial institutions as lending prospects. The reason is that, those firms are expected to have higher tax shields and low bankruptcy costs. Furthermore, Abor (2005) has reported a significantly positive relationship between the ratios of short term debt to total assets & profitability but a negative association between the ratio of long term debt to total assets and profitability. Dimitris, M. & Maria, P. (2008) investigated the relationship between capital structure, ownership structure and firm performance across different industries using a sample of French manufacturing firms. They found that a negative relationship between past profitability and leverage and there will be a positive relation between profitability and leverage.

V. Conceptualization

Based on the research question, the following conceptual model has been constructed. This model of capital structure in banking sector introduces new constructs and uniquely combines them in specifying that the profitability is a function of debt to equity and debt to total funds in the capital structure.

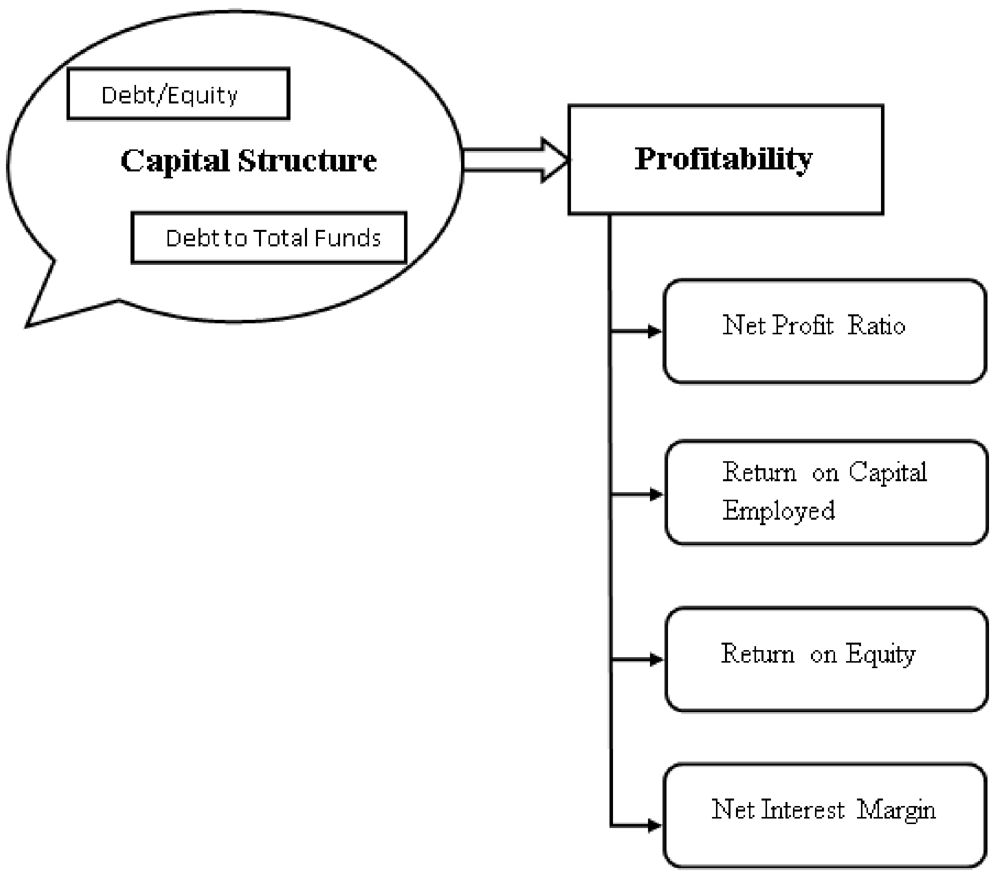

Figure 1 : Conceptualization Model

VI. Hypotheses Of The Study

The following hypotheses were formulated for the study.

H1- There is a significant negative relationship between Debt to equity and Net profit.

H2- There is a significant negative relationship between Debt to equity and Return on Capital Employed.

H3- There is a significant negative association between Debt to equity and Return on Equity.

H4- There is a significant negative association between Debt to equity and Net Interest Margin.

H5- There is a significant negative relationship between Debt to total funds and Net profit.

H6- There is a significant negative relationship between Debt to total funds and Return on Capital Employed.

H7-There is significant negative association between Debt to total funds and Return on Equity.

H8-There is a significant negative association between Debt to total funds and Net Interest Margin.

VII. Methodology

a) Data Collection

The present study used secondary data for the analysis. Secondary data is data that have been previously collected for some other project rather than the one at hand but found useful by the researcher. The financial statements which are made up of income statements and balance sheets of the sample banks were the main sources of data for this study. These were obtained from the Hand book of Listed Companies 2007 & the annual reports of respective banks. Further, scholarly articles from academic journals, relevant text books on the subject and the internet search engines were also used. Specifically, the financial statements of the banks in the sample were collected for the period 2002-2009 and a balanced panel of ten banks emerged for the study.

b) Sampling Design

According to Jankowicz, (1994) generalisation about the population from data collected using any sample is based on probability. In order to be able to generalise about the research finding to the population, it is necessary to select samples of sufficient size. A large sample size will in general improve the quality of the research. A large sample size is always better than a small one. Saunders, Lewis and Thornhill (1996) also point out that the larger the sample size, the lower the likely error in generalising the population. The Colombo Stock Exchange (CSE) has 241 companies representing 20 business sectors as at 11th February 2011. The sample of this study composed of ten banks listed in the Colombo Stock Exchange and period of 8 years from 2002 to 2009. From the 20 sectors; Banks Finance & Insurance sector was selected for the present study. From this sector the following ten listed Srilankan banks were selected to carry out the research;

1. Commercial Bank of Ceylon Limited
2. Hatton National Bank Limited
3. Housing Development Finance Corporation Bank of Sri Lanka
4. Merchant Bank of Sri Lanka PLC
5. National Development Bank PLC
6. Nations Trust Bank Limited
7. People's Merchant Bank PLC
8. Sampath Bank Limited
9. Seylan Bank PLC
10. Seylan Merchant Bank PLC.

Only listed banks are selected for this research. This represents 27% of the mean number of the companies listed under the Banks, Finance & Insurance sector. Other companies listed under the different sectors are not taken into consideration in this analysis in order to arrive at a generalized conclusion about the listed banks in Sri Lanka.

c) Mode of Analysis

The quantitative research approach is employed to find out the findings of the research study. Since numerical and secondary data is used, quantitative approach is considered to be a suitable approach for the study. According to Leavy (2004), "statistical analyses are used to describe an account for the observed variability in the data". This involves the process of analyzing the data that has been collected. Thus the purpose of statistics is to summarize and answer questions that were obtained in the research. The upper level of statistical significance for hypotheses testing was set at 5%. All statistical test results were computed at the 2-tailed level of significance. Statistical analysis involves both descriptive and inferential statistics.

Descriptive statistics are used to describe and summarize the behavior of the variables in a study. They refer to the ways in which a large number of observations are reduced to interpretable numbers such as averages and percentages. Inferential statistics are used to draw conclusions about the reliability and generalizability of the findings. In order to test the research hypotheses; the inferential tests used include the Correlation Analysis.

d) Research Model

Correlation analysis was carried out to identify the relationship between capital structure and profitability. Here capital structure is the independent variable and profitability is the dependent variable. From these independent and dependent variables, the following relationship is formulated.

Profitability of the banks is dependent upon the capital structure. It is represented as follows;

$$P = f\,(CS)$$

Which shows profitability is the function of capital structure.

Where;
P = Profitability
CS = Capital Structure

Here, profitability is measured with the help of four ratios namely Net profit, Return on Capital Employed, Return on Equity and Net Interest Margin. Capital structure is measured with the help of Debt/Equity ratio and Debt to Total Funds ratio.

VIII. Results & Analysis

a) Descriptive Statistics

Table1 : Descriptive Statistics

Variables	N	Range	Minimum	Maximum	Mean	Std. Deviation
Net profit	10	20.96	-3.6	17.36	8.8789	5.90755
Return on Capital Employed	10	16.11	9.32	25.42	14.8218	5.16101
Return on Equity	10	62.04	-42.55	19.48	9.5116	18.51050
Net Interest Margin	10	4.73	3.49	8.22	4.9070	1.73385
Debt/Equity Ratio	10	1353.63	182.25	1535.88	825.1531	801.59839
Debt to Total Funds Ratio	10	17.91	77.48	95.39	88.6591	6.84658
Valid N (listwise)	10					

The descriptive statistics show that over the period under study, the profitability ratios measured by net profit, return on capital employed, return on equity and net interest margin averaged 8.9%, 14.8%, 9.5% and 4.9% respectively. The debt/equity ratio stood at 825.2% and debt to total funds averaged 88.7%. This is an indication that approximately 89% of total assets in the banking sector of Sri Lanka are represented by debt, confirming the fact that banks are highly geared institutions. The maximum and minimum values for debt/equity ratio indicate that the debt/equity composition varies substantially among the listed banks in Sri Lanka.

b) Correlation Analysis

Table 2 : Correlation Analysis

Correlations

Variables		Debt to Equity	Debtto Total Funds	Net Profit	ROCE	ROE	NIM
Debt to Equity	Pearson Correlation	1	.777**	-.370	-.388	.328	-.661*
	Sig. (2-tailed)		.008	.293	.268	.355	.037
	N	10	10	10	10	10	10
Debtto Total Funds	Pearson Correlation	.777**	1	-.711*	-.561	-.246	-.879**
	Sig. (2-tailed)	.008		.021	.092	.493	.001
	N	10	10	10	10	10	10
Net Profit	Pearson Correlation	-.370	-.711*	1	.217	.722*	.402
	Sig. (2-tailed)	.293	.021		.547	.018	.249
	N	10	10	10	10	10	10
ROCE	Pearson Correlation	-.388	-.561	.217	1	.002	.606
	Sig. (2-tailed)	.268	.092	.547		.996	.063
	N	10	10	10	10	10	10
ROE	Pearson Correlation	.328	-.246	.722*	.002	1	.075
	Sig. (2-tailed)	.355	.493	.018	.996		.837
	N	10	10	10	10	10	10
NIM	Pearson Correlation	-.661*	-.879**	.402	.606	.075	1
	Sig. (2-tailed)	.037	.001	.249	.063	.837	
	N	10	10	10	10	10	10

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

The above mentioned table indicates the relationship between the various independent and dependent variables used in the study. From this table it is crystal clear that the association was found to be negative for all the independent and dependent variables used in the study except the association between debt to equity and return on equity which was found to be positive. Debt to equity and debt to total funds were negatively correlated with net interest margin and found to be significant at 0.05 and 0.01 levels respectively. That is when debt increases funds will go out mostly in the way of interest resulting in a decline of net interest margin. Furthermore, the R value was found to be -0.711*for the association between debt to total funds and net profit.

c) Hypotheses Testing

No	Hypotheses	Results	Tools
H1	There is a significant negative relationship between Debt to equity and Net profit.	Rejected	Correlation
H2	There is a significant negative relationship between Debt to equity and Return on Capital Employed.	Rejected	Correlation
H3	There is a significant negative association between Debt to equity and Return on Equity.	Rejected	Correlation
H4	There is a significant negative association between Debt to equity and Net Interest Margin.	Accepted	Correlation
H5	There is a significant negative relationship between Debt to Total Funds and Net profit.	Accepted	Correlation
H6	There is a significant negative relationship between Debt to Total Funds and Return on Capital Employed.	Rejected	Correlation
H7	There is significant negative association between Debt to Total Funds and Return on Equity.	Rejected	Correlation
H8	There is a significant negative association between Debt to Total Funds and Net Interest Margin.	Accepted	Correlation

IX. Conclusion & Recommendation

This study examined the relationship between capital structure and profitability in listed Srilankan banks. The study covered 10 listed banks over the period of 2002 to 2009 and the major findings of the study are summarized below:

The mean values of debt/equity ratio and debt to total funds were 825.15% and 88.66% respectively. The mean value of debt/equity ratio suggests that debt is 8.25 times higher than equity capital. The debt/equity ratio is normally safe up to 2. It shows the fact that banks in Sri Lanka depends more on debt (Long-term loans) rather than equity capital. The mean value of debt to total funds ratio indicates 89% of the total capital of listed banks in Sri Lanka is made up of debt. This has re-emphasized the fact that banks are highly levered institutions.

The R values were found to be significant & negative for the association between debt to equity and net interest margin, debt to total funds and net interest margin & debt to total funds and net profit consisting the R values of -0.661*, -0.879** and -0.711* respectively. This reveals that an increase in the level of debt finance increases the interest payments thus resulting in a decline in profitability.

Banks generally play a crucial role in the economic development of every country. One critical decision banks face is the debt-equity choice. Among others, this choice is necessary for the profit determination of firms. What this means is that banks that are able to make their financing decision prudently would have a competitive advantage in the industry and thus making superior profits. Nonetheless, it is essential for us to recognize that this decision can only be wisely taken if banks know how debt policy influences their profitability. Therefore banks should take into view the following matters in order to increase their profitability;

1) An appropriate mix of capital structure should be adopted in order to increase the profitability of banks. Findings revealed that total debt is negatively correlated to the net profit (R = -0.711*) of the listed banks in Sri Lanka. That is in the case of higher debt, profitability will tend to decline. The reason behind this may be due to the high interest bearing securities engaged in the total debt. In addition to these an increase in the level of debt also increases the riskiness of banks. Therefore, banks should concern much on internal sources of financing in order to increase their profitability.
2) Top management of every banking firm should make prudent financing decision in order to remain profitable and competitive.
3) Banks in Sri Lanka must not be only interested in mobilizing deposits but must also be concerned with utilizing these deposits effectively and efficiently. To achieve this, banks must set competitive lending rates that would not deter customers from accessing loans.

X. Limitations And Scope Of Future Research

The current research is restricted only to the listed banks in the Banks, Finance & Insurance sector in Sri Lanka. Furthermore, this research was mainly conducted based on the secondary data collection. The other data collection methods had not been considered. As a result they may not be 100% accurate. In addition to these data representing the period of 2002 to 2009 were used for the study.

The research has compiled a large database of listed bank's accounting data that demonstrate what can be done even with the limitations of currently available data. There is clearly enormous scope for more research that can inform an understanding of how the capital is structured, how it connects with the profitability and what elements of capital structure make a difference. To develop specific policy recommendations we suggest the following for further research;

1) There are currently 241 companies listed in the CSE under 20 sectors. The study covered only the listed Srilankan banks from the Banks, Finance & Insurance sector. Therefore, additional investigation is required to examine firms in the different sectors tend to follow different capital structure patterns.
2) Another research area that could be extended is to examine capital structure and profitability to the non-listed banks.
3) There are some other factors found which also affect the banks' profitability which are not focused in this study. One of the main factors is the regulations and restrictions from the Central Bank of Sri Lanka. Some other factors are size of the bank, ownership status, operating expense, cost decisions of banks' management, privatizations of banks and composition of bank's assets and liabilities. Therefore further investigation is required to examine regarding what are the factors other than capital structure influences on profitability?

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Global Journal of Management and Business Research
Volume 12 Issue 13 Version 1.0 Year 2012
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

A Case Study of Siemens' Violation of Business Ethics in Argentine Based On Stakeholder Theory

By Zhu Wenzhong & Fu Limin
Guangdong University of Foreign Studies (GDUFS)

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Keywords : *Simens Telecommunication; Business Bribery; Stakeholder Analysis.*

GJMBR-A Classification : *FOR Code: 150303,150301 JEL Code: M21*

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Strictly as per the compliance and regulations of:

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I. Introduction

Business ethics is a form of applied ethics or professional ethics that examines ethical principles and moral or ethical problems that arise in a business environment. To put it in a simple way, business ethics involves the application of standards of moral behavior to business situations.

Despite the fact that the concept "business ethics" was firstly proposed in 1970s and hailed as oxymoron, it witnessed a waged and animated debate as well as increased public awareness ever since. On one hand, there is a huge growth of number of businessmen who realize that pure profit-oriented corporate operation can not stand permanently in a global market where customers' ethic awareness is increasing; on the other hand, more and more companies find themselves time and again stuck in ethic dilemmas. For instance, bribery, as one of the notorious business ethical problems, has surfaced as important issues in an increasingly interdependent world economy.

The increasing attention on business ethics not only takes place in business practices, but also in academic fields. Scholars' study on business ethics also gave birth to a famous theory: stakeholder theory, put forward by R. Edward Freeman, which in turn serves as the theoretical foundation of business ethics study. The theory attempts to address the "Principle of Who or What Really Counts" by identifying the stakeholders in business ethics practices.

Based on business ethics and stakeholder theory, this paper proposes to conduct a case study by analyzing Siemens' latest business ethics violation—the Bribery Scandal in Argentina. Following the analysis, suggestions pertinent to this issue are also put forward.

II. Literary Review

a) *Concept of Stakeholder*

The term "*stakeholder*" was first used in a 1963 internal memorandum at the Stanford Research Institute. It was originally detailed by R. Edward Freeeman in the book *Strategic Management: A Stakeholder Approach* in 1984.

What is a stakeholder?

The earliest definition offered by an internal report of Standford Research Institute in 1963, they define it as those groups that directly influence the organization's existence. Freeman continues to employ this term by further defining it as those groups that are so vital to the organization that they dominantly affect the organization's survival and success and can also be affected by the actions of the business (Freeman, 1984). The term "stakeholder" is a variant of the familiar and traditional idea of stockholders—the investors in or the owners of business. It has experienced an evolution and progress in its scope and range.

In the traditional view, the stockholders or the shareholders are the owners of the firm, therefore, a firm has binding fiduciary duty to give the top priority to stockholders by satisfying their needs in the first place and increasing their output. It is based on the input-output model in which firms have to only address wishes and benefits of parties closely pertinent to its operation: investors, employees, suppliers, and customers (Donaldson and Preston, 1995).

However, along with the growth of corporation, the scope and range of stakeholder also expand, which

Author α : PhD, Professor of School of English for International Business, research member of Research Center for International Trade and Economics, Guangdong University of Foreign Studies (GDUFS), No.2, North Baiyun Avenue, Guangzhou 510420, China.
E-mail : wenzhong8988@sina.com

Author σ : Student of School of English for International Business, Guangdong University of Foreign Studies (GDUFS), No.2, North Baiyun Avenue, Guangzhou 510420, China.

Global Journal of Management and Business Research Volume XII Issue XIII Version I Year 2012

is typically presented in Freeman's stakeholder theory.

b) Freeman's Stakeholder Theory

As in Freeman's *Strategic Management: A Stakeholder Approach*, the stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization. It identifies and models the groups which are stakeholders of a corporation, and both describes and recommends methods by which management can give due regard to the interests of those groups. In short, it attempts to address the "Principle of Who or What Really Counts.

In Freeman's stakeholder theory, stakeholder are not only those people who have direct stakes in the firm but also those who are equivalently influential as well, especially in affecting reputation and public image, but their stake is more representational of public than direct. Stakeholder theory argues that every legimate person or group participating in the activities of a firm do so to obtain benefits and that the priority of the interests of all legitimate stakeholders is not self-evident. From this perspective, the groups of stakeholders expand to government and social institutions etc.

In his book *Strategic Management: A Stakeholder Approach,* Freeman outlines groups of stakeholder in both internal and external environment.

Internal stakeholders are as follows: employees, managers, and owners.

External stakeholders are: suppliers, customers, society, government, creditor, shareholders, competitors, communities, academics, NGOs or activists, environmentalists, media, etc.

As in Freeman's Strategic Management: a Stakeholder Approach, the stakeholder theory is a theory of organizational management and business ethics that addresses morals and values in managing an organization. It identifies and models the groups which are stakeholders of a corporation, and both describes and recommends methods by which management can give due regard to the interests of those groups. In short, it attempts to address the "Principle of Who or What Really Counts.

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In his Strategic Management-Analytical Methods for Stakeholder Management, Freeman (1984) clearly comes out with the stakeholder management theory which refers to the management activities management of an enterprise carries out to balance the stake requirements of stakeholders. Compared to the traditional shareholders supremacists, this theory holds that the development of any enterprise is closely related to the investment and participation of each stakeholder and the pursuit of an enterprise is the entire stake of all stakeholders instead of some major stakes.

Stakeholders not only include the shareholders, creditors, employees, consumers, suppliers etc. of the enterprise, but also pressure groups such as government, local residents, local communities, medias, environmentalists etc. even the natural environment, future generations etc. who may be directly or indirectly affected by the operation of the enterprise. These stakeholders are closely related to the development of the enterprise, they share the operation risk of the enterprise, some pay a cost for the operation of the enterprise, some supervise and constrain the enterprise, and the decisions of the enterprise must take their stakes into consideration and accept their constraints. In this sense an enterprise is the institutional arrangement of intelligence and management professionalization investment, the development of an enterprise relies on the quality of responses to the requirements of each stakeholder instead of only shareholders. This corporate management idea explains the corporate performance appraisal and the core of management, which lies foundation for the later theory of performance appraisal

c) Stakeholder Theory and CSR

The Effect of Stakeholder Theory in the Study of CSR

The are many common grounds between CSR and stakeholder theory as both are concerned about the relatioship between the enterprises and their shareholders and the enterprises and individuals and social group apart from their stareholders; however the two are different concepts. What they study and care are problems of different levels and categories. CSR considers the influence of enterprises on society from the perspective of the whole society and care the relationship between enterprises and the society; while stakeholder theory care more about the relationship between enterprises and stakeholders from the perspective of the enterprises. Ever since the establishment of CSR its supporters spread from various institutions, scholars and ordinary people, which helps in the development of CSR. However this theory encountered lots of problems in practice, and needs further study and improvement. In the process of seeking solution to these problems, we usually introduce stakeholder theory to help to resolve those problems.

i. *Modification of Shareholder Primacy Theory by Stakeholder Theory*

The biggest barrier to the implementation of CSR is the Shareholder Primacy rule to some extent, Friedman et. holds that the only purpose for the existence of enterprises is to maximize the profit and shareholder benefits. Their three interrelated propositions are a. shareholders should reserve the right to control the enterprise; b. managers are entrusted the responsibility to singley serve the interest of shareholders; c. the object of enterprises is to maximize the wealth of shareholders; while stakeholder theory holds that i, stakeholders who are affected by the enterprise have the right to participate enterprise decision-making; ii, managers are entrusted with the responsibility to serve the interests of all stakeholders; iii, the object of enterprises is to enhance the interests of all stakeholder not just shareholders'. Stakeholder theory holds that enterprises are 'contract unities' consisted of many a stakeholders and the investment comes not just shareholders but also employees, suppliers and creditors of the enterprise.

Shareholders provide the material captial and other stakeholders provide not only material capital but also human capital which is equivalent to material capital in term of significance particularly in today's knowledge economy. And in some aspects the siginificance human capital exceeds the siginificance of material capital. Enterprises are not simply the 'aggregation' of material capital any more but a kind of 'institutional arrangement of goverance and management of professional investment' and in essence they are the aggregations of various contracts. The risks of enterprises should not just be bore by shareholders and other stakeholders should also share the risks, as a result the owners of enterprisers should not be confined to shareholders and all the stakeholders are the owners of enterprises. The rights of stakeholders are equal and independent, they jointly own the enterprises. While challenging the shareholder priamcy principle, stakeholder theory clears the way for the development of CSR theory in that CSR theory has long been holding that the only mission of enterprises to increase shareholder interests should be changed and thinks that enterprises should view problems from a higher ground and consider their relations with all the stakehoders, the entire society and shoulder some social responsibility.

ii. *Indentification of Subjects for Shouldering Social Responsibility and Defining Responsibilities*

Viewing from the various definitions of CSR, it is easy to conclude that the beneficaries of enterprises' shouldering social responsibilities are people of the society including investors, employees, clients, creditors and beneficiaries of environement and resources, social security and welfare etc. Through shouldering corresponding social responsibilities and taking social benefits as target range, enterprises can maximize their contributions to the sustainable development. And the responsibilities they take are legal, economic, moral, cultural aspects, however today there still lots of people stand against CSR.

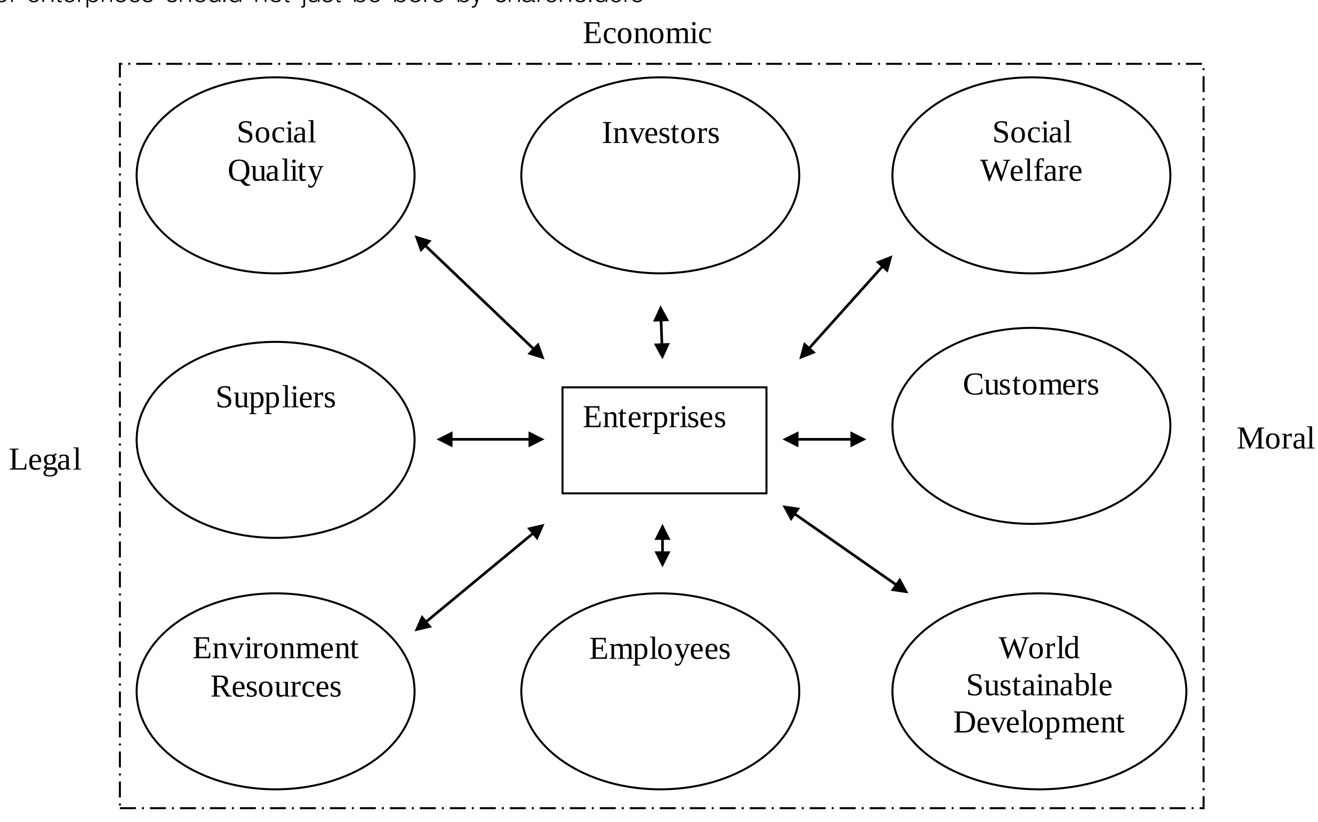

Figure 2 : 1 Theoretical Model of CSR

Source : Freeman, R. E: Strategic Management: A Stakeholder Approach [M]. Boston, Pitman Press, 1984

They start from the point where the subjects and contents of obligations of corporate social responsibility are vague and think that enterprises should not shoulder social responsibilities. Some business and law scholars even think there is not subjects for corporate social responsibility in that there are no satisfactory answers for questions such as the whom should enterprises responsible for, whom can be the subjects that urges enterprises to shoulder responsibilities? To vaguely say that customers, ordinary people and the social communities these enterprises belong to is not enough because the groups can hardly be obligees to exist meanwhile they also hold that the content of social responsibilities is also vague.

Currently the understanding of stakeholders generally include the first class stakeholders that affect the existence of enterprises, and the secondary stakeholders who do not affect the existence of enterprises or are affected by the enterprises. Though the definition is extensive, it indentifies stakeholders as shown in the following basic framework: investors, employees, customers, suppliers, creditors, trade associations, local communities, political groups etc.

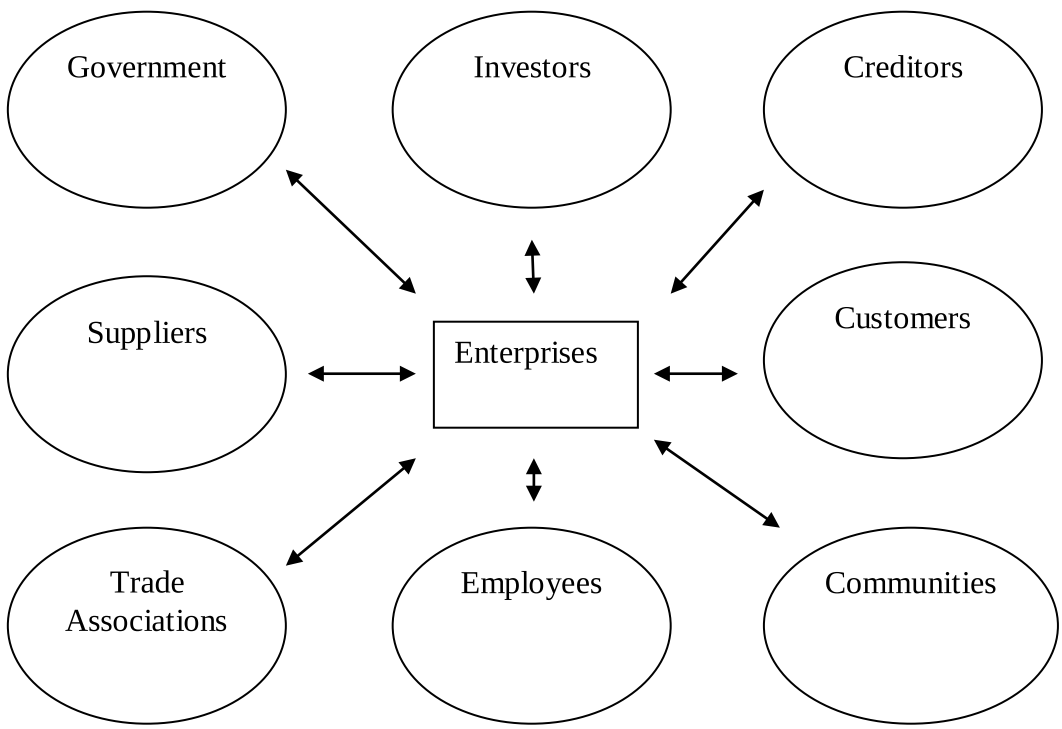

Figure 2 : 2 Theoretical Model of Stakeholder Theory

Source : Freeman, R. E: Strategic Management: A Stakeholder Approach [M]. Boston, Pitman Press, 1984

Many foreign scholars studying CSR and stakeholder theory holds that stakeholder theory can be introduced to the study of CSR, Carroll (1991) thinks that stakeholder theory should be applied to the study of CSR and it can be used to identify the orientation of CSR, and by the identification of each relevant stakeholder group the range of CSR can be identified. Clarkson (1995) stakeholder theory can provide a 'theoretical framework', in which CSR can be identified as the relations between enterprises and stakeholders, for the study of CSR. Just as Evan and Freeman (1993) had it that 'though it cannot replace CSR, stakeholder theory can be regarded as an important condition for the study of CSR and it can specify the subjects the enterprises should be responsible for'. In this stage when the theoretical research of CSR still needs to be carried further, we can adopt stakeholder theory to define the range of responsibilities enterprises should carry. This is both possible and necessary and enterprises can be responsible for each stakeholders in the framework of stakeholder theory.

III. Case Description

Siemens AG is a German multinational conglomerate company headquartered in Munich, Germany. Siemens and its subsidiaries employ approximately 420,800 people across nearly 190 countries. It is the largest Europe-based electronics and electrical engineering company with activities in the fields of industry, energy and healthcare. It is organized into six main divisions: Industry, Energy, Healthcare, Equity Investments, Siemens IT Solutions and Services and Siemens Financial Services (SFS).

Global Journal of Management and Business Research Volume XII Issue XIII Version I Year 2012

On Dec. 13, 2011, The Securities and Exchange Commission charged seven former Siemens executives with violating the Foreign Corrupt Practices Act (FCPA) for their involvement in the company's decade-long bribery scheme in Argentina to retain a $1 billion government contract to produce national identity cards for Argentine citizens.

According to the SEC's complaint filed in U.S. District Court in Manhattan, the scheme lasted from approximately 1996 to early 2007. Initially, in the 1990s, Menem government planned to implement all national electronic ID cards, known as Documentos Nacionales de Identidad (DNI) for every Argentine citizen. In order to obtain the contract which is total of 1.26 billion U.S. dollars, Siemens bribed Argentine government officials with 70 million U.S. dollars through intermediary. Menem government finally signed the contract with Siemens in 1998.

But a change in Argentine political administrations foiled the contract: after the next President Fernando De La Rua came into office, some officials questioned the contract on the ground that the cost of each electronic ID reported by siemens was twice what the government estimated. Therefore, the government announced the suspension and cancellation of the contract. In a political change and economic crisis, Duhalde succeeded De La Rua as the president. During his term of office, Simens was told by the intermediary that a 27 million U.S. dollars bribery could "resurrect the contract". In order to revive the contract, Siemens paid additional bribes in a failed effort to Kirchner government until 2004. When the company later instituted an arbitration proceeding to recover its costs and expected profits from the canceled contract, Siemens paid additional bribes to suppress evidence that the contract originally had been obtained through corruption.

IV. Case Analysis

a) Stakeholders of Siemens

Bribery has been defined as "the offering, giving, receiving, or soliciting of something of value for the purpose of influencing the action of an official in the discharge of his or her public or legal duties." (Fritzsche, 1998). The bribe is the gift bestowed to influence the recipient's conduct and the outcomes of decisions wherein the nature and extent of the influence are not made public. The item of value may be direct payments of money or property. It may also be in the form of a kickback after a deal has been completed. It may be any money, good, right in action, property, preferment, privilege, emolument, object of value, advantage, or merely a promise or undertaking to induce or influence the action, vote, or influence of a person in an official or public capacity.

Based on Freeman's stakeholder theory, the first step in the analysis of this case is to identify the relevant stakeholders and determine the positive and negative impacts on the stakeholders. The stakeholders affected by Siemens' bribery in this case include Simens' stockholders; Siemens' employees; Siemens' supplier; Local community; the Argentine government; Argentine community; Simens' competitor; Siemens' competitors' employees and stockholders.

b) Impact on stakeholders

For Siemens' stockholders, the contract with the Argentine government would increase profit and gain market share for them. Even though bribery was needed to win the contract, the profit yielded in the contract can not only cover the bribery but also trigger more.

For Siemens' employees, the profit yielded from the contract would also benefit themselves a lot. It is likely that their pay got increase, bonus and allowance met a growth, working environment had much improvement etc.

For Siemens' suppliers, the growth of Siemens means the growth of themselves as long as they are in a cooperative business relationship. The increase of Siemens' business would lead to more orders to Siemens and more profit for them.

For the local community, the contract would bring cascade effect: it would create more jobs for local people. The local community would benefit from the employment of its citizens which would bring money into the community and provide additional tax revenues. The prosper of Simens' business can also cast a positive influence to relative industries.

For government,

Firstly, the bribery would reduce freedom of choice by altering the conditions under which a decision is made. Its appeal of additional gains for some government officials would lure them to select the less attractive alternative which provides less total satisfaction. By doing so, it adversely would disrupt the official's decision and undermined fair competition among the industry. If the De La Rua administration's doubt that the cost of each electronic ID reported by Siemens was twice what the government estimated is true, then the government has to pay the price for the hidden payment with more governmental expenditure, which leads to a greater loss of money of the government.

Secondly, it would damage the authority, prestige and force of laws and regulations. The bribery circumvented the legal system and obtained illegal interest, which is a contempt against laws and is detrimental to the implementation of laws.

Thirdly, it would undermines attempts by governments to improve the overall wealth of the nation, diminish the image of government and governing party, and further lose people's trust.

For Argentine community,

From the perspective of whole economy system and environment, it would: ⅰ. hinder fair and just competition and disrupt the order of the whole economic system. Instead of gain market share with quality, businesses would turn to shortcuts like relationship with government officials ⅱ. Result in allocating more resources to a less desirable alternative. The failure of the allocation system would lead to stagnation of technology, service and the whole industry structure. ⅲ. Increase the cost of transaction, and do harm to public's interest. The higher cost would result in higer prices or even monopoly.

From the whole society, it would: ⅰ. Cast damage to social credit and rot the social conduct. On one hand, the prevalence of bribery destroys the mutual trust and equity of businesses; on the other hand, businesses with good compliance to laws are suppressed and discouraged. ⅱ. Violate code of ethics. ⅲ. Breed more and more relative crimes. Bribery is always accompanied with business secret theft, deception and evasion of taxes.

For Argentine people, the greater expense on the ID project would result in more outflow of taxpayers money from their pocket in that the misconduct and wrongdoings of officials would be shared by all the community. The bribery would harm taxpayers as well as undermine public support for governments.

For Siemens' competitors, Siemens' bribery would deprive them of fair competition in this project, and further distort trade The loss of the competitors is invisible, though, but solid.

For Siemens' stockholders, employees and local community, the loss of the contract would provide lower profits for the stockholders, fewer jobs for the employees and less money in the competitors' local community.

Taking the interest of all stakeholders into account, Siemens violated business ethics seriously, even though it brought some illegal benefits to its own stockholders.

V. Suggestion

a) *Internally: shaping organizational ethical environment*

Siemens' bribery scandal is by no means the first violation of business ethics. Back to 2008, its decades-long bribery scheme with 1.3 billion U.S. dollars shocked the world. Subsequently, it was accused of posting business secret of competitors. Its continuous scandal is an indication that Siemens fails to form an ethical corporate culture and ethical environment. To make a change of the current scandal and prevent any further ones, shaping organizational ethical environment should be Siemens' top priority.

Shaping organizational ethical environment goes through four stages, each of which demands different actions of organization. The four stages are: ethical awareness, ethical reasoning, ethical action, and ethical leadership.

i. *Ethical awareness*

Ethic Awareness is the foundation of an ethical climate. Through ethical awareness, employees learn how to identify problems and how to resolve them. In this stage, code of conduct must be established to support ethic awareness. Formal statement that defines how the organization expects and requires employees to resolve ethical questions must be delivered. A code of conduct typically addresses issues pertaining to; preferred style of dress, avoiding illegal drugs, following instructions of superiors, being reliable and prompt, maintaining confidentiality, not accepting personal gifts from stakeholders as a result of company role, avoiding racial or sexual discrimination, avoiding conflict of interest.

ii. *Ethical reasoning*

Since codes of conduct cannot detail a solution for every ethical situation, so corporations provide training in ethical reasoning.

Courses in Ethical Reasoning teach employees to reason in a principled way about moral and political beliefs and practices, and to deliberate and assess claims for themselves about ethical issues. Students examine the competing conceptions and theories of ethical concepts such as the good life, obligation, rights, justice, and liberty with a focus on developing the ability to assess and weigh the reasons for and against adopting them to address concrete ethical dilemmas. Employees in these courses may encounter a value system very different from their own that calls attention to their own ethical assumptions.

iii. *Ethical action*

Ethical action involves helping employees recognize and reason through ethical problems and turning them into ethical actions. It takes preparing, assessing, deciding, implementing, and reflecting. Whenever employees encounter ethical dilemmas or problems, Siemens should help them out by applying their code of conduct to practice: identifying the issues, assessing them, deciding solutions, implementing solutions and reflecting them. The current Siemens' bribery scandal is good example for its employees to review and retrospect the ethical problems concerning bribery, and encourages them to probe into the hidden reasons and seek more proper solutions.

iv. *Ethical leadership*

In this stage, executives must demonstrate ethical behavior in their actions. Leaders are first and foremost members of their organizations and stakeholder groups. Since they hold most of the senior positions and are decision makers, their values, vision and ethical standard case great impact on subordinates and thus impact the whole organization. To shape ethical conduct in an organization, leaders' behavior, actions are needed to demonstrate their support and determination.

In Siemens' bribery scandal, most of the unethical behaviors were conducted by senior executives, which attribute the frequent news of its violation of business ethics.

Thus, in Siemens, to shape ethical conduct and maintain ethical culture, leaders must firstly own their ethical criteria and behave ethically accordingly.

b) Externally: strengthening supervision

Apart from the internal improvement, external supervision is also in need. The external supervision involves first and foremost the initiatives aiming to combat bribery. These initiatives include:

- Foreign Corrupt Practices Acts
- The OECD Anti-Bribery Convention
- The UN Convention against Corruption (UNCAC)
- Transparency International

To counter bribery, wider cooperation must be conducted between countries and these conventions and organizations. Under the globally accepted guidance and principles, Signatories countries must adopt national legislation to fight against bribery. Government should take regular review of business' and officials' compliance to these laws by establishing stricter supervision system.

Secondly, external supervision involves power of media. Media is the oral power of reining any unethical behavior. Thus, media should pay more close attention on business ethical issues, track and make more exposure of unethical firms, and encourage those ethical ones.

Thirdly, the whole society should also participate in this campaign. When the whole society establish a common principle of "zero tolerance" to bribery, and monitor it ceaselessly, businesses dare not commit bribery because of their consideration of corporate image. The more and more serious social attitude towards bribery would make businesses think twice before they leap.

VI. Conclusion

This paper conducts a case study of Siemens' violation of business ethics by employing Freeman's stakeholder theory. Based on Freeman's theory, stakeholders of a firm should not only include its stockholders, instead, it covers a wide range from its internal employees to external suppliers, government, society, and even competitors. In the case of Simens' bribery scandal in Argentina, the present author outlines its stakeholders and conducts a detailed analysis of the impact of Simens' bribery on each stakeholder. The conclusion follows the analysis is that Siemens seriously violated business ethics by terribly detrimenting the interest of its stakeholders.

The analysis of Siemens' unethical bribery scandal also triggers the author's further discussion about an international issue: bribery Bribery, as one of the notorious business ethical problems, has surfaced as important issues in an increasingly interdependent world economy. No longer seen purely as a morality play, the accepted world view of corruption and bribery today is that they hinder competition, distort trade and harm consumers and taxpayers as well as undermine public support for governments. Therefore, to fight against bribery, suggested solutions are also provided. On one hand, internal ethical environment shaping is of urgent need; Simens should immediately follow the four stages of the structure of ethical environment from ethical awareness to ethical leadership to improve its current ethical predicament. on the other hand, external supervision and cooperation from international and national community to media is also in demand.

Although business ethics is in an actual fact as old as business, however, it didn't got enough attention until 1970s. As the ethical problems keep surfacing and disrupting the business order, business ethics, as an academic discipline as well as a business practice, is on its way of gaining momentum. To probe into it and make this oxymoron a better guide of business code of conduct, more and more efforts are still in much need.

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Global Journal of Management and Business Research
Volume 12 Issue 13 Version 1.0 Year 2012
Type: Double Blind Peer Reviewed International Research Journal
Publisher: Global Journals Inc. (USA)
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Capital Structure and Profitability in Srilankan Banks

By J. Aloy Niresh
University of Jaffna, SriLanka.

Abstract - Capital structure has attracted intense debate and scholarly attention across industries in the corporate finance literature over the past decades. Nonetheless, in the context of the banking industry, the subject has received a limited research attention. Capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. Hence, proper care and attention need to be given while determining capital structure decision. The study investigated the impact of capital structure on profitability of ten listed Srilankan banks over the past 8 year period from 2002 to 2009. Based on the findings of the study, there are a few key points that can be used to conclude this study. It is very important that the total debt is the determining factor of profitability in the Banking Industry of Sri Lanka. The outcomes of the study may guide banks, loan-creditors and policy planners to formulate better policy decisions as far as the capital structure is concerned. Further, the study reinforces and refines the body of knowledge relating to capital structure and profitability in Srilankan Banks.

Keywords : Capital structure, Profitability, Total debt.

GJMBR-B Classification : FOR Code: 150202 JEL Code: M21, G32

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Strictly as per the compliance and regulations of:

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I. Introduction

This study focuses on capital structure & profitability of listed banks in the Banks, Finance & Insurance sector. Capital structure is one of the most puzzling issues in corporate finance literature (Brounen & Eichholtz, 2001). The concept is generally described as the combination of debt & equity that make the total capital of firms. The proportion of debt to equity is a strategic choice of corporate managers. Capital structure decision is the vital one since the profitability of an enterprise is directly affected by such decision. Hence, proper care and attention need to be given while determining capital structure decision. In the statement of affairs of an enterprise, the overall position of the enterprise regarding all kinds of assets, liabilities are shown. Capital is a vital part of that statement. The term "capital structure" of an enterprise is actually a combination of equity shares, preference shares and long-term debts. A cautious attention has to be paid as far as the optimum capital structure is concerned. With unplanned capital structure, companies may fail to economize the use of their funds. Consequently, it is being increasingly realized that a company should plan its capital structure to maximize the use of funds and to be able to adapt more easily to the changing conditions. (Pandey, 2009)

Author : Department of Accounting, Faculty of Management Studies & Commerce, University of Jaffna, Sri Lanka.
E-mail : aloy157@gmail.com

Basically, banks engage in financial intermediation to ensure efficient mobilization & disbursement of funds to the real sector of the economy. Though other financial institutions exist to engage in the intermediation process banks are considered the most important financial intermediaries. An ultimate goal of a firm is the maximization of wealth or value of that firm (Miller & Modigliani, 1958, 1963; Miller, 1977).The relationship between capital structure and profitability has been the subject of remarkable milestone over the past decade throughout the irrelevance theory. In the seminal article, presented by MM's (1958) irrelevance theory, they argued that capital structure is unrelated to firm's value. In the presence of corporate income tax and the cost of capital in MM's (1963) they argued that the market value of the firm is positively related to the amount of long term debt used in its capital structure.

The relationship between capital structure and profitability is one that received considerable attention in the finance literature. The study regarding the effects of capital structure on profitability will help us to know the potential problems in performance and capital structure. The modern industrial firm must conduct its business in a highly complex and competitive business environment. Therefore, these types of research findings will be benefited in selecting the capital structure to achieve the optimum level of firm's profitability. This study shows the statistical analysis carried out seeking to discover is there any relationship between capital structure and profitability of the listed banks in the Banks, Finance & Insurance sector.

II. Research Problem

According to Buser (1981), the capital structure decision of a bank is similar to that of a non financial firm. Although there are considerable inter industry differences in the capital structure of firms due to the unique nature of each industry's business, the intra-firm variations are attributed to the business and financial risk of individual firms.

Most studies found a negative relationship between profitability and leverage. Within this framework, Titman & Wessels (1988) contend that firms with high profit levels, all things being equal, would maintain relatively lower debt levels since they can realize such funds from internal sources. Furthermore, Kester (1986) found a significantly negative relation

Global Journal of Management and Business Research Volume XII Issue XIII Version I Year 2012

between profitability and debt/asset ratios. Rajan & Zingalas (1995) also confirmed a significantly negative correlation between profitability and leverage in their work. Despite the above empirical works, some authors are of a different opinion. These authors observed a positive relationship between profitability and debt levels in their studies. For example, Taub (1975) in a regression analysis of four profitability metrics against debt ratio found significantly positive association between debt and profitability. Abor (2005) also found a significantly positive relationship between total debt and profitability. From the foregoing discussions based on the available empirical literature, it is crystal clear that results from investigations into the relationship between capital structure and profitability are inconclusive and requires more empirical work.

An important question facing companies in need of new finance is whether to raise debt or equity. In spite of the continuing theoretical debate on capital structure, there is relatively little empirical evidence on how companies actually select between financing instruments at a given point of time in order to attain optimum profitability. Hence, the main problem of this research is to study how the capital structure influences on signaling the bank's profitability in Sri Lanka?

III. Objectives

The objectives are geared towards the following:

- To find out the impact of capital structure on profitability.
- To find an optimal capital structure that would be associated with the best performance.
- To suggest the banks in the way to increase profitability through adapting a better strategic framework of capital structure.

IV. Review Of Literature

Capital structure is referred to as the way in which the firm finances itself through debts, equity and securities. It is the composition of debt and equity that is required for a firm to finance its assets. The capital structure of a firm is very important since it is related to the ability of the firm to meet the needs of its stakeholders. The Board of Directors or the financial manager of a company should always endeavor to develop a capital structure that would lie beneficial to the equity shareholders in particular and to the other groups such as employees, customers, creditors and society in general (Pandey, 2009).

Brander & Lewis (1986) and Maksimovic (1988) provided the theoretical framework that links capital structure and market structure. Contrary to the profit maximization objective postulated in industrial organization literature, these theories, like the corporate finance theory, assume that the firm's objective is to maximize the wealth of shareholders and show that market structure affects capital structure by influencing the competitive behavior and strategies of firms. According to Brander & Lewis (1986) firms in the oligopolistic market will follow the strategy of maximizing their output for improving profitability in favorable economic conditions. In unfavorable economic conditions, they would take a cut in production and reduce their profitability. Shareholders enjoy increased wealth in good periods, but they tend to ignore decline in profitability in bad times as unfavorable consequences are passed on to lenders because of shareholders' limited liability status. Thus the oligopoly firms, in contrast to the firms in the competitive markets, would employ higher levels of debt to produce more when opportunities to earn high profits arise. The implied prediction of the output maximization hypothesis is that capital structure and market structure have positive relationship. Furthermore, Lalith, P.S (1999) investigated the capital structure of Srilankan companies and found that the use of long-term debt is relatively low in Srilankan companies. The mean leverage in Sri Lanka is estimated as 13.5%, long term debt to equity ratio is 24% while the total debt to equity ratio is 104.1%. This evidence suggested that the use of debt financing in Sri Lanka is significantly low in comparison to G7 markets.

According to the Business Dictionary profitability is the ability of a firm to generate net income on a consistent basis. Ratio is used as a benchmark for evaluating the performance of a firm. Ratios help to summarize large quantities of financial data and to make qualitative judgement about the firm's profitability. One of the most important financial decisions facing companies is the choice between debt and equity capital (Glen & Pinto, 1994). This decision can effectively and efficiently be taken when managers are first of all aware of how capital structure influences firm profitability. This is because; this awareness would enable managers to know how profitable firms make their financing decisions in particular contexts to remain competitive. In the corporate finance literature, it is believed that this decision differs from one economy to another depending on country level characteristics.

Peterson & Rajan (1994) found a significantly positive association between profitability and debt ratios in a study designed to investigate the relationship. Ooi (1999) argues that profitable firms are more attractive to financial institutions as lending prospects. The reason is that, those firms are expected to have higher tax shields and low bankruptcy costs. Furthermore, Abor (2005) has reported a significantly positive relationship between the ratios of short term debt to total assets & profitability but a negative association between the ratio of long term debt to total assets and profitability. Dimitris, M. & Maria, P. (2008) investigated the relationship between capital structure, ownership structure and firm performance across different industries using a sample of French manufacturing firms. They found that a negative relationship between past profitability and leverage and there will be a positive relation between profitability and leverage.

V. Conceptualization

Based on the research question, the following conceptual model has been constructed. This model of capital structure in banking sector introduces new constructs and uniquely combines them in specifying that the profitability is a function of debt to equity and debt to total funds in the capital structure.

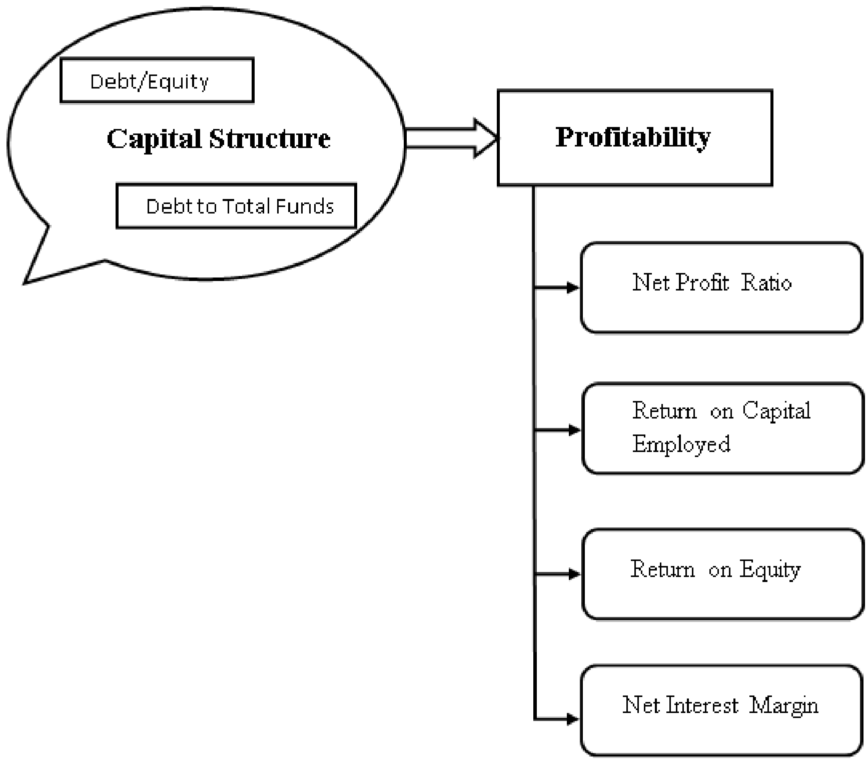

Figure 1 : Conceptualization Model

VI. Hypotheses Of The Study

The following hypotheses were formulated for the study.

H1- There is a significant impact of debt to equity on Net profit.

H2- There is a significant impact of debt to equity on Return on Capital Employed.

H3-Debt to equity has a significant impact on Return on Equity.

H4- Debt to equity has a significant impact on Net Interest Margin.

H5- There is a significant impact of debt to total funds on Net profit.

H6- There is a significant impact of debt to total funds on Return on Capital Employed.

H7- Debt to total funds has a significant impact on Return on Equity.

H8- Debt to total funds has a significant impact on Net Interest Margin.

VII. Methodology

a) Data Collection

The present study used secondary data for the analysis. Secondary data is data that have been previously collected for some other project rather than the one at hand but found useful by the researcher. The financial statements which are made up of income statements and balance sheets of the sample banks were the main sources of data for this study. These were obtained from the Hand book of Listed Companies 2007 & the annual reports of respective banks. Further, scholarly articles from academic journals, relevant text books on the subject and the internet search engines were also used. Specifically, the financial statements of the banks in the sample were collected for the period 2002-2009 and a balanced panel of ten banks emerged for the study.

b) Sampling Design

According to Jankowicz, (1994) generalisation about the population from data collected using any sample is based on probability. In order to be able to generalise about the research finding to the population, it is necessary to select samples of sufficient size. A large sample size will in general improve the quality of the research. A large sample size is always better than a small one. Saunders, Lewis and Thornhill (1996) also point out that the larger the sample size, the lower the likely error in generalising the population. The Colombo Stock Exchange (CSE) has 241 companies representing 20 business sectors as at 11thFebruary 2011. The sample of this study composed of ten banks listed in the Colombo Stock Exchange and period of 8 years from 2002 to 2009. From the 20 sectors; Banks Finance & Insurance sector was selected for the present study. From this sector the following ten listed Srilankan banks were selected to carry out the research;

1. Commercial Bank of Ceylon Limited
2. Hatton National Bank Limited
3. Housing Development Finance Corporation Bank of Sri Lanka
4. Merchant Bank of Sri Lanka PLC
5. National Development Bank PLC
6. Nations Trust Bank Limited
7. People's Merchant Bank PLC
8. Sampath Bank Limited
9. Seylan Bank PLC
10. Seylan Merchant Bank PLC.

Only listed banks are selected for this research. This represents 27% of the mean number of the companies listed under the Bank Finance & Insurance sector. Other companies listed under the different sectors are not taken into consideration in this analysis in order to arrive at a generalized conclusion about the listed banks in Sri Lanka.

c) Mode of Analysis

The quantitative research approach is employed to find out the findings of the research study. Since numerical and secondary data is used, quantitative approach is considered to be a suitable approach for the study. According to Leavy (2004), "statistical analyses are used to describe an account for the observed variability in the data". This involves the process of analyzing the data that has been collected. Thus the purpose of statistics is to summarize and answer questions that were obtained in the research. The upper level of statistical significance for hypotheses testing was set at 5%. All statistical test results were computed at the 2-tailed level of significance. Statistical analysis involves both descriptive and inferential statistics.

Descriptive statistics are used to describe and summarize the behavior of the variables in a study. They refer to the ways in which a large number of observations are reduced to interpretable numbers such as averages and percentages. Inferential statistics are used to draw conclusions about the reliability and generalizability of the findings (Leary, 2004, p.38). In order to test the research hypotheses; the inferential tests used include the Regression Analysis.

d) Research Model

Regression analysis was carried out to test the impact of capital structure on profitability. Here capital structure is the independent variable and profitability is the dependent variable. From these independent and dependent variables, the following relationships are formulated.

Profitability of the banks is dependent upon the capital structure. It is represented as follows;

$$P = f\,(CS)$$

Which shows profitability is the function of capital structure.

Where;

P = Profit

CS = Capital Structure

Here, profitability is measured with the help of four ratios namely Net profit, Return on Capital Employed, Return on Equity and Net Interest Margin. Capital structure is measured through Debt/Equity ratio and Debt to total funds ratio. Therefore, the regression model will be formulated in the following manner;

$$\left.\begin{array}{l} NP = \hat{a}_0 + \hat{a}_1 x_1 \ldots\ldots\ldots\ldots\ldots\ldots \\ NP = \hat{a}_0 + \hat{a}_1 x_2 \ldots\ldots\ldots\ldots\ldots\ldots \end{array}\right\} \text{Model 1}$$

$$\left.\begin{array}{l} ROCE = \hat{a}_0 + \hat{a}_1 x_1 \ldots\ldots\ldots\ldots\ldots\ldots \\ ROCE = \hat{a}_0 + \hat{a}_1 x_2 \ldots\ldots\ldots\ldots\ldots\ldots \end{array}\right\} \text{Model 2}$$

$$\left.\begin{array}{l} ROE = \hat{a}_0 + \hat{a}_1 x_1 \ldots\ldots\ldots\ldots\ldots\ldots \\ ROE = \hat{a}_0 + \hat{a}_1 x_2 \ldots\ldots\ldots\ldots\ldots\ldots \end{array}\right\} \text{Model 3}$$

$$\left.\begin{array}{l} NIM = \hat{a}_0 + \hat{a}_1 x_1 \ldots\ldots\ldots\ldots\ldots\ldots \\ NIM = \hat{a}_0 + \hat{a}_1 x_2 \ldots\ldots\ldots\ldots\ldots\ldots \end{array}\right\} \text{Model 4}$$

Where;

X_1 = Debt/Equity ratio

X_2 = Debt to Total Funds ratio

NP = Net profit

$\hat{a}_0$ = Constant

ROCE = Return on Capital Employed

ROE = Return on Equity

NIM = Net Interest Margin

VIII. Results & Analysis

a) Descriptive Statistics

	N	Range	Minimum	Maximum	Mean	Std. Deviation
Net profit	10	20.96	-3.6	17.36	8.8789	5.90755
Return on Capital Employed	10	16.11	9.32	25.42	14.8218	5.16101
Return on Equity	10	62.04	-42.55	19.48	9.5116	18.51050
Net Interest Margin	10	4.73	3.49	8.22	4.9070	1.73385
Debt/Equity Ratio	10	1353.63	182.25	1535.88	825.1531	801.59839
Debt to Total Funds Ratio	10	17.91	77.48	95.39	88.6591	6.84658
Valid N (listwise)	10					

Table : 8.1.1 Descriptive Statistics

The descriptive statistics show that over the period under study, the profitability ratios measured by net profit, return on capital employed, return on equity and net interest margin averaged 8.9%, 14.8%, 9.5% and 4.9% respectively. The debt/equity ratio stood at 825.2% and debt to total funds averaged 88.7%. This is an indication that approximately 89% of total assets in the banking sector of Sri Lanka are represented by debt, confirming the fact that banks are highly geared institutions. The maximum and minimum values for debt/equity ratio indicate that the debt/equity composition varies substantially among the listed banks in Sri Lanka.

b) Regression Analysis

Table 1 : Predictors of Profitability - Model Summary I

Model	Dependent Variable	R	R^2	Adjusted R Square	Std. Error of the Estimate
1	NP	0.370^a	0.137	0.029	5.82134
2	ROCE	0.388^a	0.150	0.044	5.04167
3	ROE	0.328^a	0.107	-0.004	18.54840
4	NIM	0.661^a	0.437	0.367	1.37944

a. *Predictors: (Constant), Debt/Equity Ratio*

The R^2 values of 0.137, 0.150, 0.107 and 0.437 which are in the above mentioned table denotes that 13.7%, 15%, 10.7%, and 43.7% of the observed variability in NP, ROCE, ROE, and NIM is explained by the variability in the independent variable of Debt/Equity ratio. These R^2 values indicate that there may be number of variables which can have impact on profitability other than the Debt/Equity ratio. Hence this area indicated as a scope for future research.

Table 2 : Predictors of Profitability - Model Summary II

Model	Dependent Variable	R	R^2	Adjusted R Square	Std. Error of the Estimate
1	NP	0.711^a	0.505	0.443	4.40927
2	ROCE	0.561^a	0.314	0.229	4.53314
3	ROE	0.246^a	0.061	-0.057	19.02977
4	NIM	0.879^a	0.773	0.744	0.87648

a. *Predictors: (Constant), Debt to Total Funds Ratio*

The above mentioned table shows that Debt to Total Funds ratio is having the impact of 50.5% and 77.3% on Net profit and Net Interest Margin respectively. This indicates that debt to total funds composition is the major determining factor of Net profit and Net Interest Margin of the listed banks in Sri Lanka. Only 6.1% of variations in Return on Equity are explained by the variations in debt to total funds. The remaining 93.9% is influenced by factors other than debt to total funds.

Table 3 : Coefficient for predictors of performance

Models	Unstandardized Coefficients		Standardized Coefficients	t-value	Sig
	B	Std. Error	Beta		
1-NP					
Constant	12.474	3.685		3.385	0.010
D/E	-0.004	0.004	-0.370	-1.126	0.293
Constant	63.232	19.083		3.313	0.011
D/TF	-0.613	0.215	-0.711	-2.856	0.021
2-ROCE					
Constant	18.113	3.194		5.670	0.000
D/E	-0.004	0.003	-0.388	-1.189	0.268
Constant	52.286	19.620		2.665	0.029
D/TF	-0.423	0.221	-0.561	-1.915	0.092
3-ROE					
Constant	-0.471	11.741		-0.040	0.969
D/E	0.012	0.012	0.328	0.981	0.355
Constant	68.490	82.362		0.832	0.430
D/TF	-0.665	0.926	-0.246	-0.718	0.493
4-NIM					
Constant	6.793	0.873		7.780	0.000
D/E	-0.002	0.001	-0.661	-2.494	0.037
Constant	24.645	3.793		6.497	0.000
D/TF	-0.223	0.043	-0.879	-5.217	0.001

At the above models t values were found to be significant in the model 4 and model 1 for the independent variable of debt to total funds. From the above mentioned table it is crystal clear that negative association was found between all the independent and dependent variables except the association between Debt Equity ratio and Return on Equity.

c) *Hypotheses Testing*

No	Hypotheses	Results	Tools
H1	There is a significant impact of debt to equity on Net profit.	Rejected	Regression
H2	There is a significant impact of debt to equity on Return on Capital Employed.	Rejected	Regression
H3	Debt to equity has a significant impact on Return on Equity.	Rejected	Regression
H4	Debt to equity has a significant impact on Net Interest Margin.	Accepted	Regression
H5	There is a significant impact of debt to total funds on Net profit.	Accepted	Regression
H6	There is a significant impact of debt to total funds on Return on Capital Employed.	Rejected	Regression
H7	Debt to total funds has a significant impact on Return on Equity.	Rejected	Regression
H8	Debt to total funds has a significant impact on Net Interest Margin.	Accepted	Regression

IX. Conclusion & Recommendation

This study examined the impact of capital structure on profitability in Srilankan banks. The study covered 10 listed banks over the period of 2002 to 2009 and the major findings of the study are summarized below:

Total debt was found to be significant in determining net profit and return on capital employed in the banking industry of Sri Lanka. The mean values of debt/equity ratio and debt to total funds were 825.15% and 88.66% respectively. The mean value of debt/equity ratio suggests that debt is 8.25 times higher than equity capital. The debt/equity ratio is normally safe up to 2. It shows the fact that banks in Sri Lanka depends more on debt (Long-term loans) rather than equity capital. The mean value of debt to total funds ratio indicates 89% of the total capital of listed banks in Sri Lanka is made up of debt. This has re-emphasized the fact that banks are highly levered institutions. Long-term debt and total debt were found to be insignificant in determining return on equity in the banking industry of Sri Lanka. This means that deposits do not necessarily translate into enhancing returns on equity in the banking industry of Sri Lanka.

The R^2 values were found to be significant for the impact of debt to total funds on net profit, debt/equity on net interest margin, and debt to total funds on net interest margin. But, no significant impact was found on the remaining dependent variables. Total debt has a major impact on net interest margin and net profit accounted for 77.3% and 50.5% respectively. The least amount of impact was found on return on equity ($R^2 = 6\%$) by total debt. This reveals that remaining 94% is influenced by factors other than total debt. That is other factors are probably a better predictor of return on equity than total debt.

Banks generally play a crucial role in the economic development of every country. One critical decision banks face is the debt-equity choice. Among others, this choice is necessary for the profit determination of firms. What this means is that banks that are able to make their financing decision prudently would have a competitive advantage in the industry and thus making superior profits. Nonetheless, it is essential for us to recognize that this decision can only be wisely taken if banks know how debt policy influences their profitability. Therefore banks should take into view the following matters in order to increase their profitability;

1) An appropriate mix of capital structure should be adopted in order to increase the profitability of banks. Findings revealed that total debt contributed 50.5% in determining the net profit of the Banking Industry. That is in the case of higher debt, profitability will tend to decline. The reason behind this may be due to the high interest bearing securities engaged in the total debt. In addition to these an increase in the level of debt also increases the riskiness of banks. Therefore, banks should concern much on internal sources of financing in order to increase their profitability.
2) Top management of every banking firm should make prudent financing decision in order to remain profitable and competitive.
3) Banks in Sri Lanka must not be only interested in mobilizing deposits but must also be concerned with utilizing these deposits effectively and efficiently. To achieve this, banks must set competitive lending rates that would not deter customers from accessing loans.

X. Limitations And Scope Of Future Research

The current research is restricted only to the listed banks in the Banks, Finance & Insurance sector in Sri Lanka. Furthermore, this research was mainly conducted based on the secondary data collection. The other data collection methods had not been considered. As a result they may not be 100% accurate. In addition to these data representing the period of 2002 to 2009 were used for the study.

The research has compiled a large database of listed bank's accounting data that demonstrate what can be done even with the limitations of currently available data. There is clearly enormous scope for more research that can inform an understanding of how the capital is structured, how it connects with the profitability and what elements of capital structure make a difference. To develop specific policy recommendations I suggest the following for further research;

1) There are currently 241 companies listed in the CSE under 20 sectors. The study covered only the listed Srilankan banks from the Banks, Finance & Insurance sector. Therefore, additional investigation is required to examine firms in the different sectors tend to follow different capital structure patterns.
2) Another research area that could be extended is to examine capital structure and profitability to the non-listed banks.
3) This study has utilized only standard forms of profitability measures. A more precise measure of profit can be obtained with the help of Economic Value Added (EVA) concept.

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Methods and Procedures	Clear and to the point with well arranged paragraph, precision and accuracy of facts and figures, well organized subheads	Difficult to comprehend with embarrassed text, too much explanation but completed	Incorrect and unorganized structure with hazy meaning
Result	Well organized, Clear and specific, Correct units with precision, correct data, well structuring of paragraph, no grammar and spelling mistake	Complete and embarrassed text, difficult to comprehend	Irregular format with wrong facts and figures
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INDEX

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ISSN 9755853