

# GLOBAL JOURNAL

## OF MANAGEMENT & BUSINESS RESEARCH

DISCOVERING THOUGHTS AND INVENTING FUTURE

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Volume 12

| Issue 5

| Version 1.0

ENG



GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH

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GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH

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VOLUME 12 ISSUE 5 (VER. 1.0)

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GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH  
Volume 12 Issue 5 Version 1.0 March 2012  
Type: Double Blind Peer Reviewed International Research Journal  
Publisher: Global Journals Inc. (USA)  
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

## Factors Considered By Lower Middle Class People of Khulna City, Bangladesh on Buying Some Selective Consumer Products

By Sadia Afroj  
*Khulna University*

**Abstract** - Bangladesh is one of the least developed countries in South-Asian region, with a per capita annual income of around \$ 750. People's purchasing power is very low compared to other South and South East Asian countries. People of urban areas are the main customers of branded consumer products in Bangladesh. People of lower middle class are very important in respect of the size to total urban population as well as total consumption in low involvement products. In dividing the total consumer sector some aspects are taken into concern to justify its effect on the buying pattern of this specific class. The consumer class can be divided on the basis of economic condition, social status, basic buying orientation, geographical aspect or some inherent reinforcement. These attributes helps not only to study the buying orientation of different class people but also act as a vibrant and vigorous sours to identify the reaction with the change in situation.

**Keywords** : *Consumer buying behavior, Core benefit Social class, Lower middle class, Price consideration, Brand, Peer group influences, Sales promotion, Value added benefit.*

**GJMBR-A Classification** : *FOR Code: 150501, 150505 JEL Code: M31, R31*



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# Factors Considered By Lower Middle Class People of Khulna City, Bangladesh on Buying Some Selective Consumer Products

Sadia Afroj

**Abstract** - Bangladesh is one of the least developed countries in South-Asian region, with a per capita annual income of around \$ 750. People's purchasing power is very low compared to other South and South East Asian countries. People of urban areas are the main customers of branded consumer products in Bangladesh. People of lower middle class are very important in respect of the size to total urban population as well as total consumption in low involvement products. In dividing the total consumer sector some aspects are taken into concern to justify its effect on the buying pattern of this specific class. The consumer class can be divided on the basis of economic condition, social status, basic buying orientation, geographical aspect or some inherent reinforcement. These attributes helps not only to study the buying orientation of different class people but also act as a vibrant and vigorous sours to identify the reaction with the change in situation. Buying behavior of existing and potential customers is of strategic importance for the market success of business organizations. Proper understanding and awareness of this give manufacturers a competitive edge over others who do not have or lack proper understanding and awareness of consumers buying orientation. Standard textbook on marketing and consumer behavior generally identify purchase occasion, benefits derives, user status, usage rate, brand loyalty, buyer readiness stage etc. as the bases for behavioral basis and a pragmatic way for market segmentation. But there are some other factors that are of great importance to the customer while buying the daily necessity goods. As a result this issue inspired us to consult about those factors that are of value to the people of lower middle class of the metropolitan city Khulna, Bangladesh.

**Keywords** : Consumer buying behavior, Core benefit Social class, Lower middle class, Price consideration, Brand, Peer group influences, Sales promotion, Value added benefit.

## 1. OBJECTIVE OF THE STUDY

The title reveals objective of the study. Yet there are few specific objectives underlying and they are stated below:

- ✓ To know the buying practice of the lower middle class peoples on buying the chosen products
- ✓ To identify the factors which are important for the customers on buying the chosen products
- ✓ To know the level of importance of those factors to buying decision

### a) Scope Of The Study

Every investigation or expedition must contain a specific scope and a scope discloses the working peninsula of that specific investigation. The scope of this research is to analyze the factors considered by lower middle class people of Khulna city on some selective consumer products. The low involvement consumer products are toothpaste, Soap, Shampoo and Detergent. The study has been conducted over 200 people of Khulna city who have monthly income Tk. 7000 to Tk. 10, 000 as considered them as •lower middle class on the economic perspective of the area.

### b) Literature Review

The review of literature reveals that a great deal of research effort has been expended to investigate the basic buying behavior of different types of consumers. They also conducted factors oriented shopping pattern and find out the significance of those influential factors.

Zeithaml (1982, 1988) suggests in most purchasing decision customer's objective is to "Get the best for the money". This represent the combination of price and value orientation which is the most important consideration for most of the consumers. Crier and Ross (1997) maintains that the greater the perceived value, the greater that the customers are will be interested in purchasing. They (Crier & Ross) explained the term value orientation saying" Consumer trends to select the lowest price alternatives when the options in the choice set are perceived to have the same level of benefit. Consumers are becoming more price conscious does not mean that they always go for the lowest price, rather they will seek for affordable price range among their acceptable quality range."

Garsky et.al. (1995) proposed a shopping model that incorporates some tenets as (i) acceptable set of brands and sectors are integral parts to purchase decision (ii) low price on acceptable brand triggers purchase. Laison and Robert (1999,p.100-116) in their study told that consumers are sharply classified with respect to social and economic position. This result indicates that this two aspects world widely divide the main consumers market.

\*The use of social class as a market determinant/variable was first suggested by Martineau (1958).

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Maccilil, (1987), in his study told about the total business and household consumer market that both classes consider price, quality, convenient location as the most powerful influential factors in selecting or buying consumer goods. In the same time Winklin and Duery (1987) conducted a similar study focusing on the two groups of consumers having high income and low income in USA proved the influential forces earlier described by Maccilil.

In the theory of marketing and buyer behavior, the concept of social class is considered the basic determinant of consumption behavior. In fact, among behavioral scientists, there was a consensus that market behavior of individuals is closely related to their social class. In this context, social class was often considered more important than income in affecting buying behavior (Slocum and Mathews, 1970).

When looking at numerous theoretical disputes and postulates (from the early to the contemporary ones), one might argue that the social class concept is more complete and comprehensive than the notion of income when considering their relevance in understanding and explaining consumption and buyer behavior. The reasoning behind this varies. Although social class is often associated with higher income, income still presents only one of many characteristics of social class. Individuals or families of different social classes can dispose of similar income, i.e. those in the bottom or top income group should not all be in the bottom or top social class group. Furthermore, income grows higher as we grow older, which has no bearing to social class changes. Also, families with one or more working members and subsequently a higher income are not automatically members of a higher social class. Much more so than income, social class is associated with values and life-styles of consumers, both of which significantly determine the consumption structure and behavior for numerous products. This point of view is shared by Levy (1966 according to Schaninger, 1981), Myers and Guttman (1974 according to Schaninger, 1981). Levy argued that «social class variations are variations in lifestyle», while Myers and Guttman consider social class to be a valuable segmentation base because it captures those lifestyle differences that income ignores.

It is true that the above studies were conducted about the buying tendency of different classed people of developed countries. But this basic form is also applicable for the developing countries like Bangladesh due to different economic, political or socio-cultural environment. Every where these issues are carried out with a view to analyze and identify the factors take in account by substantial consumer group of Bangladesh.

### c) Methodology

The ways which was followed to collect, evaluate, analyze, interpret, and explain, preparation and presentation of data are presented below;

**Type of the Study:** I have conducted an Exploratory Research to get a clear understanding about the factors and the importance of those factors in consumer's decision making process.

**Population:** The target population for the study was the lower middle class people of Khulna city who have the income level of Tk. 7000-10000

**Sample Size:** Total 200 respondents not under 20, from 10 specific localities of Khulna constitute the sample. From each locality, 20 families were contacted and from each contacted family one individual respondent was selected.

**Sampling Technique:** The samples have been taken on judgment sampling method.

**Data Collection Method:** The needed data has been collected solely from primary source.

**Questionnaire Development:** To collect data a questionnaire has been developed which has been attached in the Appendix. Individual interviews were conducted with the structured questionnaire. 5 point Likert scale is used to measure the relative importance of the variables

**Method of Data Analysis:** Collected data has been systematically processed and analyzed by using required statistical tools. And it has been presented in terms of tables, charts, and graphs with written scripts.

## II. BUYING BEHAVIOR ORIENTATION

Consumer's Buying behavior refers to the pattern of buying of the final consumers-individual or households who buy goods for personal consumption. In Bangladesh the main consumer market is consists of around 4.5 million of people who consumes more than 3 trillion worth of goods each year. Consumers make and change their buying decision every day. Most of the cases the consumer's buying decision highly depends upon the answer of the questions-what they buy, where they buy and how much buy. Buying behavior is influenced strongly by social, personal, psychological and economic factors. These consumers vary tremendously according to their age, income, education, and level of taste, brand preferences.

Consumers follow different trade off for their core buying. One of the important trade-off of buying orientation is quality-price trade off. Here consumers treat the attribute in several ways. One part of this is highly price sensitive and mainly interested in low price. They search for the lowest price and don't worry about what kind of quality they get from those low prices. Price gets the first priority to them and not brand loyal at all. Mainly from lower middle to lower class people are categorized in this group There are another kind of consumers who are very much quality concern. They always strive for the best quality and willing to pay whatever it takes to get the best possible quality. Brand preference gets supreme importance and they are highly brand loyal. They consider brand as a symbol of

prestige. These people may even reject those products that are priced too low.

Beside the above two categories there are another consumer group who are trying to balance the quality and price. The consumers fix their desired level of customer value they want from a particular product and then decide how much they are able to spend on that product. They may also fix their budget first and then look for the quality product within the price range. They are price sensitive as well as brand loyal but react these two attributes in different way from the extreme price and brand oriented group. This value-oriented group consists major portion of the total consumers. This group represents the major portion of the total consumers group.

#### a) Purchasing Pattern

The study was based on the buying practice and buying behavior of lower middle class people of Khulna city. Here, I have tried to find out the factors that play the vital role in a consumer's decision making process of buying some specific consumer products. The products are toothpaste, shampoo, soap and detergent. These are the low involvement item for consumption. The samples were asked about their buying pattern and the factors they value more in taking the ultimate buying decision for a particular brand.

#### i. Frequency of Purchasing

Frequency of purchasing indicant how frequently they purchase these products. Mainly users' rate, using rate are known by this purpose.

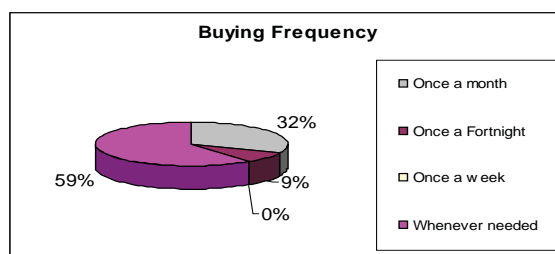
**Table 2.1:** Purchasing Frequency

Buying Frequency	No. of Respondent
Once a month	63
Once a Fortnight	17
Once a week	0
Whenever needed	120
Total respondents	200

Source: Field Survey

Though in daily consumer goods the buying frequency varies factor to factor, family to family but we considered those factors constant and find out a normal purchasing pattern.

**Chart 2.1:** Buying Frequency



Source: Buying frequency table

From the survey we have found that 32% people buy the products once a month, 9% once a week and a large 59% people purchase those products whenever needed. It can be over one month also.

#### ii. Preferred Outlet Type

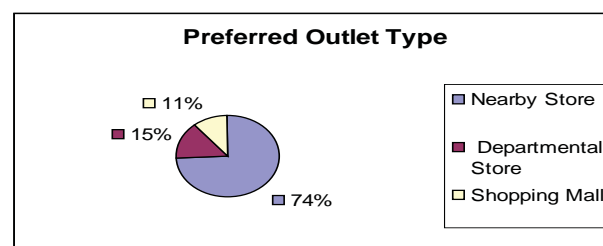
In selecting the outlet from where to buy, people prefer the nearby store of their house. But they like to go to shopping mall for some products as in buying shampoo

**Table 2.2:** Outlet position

Outlet Type	No. of Respondent
Nearby Store	132
Departmental Store	26
Shopping Mall	20
Total respondents	200

Source: Field survey

**Chart 2.2:** Preferred Outlet Type



Source: Outlet position table

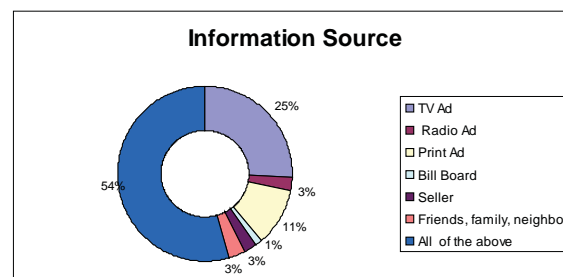
#### iii. Information Source

**Table 2.3:** Information Source

Information Source	No. of Respondent
TV Ad	51
Radio Ad	5
Print Ad	22
Bill Board	2
Seller	5
Friends, family, neighbor	6
All of the above	109
Respondents	200

Source: Field Survey

**Chart 2.3:** Information Source



Source: Information source table



From the chart and table it can be seen that more than half of the people collect information about the product type they feel like to buy is from all the existing sources they have. They use TV ad. and print ad. more to know about the existing brand in the market. But a major portion of people count on all the sources they have.

#### b) Place of taking the decision

**Table 2.4 :** Timing of taking the decision

Timing of taking the decision	No. of Respondent
At Home	95
At the Shop	105
Total respondents	200

Source: Field survey

Most of the people take the decision of which brand is to purchase after reaching the shop. And the people, who made the decision of buying a particular brand, often change the decision after getting to the shop.

#### c) Decision Maker

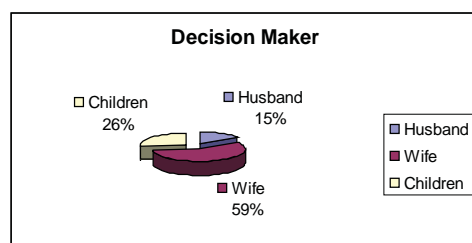
The table shows that in most of the cases, the wife of the family takes the decision which particular product is to buy. But some times children of the family ask for a particular product also. And the respondents express that it is mainly the consequence of extensive TV advertisements.

**Table 2.5 :** Decision Maker

Decision Maker	No. of Respondent
Husband	30
Wife	118
Children	52
Respondents	52

Source: Field survey

**Char 2. 4 :** Decision-Maker



Source: Decision making table

#### d) Tendency to stick to a single brand

From the research tat we have found most of the lower middle class people do not stick to one single brand in buying these products. Rather they like to buy some of the specific brands one by one. And except

those brands the seldom try for a completely new product of the market.

#### e) Reason of Switching Brands

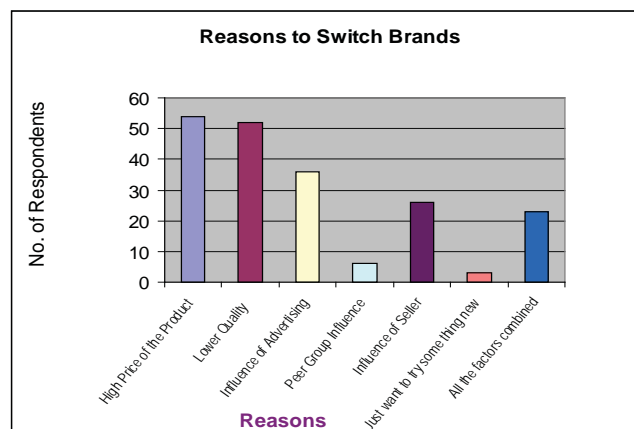
The main switching causes are given below-

**Table 2.6 :** Reason of Switching Brands

Reason of Switching Brands	No. of Respondent
High Price of the Product	54
Lower Quality	52
Influence of Advertising	36
Peer Group Influence	6
Influence of Seller	26
Just want to try some thing new	3
All the factors combined	23

Source: Field survey

**Chart 2.5 :** Reason of Switching Brands



Source: Reasons of brand switching table

From the above table and graph it is evident that, most of the people switch to one brand to another when they are dissatisfied with the price or quality of the brand they were used to buy. Moreover, some of the people are greatly influenced by advertisement or by sellers' suggestion.

### III. FACTORS AFFECT THE BUYING BEHAVIOR OF LOWER-MIDDLE CLASS PEOPLE OF KHULNA, BANGLADESH

In case of lower middle class people of Khulna there are many considerable factors influencing the buying behavior. In Khulna lower middle class people always try to maintain a specific price range for purchasing a particular product. Because of low income and stumpy knowledge about the marketing pattern the people of this class provide more emphasize on price than other factors. They are more price sensitive as a significant portion of their monthly income is covered by purchasing these items. These products are daily goods and its necessities cannot be avoided anyhow by any



classes of people. People of lower middle class people of Khulna city are predominantly featured with price oriented shopping behavior, some times look for best quality with acceptable price range.

Here we have determined some fascinating array of factors that influences the buying behavior of the lower middle class people of Khulna city of some selective consumer goods. Those attributes and their level of involvement in total purchasing decision are described below;

#### a) Price Consideration

Price orientation of the consumer is the most significant attribute of the people of lower middle class and predominately featured with price oriented buying behavior for low involvement products. This factor exerts broad and deep influences on consumer behavior. From the survey it is clear that this portion always tries to maintain high price sensitive buying pattern and interested in low price. They search for lowest price and do not worry about the brand involved to those products. Because these people are care about the price, branding is little used in this market segment. This aspects capture the major attention and consecration of purchasing the selected items. A large portion of the consumers leave the current brand with a slight increase of the price as well as a substantial portion reduce their consumption due to upward change in price. This trend signifies the price sensitivity. There remain majority portions that are ready to not only other brand rather than lower quality brand because of price increase. That indicates the immediate reaction to the price change.

**Table 3.1:** Position of price in production selection

Product Type	Mean	Mode	Frequency	(%) of mode
Tooth paste	4.68	5	131	65.5
Shampoo	4.37	5	104	52
Soap	4.16	5	111	55.5
Detergent	4.90	5	162	81

Source: Field survey

In the above table we may see the mean• importance of price among the propel where mode shows the number and percentage of people among total sample who rated price 5 that means they considered it as a very important factor. At the time of purchasing the people are ready to sacrifice some other facilities if they get price off from that product. Here in rating the degree of importance people emphasize of the price of detergent most time. Because of more frequent use of this product, they shows the heights price sensitivity in this segment

#### b) Attitude Towards Well-Known Brand Name

Low middle class people give relatively low importance to brand name. The mean score for this

particular attribute shows this. For the consumer goods like toothpaste, soap or shampoo, people mostly depend upon the well-known name to them. In the sense of "Share of mind" –the name first comes to their mind is the basis for purchasing. The company name and brand name are similar to them. Point of differentiation does not get much importance. There remains an interesting characteristic among this class of people. They are not brand loyal in the sense of brand loyalty but less interested to switch from the current well-known name. Sometimes these lower middle class people are restricted to some brands. There are some consumer products which are considered for its brand where some other concern price. There also remains a trade-off in balancing the brand-price aspects. Though the people of lower middle class is less brand concern, it doesn't convey that they are not less brand concern rather we can say that they are less loyal to a particular brand.

**Table 3.2 :** Attitude towards well-known brand name

Brand Name	Mean	Mode	Frequency	(%) of mode
Tooth paste	3.92	5	34	17
Shampoo	3.84	5	31	15.5
Soap	4.07	5	87	43.5
Detergent	3.02	5	11	5.5

Source: Field survey

- 5=Very important to me, 4=important, I am care about it, 3=indifferent, depends on the situation, 2=unimportant, 1=Very unimportant

From the above data we see that in case of soap buying people are more responsive to the brand otherwise not so. Toothpaste and shampoo get little bit lower importance where detergent got the lowest consideration at the time of purchasing a product basing upon its brand consideration.

#### c) Quality Consideration

Quality is such an attribute that varies with person's expectation towards that particular product. The lower middle class people of Khulna rated quality as an above average important aspects. It is true that it is not more than the price but people are concern about maintaining a quality level to the extend of their affordability

**Table 3.3 :** Quality consideration in buying

Brand Name	Mean	Mode	Frequency	Percentage (%)
Tooth paste	4.20	5	72	36
Shampoo	4.22	5	105	52.5
Soap	4.22	5	88	44
Detergent	4.37	5	59	29.5

Source: Field survey

The mean position above four within five-point rating indicates whether this class can maintain or not but quality always gets considerable importance to them. In case of the quality of shampoo heights 105 among 200 put the heights importance on quality. In the total sample it covers 52.5%. Quality level is also important for the purpose of serving the basic of the product. These class of people are very much price sensitive but for these low involvement product we cannot overlook their high quality preference. More over price-quality comparison is also paid importance.

#### d) Core Benefit

In the mean score of core benefit it gives us the picture indicating it high importance. Some times the people rated core benefit as a second important variable to them. Sometimes quality and core benefit is jointly effecting the purchasing decision. When the product serves its core benefit properly, they don't consider or ignore its supplementary purpose.

*Table 3.4 : Effect of core benefit*

Brand Name	Mean	Mode	Frequency	Percentage (%)
Tooth paste	4.30	5	71	35.5
Shampoo	4.51	5	101	50.5
Soap	4.71	5	143	71.5
Detergent	4.79	5	166	83

*Source: Field survey*

In case of these above selective items people evaluate the quality and core benefit more or less equally. The core purpose of detergent is washing cloth. This basic is taken into the account of lower middle class people in the way-it is serving the core benefit properly, so it's quality is high. The most frequent purchasing of detergent rated 5 as mode. Because it became maximum number (166) in the data analysis table

#### e) Value Added Benefit

Value added benefit does not bear so much importance up to that point to which it cannot create significance differentiation. As these products are of low involvement, lower middle class people pay less attention on value added services at the time of making their purchase. In case of planned buying the term value added service is strongly ignored by these people. But in case of on the spot decision making value added service effects their buying decision.

*Table 3.5 : Value-added benefits*

Brand Name	Mean	Mode	Frequency	(%) of mode
Tooth paste	2.92	3	101	50.10
Shampoo	2.94	3	94	47
Soap	2.98	3	99	49.5
Detergent	2.02	2	76	39

*Source: Field survey*

In purchasing decision making value-added service is considered as a factor of below average. Most of the case people categorize it in the indifferent area and some times they consider it as a very unimportant factor. As these are daily consumer product whatever extra value the marketers are paying, it cannot attain much attention of this consumer group. In the above table (2.5) we can see that value-added benefit failed to bring any extra attention or consideration for lower middle class people in any of the product group. Height number of people (101) ranked it as a neutral issue in their purchasing decision-making. Effective media advertisement some times connivance the people about value added services. But it has no long term effect. For a short-run it may increase the selling but ultimately it cannot bring change in the buying behavior of lower middle class people.

#### f) Seller's Influences On Buying

Seller always try to build up long term relationship with the consumer and want to make most frequent purchase from their own shop. As a result they influence the buyers in different ways. One of the most common ways to make it is to convey different message about product. It is also true that the lower middle class people get most of the information from nearest retail store. People used to get the information from the seller and make their purchase decision when they do not have much information at their hand.

*Table 3.6 : Seller's influence on buying*

Brand Name	Mean	Mode	Frequency	Percentage (%)
Tooth paste	2.18	2	156	82.5
Shampoo	3.16	3	144	72
Soap	2.80	2	98	49
Detergent	2.05	1	96	48

*Source: Field survey*

Except shampoo, most of the time seller's influences do not change the pre-planned buying of a consumer. Because of information availability of the seller's hand the sellers effect some times the shampoo purchasers. But it happens very little number of time.

### g) Container Size/Packaging

When people buy for self or family they emphasize on container size change. The necessities the product depends up on number of family members. When they want to buy a mini/ sauce pack container size valued nothing to them. They just purchase it based on a common name or requirement. But when people consider to buy for their family, container

**Table 3.7 :** Influence of container size/package on buying

Brand Name	Mean	Mode	Frequency of mode	Percentage (%)
Tooth paste	3.79	4	105	52.5
Shampoo	3.92	4	111	55.5
Soap	3.80	4	109	54.5
Detergent	3.90	4	113	56.5

Source: Field survey

size drastically influence buying decision. For every product container size affects the purchasing decision. Most of the cases over 100 people for all these product told that container or packet size is very important. Not only in term of size but outlook, safety, transferability these issues are also considered.

### h) Product Color

Color influences the purchaser when people take the purchase decision instantly. Their perception does not effect the buying so much because of color. When new product introduced in the market, people give importance on color that time mostly.

**Table 3.8 :** Effect of product color on buying

Brand Name	Mean	Mode	Frequency	Percentage (%)
Tooth paste	3.05	3	89	44.5
Shampoo	2.59	2	121	60.5
Soap	3.22	3	123	61.5
Detergent	1.05	1	178	83

Source: Field survey

In case of toothpaste or soap color may have little contribution of in buying but detergent and shampoo does not affected by the color at all. People know the product and buy to meet their basic purpose. Container or package color even has more influence than product color.

### i) Aroma

Aroma is considered as an important variable at the time of purchasing toothpaste and soap but it has lesser influence on customer when they purchase detergent and shampoo. When consumer group involved into purchasing most of the cases they know about the aroma of the well-known product.

**Table 3.9 :** Aroma considerations in buying

Brand Name	Mean	Mode	Frequency	Percentage (%)
Tooth paste	3.75	4	101	50.5
Shampoo	2.59	3	92	46
Soap	3.81	4	127	63.5
Detergent	2.06	2	162	81

Source: Field survey

In promotion the marketers highlights the aroma. As a result in soap it get little bit higher importance. But for other product its significance level is too low. Either it is not a considerable factor for purchasing or totally unimportant to them.

### j) Sales Promotion

Sales promotion includes a wide assertion of selling consumer goods like different types of incentives to convene to purchase. From the marketer's viewpoint they want to dramatize the product offers and boosting sagging sales. In the point of consumer attraction lower middle class people are deeply involved with such strategy. As sales promotion tells –“Buy it now” –lower middle class people also react strongly to this approach.

**Table 3.10 :** Sales promotions

Product	Mean	Mode	Frequency	Percentage (%)
Tooth paste	3.40	4	105	52.5
Shampoo	3.59	4	112	55
Soap	3.53	3	88	44
Detergent	4.06	4	139	69.5

Source: Field survey

Trail amount, extra or free, coupon, price off such types of short-term offering affects the purchasing of lower middle class people in the following pattern-

- ✓ Increase short-lived purchasing significantly
- ✓ Sometimes motivate to switch from a well-known product name to another
- ✓ Influence impulse buying strongly

In detergent major portion of money is spending among these four categories. As a result little sales promotion affects the purchasing by increasing buying. But for the other three factors it remains just above in indifferent point.

### k) Label Information

Label information gets least consideration for the lower middle class people. Even they are not at all concern about the label information. They just know the name (brand) and buy it.

**Table 3.11:** Label information

Brand Name	Mean	Mode	Frequency	Percentage (%)
Tooth paste	1.96	1	102	51
Shampoo	2.12	2	107	53.5
Soap	1.03	1	152	75
Detergent	1.36	1	117	58.5

Source: Field survey

So by reading the label information, purchasing the product is not a well-practiced factor among the lower middle class people of Khulna city.

#### j) Convenient Location

For daily consumer product people are reluctant to go apart from their residence to far apart if it remain available in the nearby retailer/grocery shop. If there is no vast price change most of the people want to get their desired product from the most convenient location.

**Table 3.12:** Consideration of convenient location

Brand Name	Mean	Mode	Frequency	Percentage (%)
Tooth paste	3.85	4	170	85
Shampoo	3.58	3	152	75
Soap	4.06	4	169	84.5
Detergent	4.02	4	161	80.5

Source: Field survey

But if there remain high price consideration, people of lower middle class people are ready to go far from their nearest one. Better quality and core benefit supply may also act as influential factor in purchasing. People then rate theses more importantly than convenient location.

## IV. RANKING

As a influential factor that control the buying behavior of the direct consumers, some importance factors are rated. On the basis of mean position that means, which factors achieved highest position from one to five is identified. These factors are ranked according to their mean value. Higher mane get higher ranks and lower gets lower

**Table 4.1:** Factors ranking (5 highly ranked factors from 1-5)

Rank (S)	Toothpaste	Shampoo	Soap	Detergent
1	Price	Core benefit	Core Benefit	Price
2	Core Benefit	Price	Quality	Core benefit
3	Quality	Quality	Price	Quality
4	Brand Name	Container Size	Brand Name	Sales promotion
5	Convenient location	Brand Name	Convenient location	Convenient location

Source: Factor analysis table(s)

Here in case of toothpaste and detergent price gets the heights priority to the lower middle class people whether core benefit is situated at the top position for shampoo and soap

#### a) Findings

The factors that the lower middle class people consider when they purchase some consumer products or how they react towards some issues are identified in this paper. The following matters represent the key effecting factors, location and demographic profile in buying nature of the surveyed people for the study purpose.

#### Profile of the surveyed respondents

The total number of the respondents for this paper purpose is 200. From different areas of Khulna city their opinion was collected. As it is difficult to properly identify the status of lower middle class, the income rang of Tk. 7000-10, 000 is taken as standard lower middle class. As judgement sampling method is used for the study purpose, people out of these income rang have just avoided. It is also very much interesting that social and economic class conflicts strongly to define a class. For example a person with a university degree, a teacher or lawyer may have the same or lower income than a car mechanic. So the economic position just considered for our study purpose. In case there remain more than earning members, all of them are treated as individual respondents.

#### Price sensitivity of lower middle class people

The people of lower middle class showed some typical characteristics like –high price sensitivity. As these are low involvement products, price does not matter so much in their monthly income. But they are always price conscious. Even more they change their user rate as an immediate reaction to price change. They also try to balance in this trend-Core benefit-Price-Quality.

### Lesser brand loyalty

Lower middle class people are comparatively less brand loyal. They consider company and brand as a single identity. Sales promotion and some other reinforcements derive them to switch them from one brand to another.

### Quality –core benefit consideration

Lower middle class people of Khulna treat core benefit and quality synonymously. The strong the presence of core benefit, the higher rating of quality as an influential attribute to them.

### b) Conclusion

Buying behavior of consumer goods has a strategic importance for the business market analysis. It is more important when it cover a big portion of the total locality. For the urban areas like Khulna-lower middle class people is covered with a larger portion of its total population. Their buying behavior is closely affected by some attributes-like convenience, promotion, perceived and achieved value and some other core benefits. Theses classed people consider price as the most important aspects for choosing theses low involvement products. Even they are ready to sacrifice the facilities of convenience of the products when they get price-off facilities from any particular brand. They are less concern about the brand preference, and consider the core benefit level of different company same when they purchase a consumer goods like –soap or toothpaste. It is clear that the urban lower middle class people are mostly depends upon the local brand as it is well known to them. They also frequently change brands when they get some facilities through sales promotion or other via. This phenomenon tells about the most price orientation tendency of the people of this class. Most of the cases these people depends o the nearby retail shop for their product.

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GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH  
Volume 12 Issue 5 Version 1.0 March 2012  
Type: Double Blind Peer Reviewed International Research Journal  
Publisher: Global Journals Inc. (USA)  
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

## Alignement Des Technologies De L'information: Déterminant De La Performance (cas Des Entreprises Tunisiennes)

By Dr. Chedia Karoui

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**Résumé** - Notre travail de recherche a pour principal objectif d'analyser l'impact de l'alignement stratégique, structurel et technologique des TI sur la performance des entreprises tunisiennes. Si de nombreuses recherches mettent en avant le lien entre alignement des TI et la performance de l'entreprise. En revanche, il existe peu d'études examinant les liens existants entre les différentes formes d'alignement et la performance des entreprises. Dans la littérature managériale des SI, plusieurs dimensions de l'alignement sont mises en évidence : stratégique, structurelle et technologique. Bien que beaucoup plus d'attention soit accordée à l'alignement stratégique, à la fois l'alignement structurel et l'alignement technologique peuvent influencer la performance.

La méthode des équations structurelles a été adoptée pour mener notre analyse exploratoire et confirmatoire. Les résultats qui découlent du questionnaire soumis à 211 employés démontrent que l'alignement stratégique et structurel déterminent la performance des entreprises Tunisiennes.

**Motsclés** : Alignement stratégique, alignement structurel, alignement technologique, performance de l'entreprise, méthodes économétriques.

**GJMBR-A Classification** : FOR Code: 150301, 150302 JEL Code: O32



ALIGNEMENT DES TECHNOLOGIES DE L'INFORMATION DETERMINANT DE LA PERFORMANCE CAS DES ENTREPRISES TUNISIENNES

*Strictly as per the compliance and regulations of:*



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La méthode des équations structurelles a été adoptée pour mener notre analyse exploratoire et confirmatoire. Les résultats qui découlent du questionnaire soumis à 211 employés démontrent que l'alignement stratégique et structurel déterminent la performance des entreprises Tunisiennes.

**Mots-clés** : *Alignement stratégique, alignement structurel, alignement technologique, performance de l'entreprise, méthodes économétriques.*

**Abstract** - The principal aim of our research is to analyze the impact of the strategic, structural and technological alignment of IT on the performance of Tunisian firms. If a lot of research put in focus the link between alignment of IT and the performance of the enterprise. However, there are few studies examining the links between the different forms of alignment and the performance of the firms.

In the managerial literature of IS, several dimensions of the alignment are highlighted: strategic, structural and technological alignment. Although much more attention to be paid to the strategic alignment, both the structural and technological alignment may influence the performance.

The method of structural equation was adopted to conduct our exploratory and confirmatory analysis. The results arising from the questionnaire sent to 211 employees affirms that the strategic and structural alignment influence the performance of Tunisian firms.

**Keywords** : *strategic alignment, structural alignment, technological alignment, firm performance, econometric method.*

## 1. INTRODUCTION

La théorie de l'alignement stratégique occupe une place importante dans les recherches en systèmes d'information (SI) à l'heure actuelle (Monnoyer et

Quach, 2007). D'ailleurs, l'importance accordée à ce concept ne cesse d'intéresser la communauté scientifique. Son but ultime est d'assurer une exploitation efficace des technologies de l'information (TI) au sein des entreprises. Si de nombreux travaux ont confirmé l'intérêt de ce concept et la solidité des relations « alignement – performance », ils existent néanmoins des controverses. Or, ces travaux se sont principalement intéressés sur l'importance d'atteindre l'alignement entre la stratégie d'affaires et la stratégie TI et/ou entre la structure organisationnelle et la structure TI. Ils se sont concentrés sur une approche binaire utilisant des relations de contingence entre deux ou trois domaines, sans toutefois, tenter d'envisager tous les domaines ensemble.

De plus, dans la littérature managériale des SI, plusieurs dimensions de l'alignement sont mises en évidence : stratégique, structurelle et technologique. Bien que beaucoup plus d'attention soit accordée à l'alignement stratégique, à la fois l'alignement structurel et l'alignement technologique peuvent influencer la performance (Reich et Benbasat, 1996; Chan, 2001). Par ailleurs, il est à noter que la présence seule des technologies de l'information, même si elles sont très sophistiquées, n'est pas satisfaisante pour assurer la performance de l'entreprise. C'est plutôt à travers l'alignement de ces technologies à la stratégie, à la structure et à l'infrastructure technologique qu'elles peuvent améliorer la performance organisationnelle (Chan et al., 1997).

L'alignement des TI résulte donc également de la cohérence conjointe entre les choix stratégiques (alignement stratégique), la conception de l'organisation (alignement structurel) et l'utilisation des technologies (alignement technologique).

Partant de cette limite, l'objectif de notre travail consiste à mieux comprendre la relation entre alignement des TI et performance des entreprises tunisiennes tout en prenant en compte l'alignement stratégique, structurel et technologique des TI.

## II. CONCEPT D'ALIGNEMENT : DEFINITIONS ET NIVEAUX

### a) *Definitions Du Concept D'alignement*

Les chercheurs en Systèmes d'information (SI) s'intéressent de plus en plus à la notion d'alignement. L'ambiguïté de cette notion provient de diverses définitions proposées pour la cerner. L'alignement est généralement considéré comme une condition sinéquanone pour l'évolution des entreprises (Sabherwal et Chan, 2001).

Le concept d'alignement trouve ses origines dans la théorie de la contingence qui stipule que la performance de l'entreprise est la résultante de la congruence entre un ou plusieurs facteurs. Dans ce sens, Miles et Snow (1984, p11) définissent le « Fit » comme « une recherche dynamique qui vise à aligner l'organisation avec son environnement et à arranger de manière interne les ressources pour soutenir cet alignement ». Drazin et Van de Ven (1985) le définissent aussi comme étant la cohérence ou consistance interne entre des contingences multiples (stratégiques, technologiques, structurelles et sociales) qui affectent la performance.

Chan et Reich (2007) affirment que l'alignement stratégique est la résultante d'une harmonisation de la stratégie avec son SI. De la même façon, Henderson et Venkatraman (1993) ont défini l'alignement comme étant l'ensemble de relation, à double sens, entre les quatre dimensions de l'alignement: la stratégie de l'entreprise, la stratégie SI, la structure organisationnelle et la structure du SI. Ainsi la performance de l'entreprise est la résultante de la congruence de ces composantes. Certes, l'impact de l'alignement stratégique sur la performance constitue une préoccupation qui a suscité et qui suscite encore l'intérêt de plusieurs chercheurs depuis déjà plusieurs années [Venkatraman (1989) ; Henderson et Venkatraman (1993) ; Bergeron et Raymond (1997) ; Luftman (2000) ; Sabherwal et al. (2001), Croteau et al., (2001), Cragg et al., (2002) ; Raymond et al., (2004), etc...].

Hirschheim et Sabherwal (2001) ont proposé une définition semblable à celle de Henderson et Venkatraman (1993), ils affirment que l'alignement stratégique des SI est un processus d'adaptations et de changements continus permettant d'atteindre l'harmonie entre la stratégie SI avec la stratégie de l'entreprise. Quant à Reich et Benbasat (1996), ils considèrent l'alignement comme étant « le degré jusqu'auquel la mission, les objectifs et les plans des TI supportent et sont supportés par la mission, les objectifs et les plans d'affaires de l'entreprise ».

Dans le même ordre d'idée, Luftman (2000, p6) définit l'alignement comme étant « les activités qui tentent d'atteindre des buts cohésifs à travers les TI et d'autres organisations fonctionnelles et d'appliquer les TI dans une direction appropriée tout en étant en

harmonie avec les stratégies d'affaires, les buts et les besoins de l'entreprise ». Dans cette vision, l'alignement est considéré comme le juste dosage permettant l'harmonisation entre les choix stratégiques de l'entreprise et les ressources technologiques qui contribuent à fournir le support de leur déploiement (Kefi et Kalika, 2003, p3).

Dans une définition plus détaillée de Maes et al. (2000), l'alignement est un processus dynamique continu assurant l'harmonie entre l'ensemble des composantes de la relation TI/activité de l'entreprise afin d'améliorer la performance de l'entreprise.

Néanmoins, ce concept d'alignement a été souvent associé à l'intégration. Henderson et Thomas (1992) ont mentionné que l'alignement est plus qu'un simple rapprochement entre TI et stratégie de l'entreprise. La réussite de cette intégration dépend de la mise en relation avec les processus, les structures et les compétences pour atteindre l'alignement stratégique. Pour Papp (1995), l'alignement stratégique est l'utilisation appropriée des TI au niveau de l'intégration et le développement des stratégies organisationnelles dans le but d'améliorer la performance de la firme.

Chan et al., (1997), ont identifié trois niveaux permettant aux entreprises d'atteindre l'alignement: la conscience, l'intégration et l'alignement. Le premier niveau indique que la firme a atteint un niveau de conscience dans la reconnaissance et la réalisation de l'importance d'avoir un SI étroitement connecté avec l'organisation de l'entreprise. Le second niveau qui est l'intégration des fonctions opérationnelles et des activités du SI. Et, le dernier niveau concerne l'alignement du SI avec les stratégies fondamentales de l'organisation et les compétences clés.

### b) *Niveaux De L'alignement*

Idealement, l'alignement doit être présent à tous les niveaux de l'organisation, y compris le niveau organisationnel, le niveau du système (Floyd et Woolridge, 1990; Campbell, 2005), au niveau du projet (Jenkin et Chan, 2006), et le niveau cognitif (l'individu) (Tan et Gallupe, 2006). Selon Floyd et Woolridge (1990), le non-alignement peut souvent expliquer des difficultés d'application du système. Les stratégies formelles sont souvent mises en application seulement aux niveaux supérieurs des organisations, pourtant la stratégie est effectuée pour tous les niveaux organisationnels. Focaliser l'alignement aux niveaux plus bas d'une organisation implique une translation des buts communs de l'organisation en buts personnels (Campbell, 2005). Reconnaisant ce problème, Bleistein et al., (2006) ont tenté d'appliquer des conditions nécessaires pour lier les objectifs stratégiques de plus haut niveau au plus bas processus organisationnels explicite.

Jenkin et Chan (2006) définissent l'alignement de projet TI comme le degré auquel les prestations fournies d'un projet TI sont conformes à la stratégie informatique de l'organisation et aux objectifs du projet. Les critiques l'alignement au niveau du projet est la réponse aux déclencheurs du projet de changement. Ces déclencheurs peuvent être internes (par exemple les projets d'évaluation de moyen terme) et externes (par exemple, un changement de l'environnement de l'organisation). Échouer à répondre au changement déclenché mène effectivement au projet de non-alignement qui peut entraîner un non-alignement stratégique global des TI.

Tan et Gallupe (2006) opérationnalisent l'alignement, à son micro niveau, en tant que connaissance partagée entre les dirigeants et les responsables TI. C'est-à-dire, plus le niveau de la connaissance cognitive entre les dirigeants et les responsables est élevé, plus les niveaux de l'alignement de la stratégie et des TI sont élevés. De même, plus la diversité dans la structure cognitive des dirigeants et des responsables TI est grande, plus les niveaux prévus de l'alignement sont bas. Cette perspective rejoint la dimension sociale de l'alignement, basée sur le domaine de partage des connaissances (Reich et Benbasat, 2000). Elle reflète également un point de vue d'alignement des TI et de la stratégie de l'entreprise dans lequel les TI défient les activités actuelles économiques.

### III. DEFIS POUR ATTEINDRE L'ALIGNEMENT

Dans cette section, nous avons voulu mettre en relief les défis à surmonter pour atteindre l'alignement. Ces défis se rapportent à la connaissance, au niveau de contrôle, et au changement organisationnel (Chan et Reich, 2007).

#### a) *Defis D'alignement Lies A La Connaissance*

Les défis liés à la connaissance se rapportent au problème central que les managers en TI ne sont pas impliqués dans l'élaboration de la stratégie de l'entreprise, et que les chefs organisationnels ne sont pas toujours bien informés au sujet des TI. Aussi, les gestionnaires ne sont pas toujours bien informés de la stratégie à adopter et des industries pilotes des TI.

##### i. *La stratégie de l'entreprise est inconnue*

selon Reich et Benbasat (2000), il constitue un récurrent problème vu que dans les précédentes recherches en alignement, la stratégie de l'entreprise est inconnue. Ceci constitue un challenge étant donné que la majorité des modèles de l'alignement prévoient l'existence de la stratégie d'entreprise qui peut s'aligner avec les TI (Baets, 1992).

Par ailleurs, les stratégies formelles sont souvent trop ambiguës, et ce dû aux différences qui

peuvent exister entre la stratégie désirée et la stratégie adoptée, ce qui peut constituer un conflit entre les gestionnaires de l'entreprise (Campbell, 2005). Ce conflit peut être interne et externe à la stratégie TI. La face interne du conflit est affectée par les modèles mentaux, les relations, les domaines de la connaissance partagée, et les systèmes de signification partagée. Tandis que la face externe est influencée par la formation, la structure organisationnelle et la place des responsables TI dans la structure, et l'environnement informatique. Les échecs ou les faiblesses dans l'un de ces secteurs peuvent entraîner un mauvais alignement.

##### ii. *Manque de conscience ou de croyance dans l'importance de l'alignement*

Bien qu'il y ait un soutien empirique du fait que l'alignement permet la performance organisationnelle, beaucoup de dirigeants sont inconscients de l'importance de l'alignement des TI et/ou qu'ils sont peu convaincus que les TI peuvent résoudre des problèmes importants (Baets, 1996). Par exemple, dans une étude de Baets (1996) sur les banques européennes, nous avons constaté que l'influence des mentalités sur l'alignement des TI était significative. Bien qu'il ait y eu une tendance dans l'utilisation des TI pour soutenir la capacité concurrentielle, et que les TI ont été perçues comme ayant une grande influence sur l'industrie bancaire, il n'y avait pas une forte conviction que ces TI pouvaient résoudre certains problèmes spécifiques d'opérations bancaires. Ces gestionnaires qui avaient des moyens concrets pour résoudre les problèmes bancaires via les TI, avaient des attitudes plus positives envers la stratégie et la planification des TI.

Henderson et Venkatraman (1993) ont constaté que les gestionnaires ont une capacité de comprendre mieux le positionnement des choix stratégiques plutôt que le positionnement des choix des TI. Ceci a été attribué au fait que cette stratégie a typiquement été considérée comme quelque chose à appliquer sur le marché et que les TI ont été typiquement considérée comme réponse interne (ou input) à la stratégie de l'entreprise par opposition à quelque chose qui accroît la stratégie de l'entreprise.

##### iii. *Manque de connaissance du domaine d'affaires*

Baets (1996) a trouvé que l'alignement des TI a été entravé par un manque de connaissance relative au secteur bancaire (pas seulement des compétences et des connaissances relatives au TI) parmi les dirigeants des banques. En particulier, il a constaté que l'alignement des TI a été négativement influencé par les facteurs suivants : (i) lorsque la prise de conscience des issues du secteur bancaire était faible et (ii) lorsque l'interaction des différents aspects dans la stratégie de l'entreprise n'était pas bien connus par les directeurs. Par conséquent, avant que les directeurs pouvaient employer les TI pour résoudre leurs problèmes



d'opérations bancaires, une connaissance plus profonde du secteur bancaire est exigée.

Dans une étude de cas multiple des unités d'assurance, Reich et Benbasat (2000) ont prouvé que le domaine des connaissances partagées entre les gestionnaires et les cadres en TI était le facteur prédictif le plus fort de la dimension sociale de l'alignement. Quand le domaine de connaissance partagée était élevé, la communication entre les deux groupes était stratégique et fréquente, et le résultat était un niveau élevé de l'alignement.

#### *b) Defis D'alignement Lies Au Lieu Du Controle Et Au Statut Des Ti*

Campbell et al (2005) suggèrent que lorsque des directeurs sont confrontés à un défi stratégique, ils prennent des décisions basées sur leur niveau de compréhension et leur position de contrôle. Ces contraintes affectent l'alignement. Dans cette perspective, l'alignement stratégique peut être considéré comme un tableau de choix faits afin de résoudre l'ambiguïté stratégique (Campbell, 2005).

Un autre facteur de contribution à l'accomplissement de l'alignement est le statut des TI dans l'organisation. Dans une étude des hypothèses culturelles des TI, Kaarst-Brown et Robey (1999) ont montré que les TI n'étaient pas une force sans valeur dans l'organisation. Par conséquent, bien que les gestionnaires savent d'une façon cognitive ce qu'il était nécessaire pour atteindre l'alignement, pratiquement, ils ne le faisaient pas.

#### *c) Defis D'alignement Lies Au Changement Organisationnel*

L'environnement organisationnel est en constante évolution et les choix stratégiques faits par une organisation découlent fréquemment de l'imitation d'autres organismes (Chan et Reich 2007). Ainsi, l'alignement stratégique est un processus de changement et d'adaptation continue (Henderson et Venkatraman, 1993). Van Der Zee et De Jong (1999) citent un principal problème lié à l'alignement qui est le délai entre l'élaboration de la stratégie et le processus de planification des TI. C'est-à-dire, une fois que la stratégie des TI est décidée, il y a une probabilité élevée que la stratégie et la technologie soient dépassées étant donné le changement de l'environnement organisationnel et l'évolution rapide des TI.

## IV. CADRE CONCEPTUEL

#### *a) Comprendre La Relation Entre Les Ti Et La Performance A Travers La Notion D'alignement*

Depuis de nombreuses années, les sciences de gestion, l'économie et la sociologie industrielle se sont emparées de cette question en avançant des propositions pour tenter d'appréhender les éventuels liens entre TIC et performance (Houy, 2007). En

examinant plusieurs recherches faites autour de ce thème, un résultat semble être partagé par tous : il n'existe pas de règle universelle mais un ensemble de combinaisons possibles permettant de transformer le potentiel des TI en gains réels pour l'entreprise.

Depuis que Solow (1987) a soulevé le « paradoxe de productivité » qui stipulait que « on voit des ordinateurs partout sauf dans les statistiques de productivité », le débat sur l'analyse de l'impact des TIC sur la performance de l'entreprise n'a cessé de prendre de l'ampleur. Le mérite de cette expression a été d'initier de nombreuses recherches qui ont permis de souligner la difficulté qu'il y a à mesurer la diffusion de ces technologies ainsi que leurs effets en termes de productivité et de performance.

Plusieurs recherches ont été menées pour tenter d'expliquer ce « paradoxe de productivité », des résultats divergents et parfois contradictoires sont apparus. Certains ont tenté de montrer que les TIC ne contribuent pas à améliorer la productivité des entreprises car elles créent des dysfonctionnements dans les organisations compte tenu de leur manque de fiabilité, nécessitent des investissements lourds en formation et génèrent un usage privé de la part de leurs utilisateurs (Blinder, 1997). D'autres ont essayé d'expliquer le paradoxe de Solow en indiquant qu'il existe un décalage temporel important entre le moment de l'apparition d'une innovation et le moment où cette innovation se traduit par une amélioration de la productivité (David, 1990).

C'est ainsi, que les chercheurs réalisent de plus en plus que la relation entre les technologies de l'information et la performance de l'entreprise est complexe et multi dimensionnelle.

Les résultats sur la performance présentent donc, un intérêt particulier dans la mesure où ils justifient les investissements en TI. La littérature en systèmes d'information (SI), en particulier en stratégie des systèmes d'information (Delone et McLean, 1992 ; Seddon et Kiew, 1994 ; Seddon, 1997), nous a amenés à adopter une perspective théorique largement utilisée dans la recherche en systèmes d'information : la perspective de « fit » ou d'« alignement stratégique », selon laquelle la performance organisationnelle est le résultat de la congruence (« Fit ») entre deux ou plusieurs facteurs comme la stratégie, la structure, la technologie, l'environnement (Weill et Olson, 1989).

L'analyse des publications, portant sur la relation « TIC – performance », menées par Bennani et al. (2004), montre que la grande majorité des travaux antérieurs a réussi à mettre en relief l'existence d'un impact positif de l'alignement sur la performance de l'entreprise (Bergeron et Raymond, 1995 ; Bergeron et al., 1998 ; Croteau et al., 2001 ; Chan et al., 1997, Teo et King, 1996, etc.). C'est ainsi qu'apparaît la notion d'alignement qui semble être un impératif voire une

condition sine qua non pour les entreprises soucieuses de leur performance.

Ainsi, notre première hypothèse de recherche se présente comme suit :

**-H1 :** L'alignement des TI a un impact positif sur la performance de l'entreprise.

Par ailleurs, dans la littérature managériale des SI, plusieurs dimensions de l'alignement sont mises en évidence : stratégique, structurelle et technologique. Bien que beaucoup plus d'attention soit accordée à l'alignement stratégique, à la fois l'alignement structurel et l'alignement technologique peuvent influencer la performance (Reich et Benbasat, 1996; Chan, 2001). Par ailleurs, il est à noter que la présence seule des technologies de l'information, même si elles sont très sophistiquées, n'est pas satisfaisante pour assurer la performance de l'entreprise. C'est plutôt à travers l'alignement de ces technologies à la stratégie, à la structure et à l'infrastructure technologique qu'elles peuvent améliorer la performance organisationnelle (Chan et al., 1997).

L'alignement des TI résulte donc également de la cohérence conjointe entre les choix stratégiques (alignement stratégique), la conception de l'organisation (alignement structurel) et l'utilisation des technologies (alignement technologique).

#### *b) Alignement Stratégique Des Ti Et Performance De L'entreprise*

L'alignement stratégique se rapporte alors au degré auquel la stratégie de l'entreprise et les plans, et la stratégie TI et les plans se complètent.

McFarlan et al., (1983) ont souligné l'importance de la valeur stratégique des TI. Porter et Millar (1985) ont accentué la contribution des TI à améliorer la capacité concurrentielle de l'organisation.

Reich et Benbasat (2000) définissent l'alignement stratégique comme « le degré jusqu'auquel les objectifs, les projets et les missions des TI sont alignés avec ceux de l'entreprise. » Avec cette perspective, il est difficile que l'alignement se produise si les stratégies manquent d'un plan formel et documenté (Vitale et al., 1986 ; Lederer et Mendelow, 1989 ; Wan et Tai, 2003).

Kearns et Lederer (2000) affirment qu'il existe une distinction entre la stratégie de l'entreprise et la stratégie SI, d'une part, et les modèles d'alignement entre la stratégie de l'entreprise et la stratégie SI, d'autre part. L'alignement des SI avec la stratégie de l'entreprise signifie que la gestion des SI soutient la gestion stratégique de l'entreprise (Reich et Benbasat, 1996). D'autre part le modèle d'alignement entre la stratégie de l'entreprise et la stratégie SI, garantit que la gestion stratégique reflète l'expérience et la connaissance des organisations utilisant les ressources basées sur la technologie de l'information, et signifie une meilleure gestion et un engagement de cadres supérieurs (Bensaou et Earl, 1998).

Venkatraman et Henderson (1993) ont expliqué les relations pouvant exister entre la stratégie de l'entreprise et la stratégie des TI. Ils l'ont défini en termes de trois composantes : la portée de la technologie, les compétences systémiques, et la gouvernance des TI. Chan et al., (1997) se sont concentrés sur l'alignement des applications « portfolio » l'entreprise et son orientation stratégique.

Kivijarvi et Saarinen(1995), et Mingfing et Richard (1999), dans leurs recherches empiriques ont montré l'effet de modération de l'alignement stratégique dans la relation entre les TIC et la performance de l'entreprise.

Vitale et al., (1986) ont identifié deux manières distinctes pour d'examiner la relation entre la stratégie de l'entreprise et la stratégie des TI: l'approche dépendante et l'approche d'impact. L'approche dépendante signifie que la stratégie des TI doit soutenir la stratégie de l'entreprise comme toute autre stratégie fonctionnelle de l'entreprise, tels que le marketing, la finance ou la production. Alors que l'approche d'impact signifie que la fonction TI pourrait mener l'entreprise à atteindre ses buts et par conséquent à être déterminante dans la stratégie de l'entreprise. Comme expliqué par Brown et Sambamurthy (1999), les TI soutiennent les stratégies de l'entreprise en leur offrant un maintien concurrentiel plus fort. Tandis que des études antérieures insistaient sur le fait que la stratégie des TI et la stratégie de l'entreprise devrait être alignées, il s'est avéré dans des études plus récentes que les divers types d'ajustements pourraient exister et que la performance de l'organisation en dépende.

Parmi les divers types d'alignement, Bergeron et Raymond (1995) ont souligné que le modèle de modération est le meilleur pour expliquer l'impact de l'alignement de la stratégie de l'entreprise et la stratégie des TI sur la performance organisationnelle. Des résultats similaires ont été obtenus par Chan et al., (1997) relatifs à l'alignement stratégique et l'orientation stratégique des SI.

En se basant sur la typologie de Miles and Snow (1978), la notion d'alignement stratégique selon Hirschheim et Sabherwal (2001) est fondée sur trois arguments. D'abord, la performance de l'organisation est reliée à l'adoption de l'organisation d'une structure appropriée et de sa capacité à exécuter ses décisions stratégiques.

Ensuite, le concept d'alignement est bilatéral. Comme les organisations investissent de plus en plus dans les technologies d'information et que les cadres se sont rendu compte que la stratégie d'affaires influence les TI, les TI, à leur tour, influencent maintenant de la stratégie d'entreprise.

Par ailleurs, Johnson et Lederer (2010) se sont référés aux dimensions stratégiques du modèle STROBE (Strategic Orientation of Business Enterprises)



de Venkatraman (1989) pour mesurer l'impact des TI sur la performance de l'entreprise.

La relation entre l'alignement stratégique des TI et la performance de l'entreprise a été vérifiée dans de nombreuses recherches. (Bergeron et Raymond, 1995 ; Teo et King, 1996 ; Sabherwal et Chan, 2001 ; Kéfi et Kalika, 2003;). Nous avançons donc notre deuxième hypothèse :

**-H2 :** L'alignement stratégique des TI a un impact positif sur la performance de l'entreprise.

### *c) Alignement Structurel Des Ti Et Performance De L'entreprise*

L'alignement structurel se rapporte au degré d'ajustement structurel entre les TI et la structure de l'organisation. L'alignement structurel est influencé par le niveau de prise de décision relatives aux TI, des relations hiérarchiques, la (dé) centralisation des TI, et le déploiement du personnel TI. (Chan 2002).

En particulier, l'alignement entre la structure des TI et la structure de l'organisation a été longtemps considéré comme un facteur permettant d'expliquer la performance de la firme. Dans une organisation décentralisée, les technologies de l'information permettent la délégation de l'autorité et des décisions en facilitant la diffusion et le partage d'information dans toute l'entreprise (Tavakolian, 1989 ; Currie, 1996).

Brown et Magill (1994) ont proposé une typologie structurelle simple impliquant des structures TI qui sont centralisées, décentralisées, ou hybrides. Ils ont fourni des preuves que chaque structure peut être efficace dans certaines circonstances. Dans leur étude, le choix d'une structure TI décentralisée est influencé par une stratégie de diversification indépendante, une structure globale décentralisée, une culture d'une forte autonomie.

Bergeron et al. (2001) ont constaté que l'augmentation seulement de la complexité structurelle n'a aucun impact sur la performance des entreprises. Toutefois, en accroissant sa complexité structurelle en même temps qu'une gestion TI plus forte peut augmenter ses capacités concurrentielles en termes de croissance et de rentabilité.

Les chercheurs ont conceptualisé la structure des SI comme composante de l'alignement selon trois dimensions. La première dimension est l'architecture organisationnelle des SI, qui englobe le département responsable de la fonction SI et le degré de décentralisation de la structure organisationnelle des SI (Tavakolian, 1989 ; Allen et Boynton, 1991 ; Brown et Magill, 1994). La deuxième dimension est celle de l'architecture technologique, impliquant le degré d'intégration et d'application des données, l'étalonnage de la technologie, et la nature du déploiement de matériel (Ein-Dor et Segev, 1982 ; Leifer, 1988 ; Fiedler et al., 1996). La troisième dimension est la dimension du processus et des qualifications, qui inclut des

mécanismes de planification et la standardisation du développement des applications des approches (Allen et Boynton, 1991).

Certains chercheurs considèrent l'alignement comme le résultat de l'alignement entre la structure des TI et la structure de l'organisation, puisqu'ils prévoient que la structure des TI est une réflexion émanant des caractéristiques de la structure de l'organisation. Les études qui ont adopté cette conceptualisation de l'alignement se sont principalement intéressées à déterminer si de telles relations existaient (Ein-Dor et Degev, 1982 ; Tavakolian, 1989).

Un autre axe de recherche considère plutôt l'alignement comme un but à atteindre, et s'est focalisé à chercher la façon avec laquelle la fonction TI doit être organisée afin de l'aligner avec la structure de l'organisation (Leifer, 1988 ; Allen et Boynton, 1991 ; Fiedler, Grover, et Teng, 1996).

D'autres chercheurs considèrent l'alignement comme un ajustement commun émergent de la structure de l'organisation et des capacités des TI (Henderson et Venkatraman, 1993 ; Croteau, 2004). Cependant, Croteau et al., (2001) ont examiné les résultats de la performance de l'alignement entre la structure de l'organisation et la structure des TI en adoptant une perspective de co-variation ; ils ont constaté qu'un meilleur alignement de l'organisation et des TI par le développement simultané des infrastructures, permet à l'entreprise une croissance plus élevée et une rentabilité accrue.

De même Hirschheim et Sabherwal (2001) signalent que la structure des SI reflète la configuration de la fonction du SI et la responsabilité des SI dans les décisions. Ainsi, ils distinguent trois possibilités : la centralisation, la décentralisation et le partage.

Par conséquent, la congruence entre la stratégie TI et la structure de l'organisation améliore la performance de la firme (Bergeron et al., 2004 ; Jouirou et Kalika, 2004). Ainsi, nous essayons de tester l'hypothèse suivante :

**-H3 :** L'alignement structurel des TI a un impact positif sur la performance de l'entreprise.

### *d) Alignement Technologique Des Ti Et Performance De L'entreprise*

La cohérence dans l'utilisation des technologies constitue un élément essentiel pour atteindre un niveau de performance satisfaisant (Bergeron et al., 2001 ; Croteau et al., 2001). Elle reflète la congruence entre la stratégie TI et l'infrastructure technologique liée aux TI (Broadbent et Weill, 1993 ; Henderson et Venkatraman, 1993).

En observant également trois facteurs, Jouirou et Kalika (2004) démontrent que la gestion stratégique des TI doit être faite en fonction, du choix stratégique de la PME et de sa structure organisationnelle pour atteindre un meilleur niveau de performance.

Le modèle d'Henderson et Venkatraman (1993) ne limite pas l'alignement aux relations entre paires de variables, mais intègre simultanément l'ensemble des liens existant entre la stratégie, l'organisation et l'infrastructure technologique.

Les recherches ont montré, aussi, que l'intégration est nécessaire pour maintenir une unité et une cohérence dans le fonctionnement de l'entreprise. Elle permet de prendre en compte le caractère transversal des relations entre services. L'intégration des TI au sein des organisations se fait d'une façon progressive, mais surtout en essayant de répondre aux objectifs de l'entreprise. Selon Markus et Tanis (2000), c'est le degré d'intégration des TI dans l'organisation qui fait qu'une entreprise est plus performante qu'une autre.

Une des premières exigences d'une structure organisationnelle efficace est la capacité des différentes personnes ou unités à traiter et à transmettre les informations intra et inter organisationnelles. (Mingfang et al., 1999).

Cependant, les TI doivent au préalable devenir des éléments routiniers dans les activités de la chaîne de valeur et de la stratégie de l'entreprise pour qu'ils puissent accroître la valeur de l'entreprise (Brynjolfsson et al., 2003).

Armstrong et al., (1999) introduisent la notion d'assimilation des TI au sein de la structure organisationnelle. En effet, ces auteurs la définissent comme le degré de diffusion des TI dans l'organisation et l'efficacité supplémentaire permise à travers leur utilisation.

La sophistication des TI, telle que caractérisée dans les travaux de Bergeron et al., (2001), se manifeste et se mesure à travers la structure organisationnelle d'une part, et les technologies d'information, d'autre part. La littérature récente considère néanmoins un minimum de technologies d'information dans la structure organisationnelle, ce que l'on appelle « l'infrastructure en TI ».

Par ailleurs, investir en TIC ne signifie pas automatiquement augmenter la performance financière de l'entreprise. L'impact des TIC sur la performance des entreprises dépend des variables contextuelles tel que le degré de maturité des TIC. (Choe 2003). La cohérence entre la stratégie TI et la structure TI favorise elle aussi la performance de l'entreprise (Bergeron et al., 2001 ; Raymond et al., 2010).

En conséquence nous testerons l'hypothèse suivante :

**-H4 :** L'alignement technologique des TI a un impact positif sur la performance de l'entreprise.

Ainsi notre cadre conceptuel se présente comme suit (Figure1) :

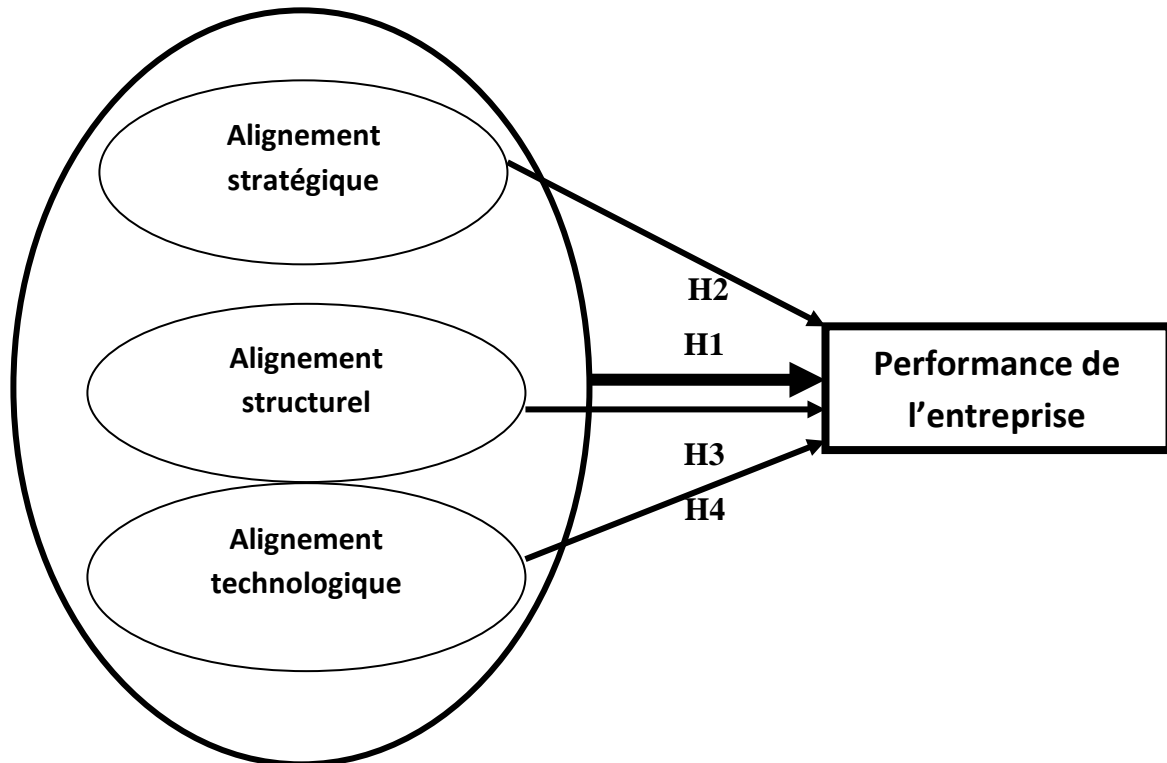


Figure 1 : Notre cadre conceptuel et hypothèses de recherche

## V. DESIGN DE LA RECHERCHE

A travers cette section, nous allons essayer de présenter la méthodologie suivie dans la collecte de données, le choix du modèle, ainsi que l'analyse des principaux résultats trouvés à l'aide des logiciels statistiques.

### a) L'échantillonnage

Pour étudier l'impact de l'alignement des TI sur la performance des entreprises tunisiennes, nous avons opté pour des entreprises de tailles différentes et opérantes dans des secteurs d'activités différents (secteur des services, secteur bancaire, secteur industriel). Nous avons pu collecter 211 réponses pour 650 questionnaires envoyés. Soit au final un taux de réponse de 32.46%. Nous signalons, que nous avons dû poster le questionnaire plus qu'une fois pour avoir un nombre satisfaisant de répondants.

Afin de répondre à notre problématique de recherche, nous avons choisi de tester notre modèle conceptuel, en nous inscrivant dans une approche quantitative. Nous avons opté à l'enquête par questionnaire comme mode de collecte des données. Mais, avant l'élaboration de notre questionnaire, une démarche exploratoire qualitative a été menée dans les entreprises à étudier.

### b) Mesures Des Variables Du Modèle

La spécification des construits de la recherche alignement stratégique, alignement structurel, alignement technologique et performance de l'entreprise est effectuée en se basant sur la revue de la littérature en système d'information traitant la relation entre l'alignement et la performance.

Les variables retenues dans notre modèle sont mesurées par des items issus des recherches antérieures en particulier celles de Venkatraman (1989) et Rival (2008) et adaptés à notre problématique, ou par des items créés pour les besoins de notre recherches. Ces items sont recueillis sur des échelles de Likert en 5 points (allant de « pas d'accord » jusqu'à « tout à fait d'accord »).

Dans le but de vérifier la validité des échelles de mesure employées, nous avons effectué en premier lieu, une analyse factorielle de type ACP (« Analyse en Composantes Principales »). En second lieu, nous avons réalisé une analyse structurelle confirmatoire avec le logiciel AMOS (16.0) afin de tester nos hypothèses de recherche.

### c) Analyse Des Données Du Modèle

Dans le but de vérifier la validité des échelles de mesure employées, nous avons effectué en premier lieu, une analyse factorielle de type ACP (« Analyse en Composantes Principales »). En second lieu, nous avons réalisé une analyse structurelle confirmatoire avec le logiciel AMOS (16.0) afin de tester nos hypothèses de recherche.

L'analyse factorielle nous permet de structurer les items que nous cherchons à mesurer et d'extraire les facteurs qui expliquent au mieux nos variables de recherche.

Pour notre premier construit « alignement stratégique » nous avons obtenu trois facteurs. Le premier est l'« Implication de la direction générale dans l'élaboration de la stratégie TIC » (IMP\_DIR), le deuxième consiste à l'« Implication de la direction des TIC dans l'élaboration de la stratégie de l'entreprise » (IMP\_TIC) et finalement, le dernier facteur correspond à la « Valeur accordée aux TIC » (VAL\_TIC).

Les deux facteurs suivants obtenus permettent de mesurer notre deuxième construit « alignement structurel des TI ». Ils correspondent au niveau d'évolution organisationnelle liée au développement des TIC (EVO\_ORG) et au degré d'intégration des TIC (DEG\_INT).

Quant au construit « alignement technologique », deux facteurs ont été retenus qui sont le « degré de complémentarité des investissements liés aux TIC » (COMP\_INV TIC) et « le niveau d'évolution technologique » (EVO\_TECH).

Les deux derniers facteurs obtenus permettent de mesurer le construit « performance de l'entreprise » en termes de croissance (PERF\_CROIS) et de rentabilité (PERF\_RENT).

### d) Estimation Du Modèle

Notre modèle de recherche est testé par la méthode des équations structurelles. Le logiciel AMOS 16.0 est utilisé pour effectuer les analyses factorielles confirmatoires des construits alignement stratégique, alignement structurel, alignement technologique et la performance de l'entreprise. Ces construits sont considérés comme des variables non observées ou variables latentes mesurées par des variables observées (les items indiqués dans l'annexe) considérées comme des indicateurs réflectifs.

Nous proposons de vérifier que le construit alignement des TI émerge de la co-variation entre les construits alignement stratégique, alignement structurel et alignement technologique déterminant ainsi la performance de l'entreprise. (Figure 2)

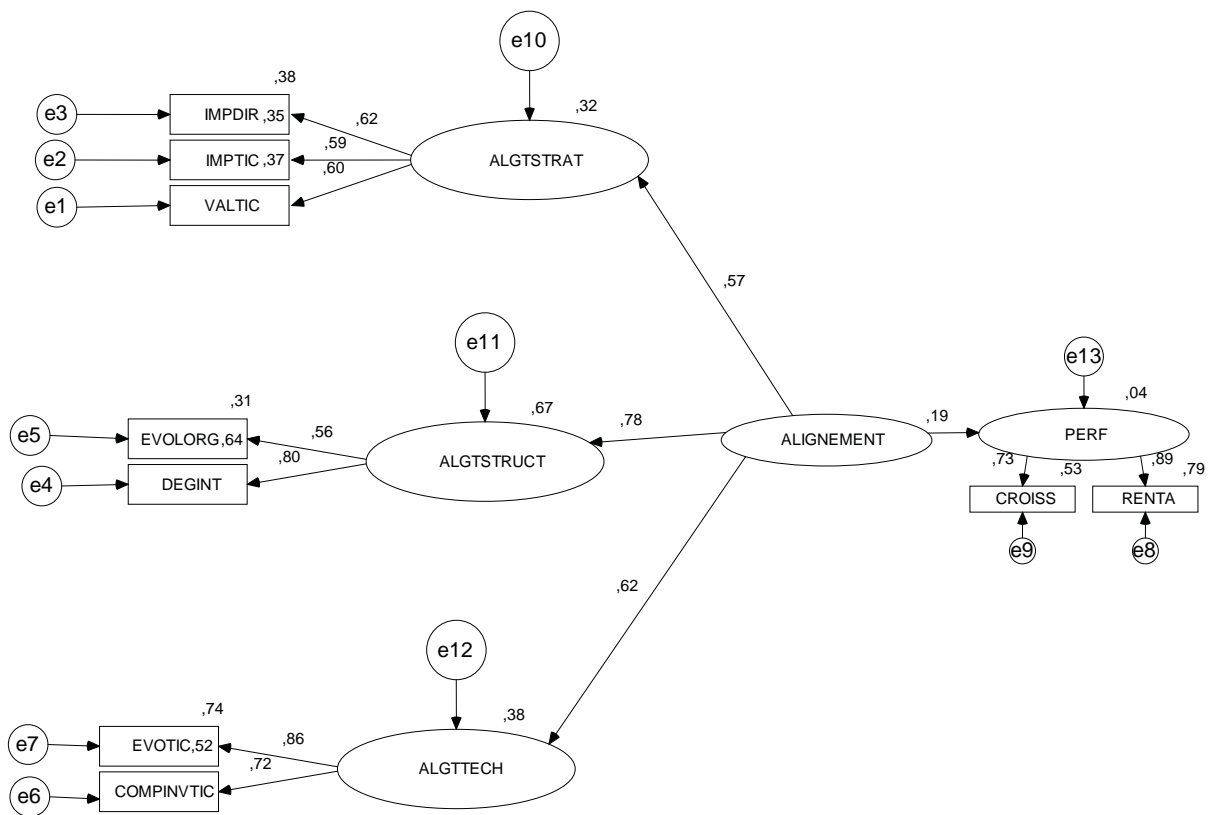


Figure 2 : AFC appliquée au modèle additif de recherche

Après avoir testé le modèle à l'aide des équations structurelles, il ressort que les conditions d'ajustement du modèle testé aux données sont globalement respectées : La valeur de  $\chi^2/dl$  est inférieure à 5, elle est égale à 3.29.

Les coefficients GFI et AGFI sont supérieurs à la norme des recherches exploratoires mentionnées ( $>0.9$ ). Le GFI=0.950 et le AGFI=0.918, traduisent un bon « fit » entre le modèle et les données. L'indice RMR est égal à 0.076 et le RMSEA est égal à 0.089. Du côté des indices permettant de juger de la qualité d'ajustement du modèle tels que le NFI et le CFI, ils ont respectivement les valeurs suivantes de 0.902 et 0.924.

Nous pouvons donc conclure que l'ajustement du modèle proposé est acceptable selon les résultats des indices d'évaluation utilisés. Par conséquent, nous pouvons retenir les estimations des coefficients de régression et les pourcentages de variance expliquée  $R^2$  pour les variables, ce qui nous permettra d'affirmer ou d'infirmer notre principale hypothèse de recherche.

Le coefficient de régression entre l'alignement des TI et la performance de l'entreprise de 0,36 est significatif (test t de student de |2,232|). Ce résultat nous permet de confirmer H1 01 stipulant que « l'alignement des TI influence positivement la performance de l'entreprise ».

Dans le but de vérifier les autres hypothèses de notre modèle, nous passons au test du modèle direct

permettant de prendre en compte les relations entre les facteurs explicatifs. (Figure 3)

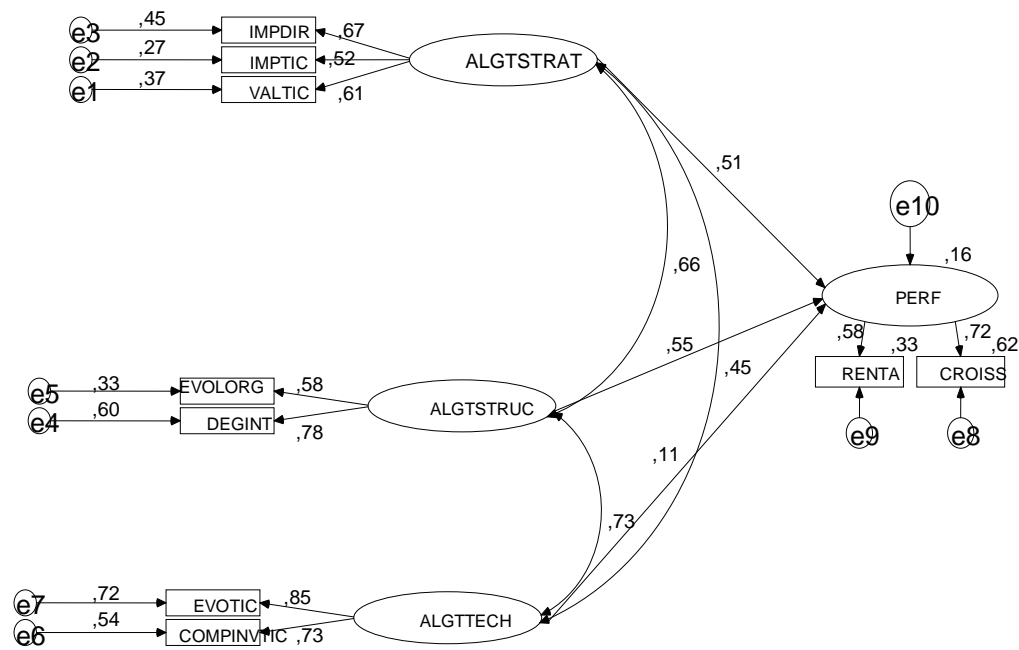


Figure 3 : AFC appliquée au modèle direct de recherche

Après avoir testé le modèle à l'aide des équations structurelles, il ressort que les conditions d'ajustement du modèle testé aux données sont globalement respectées.

L'examen des différents indices montre que le modèle est acceptable et qu'il s'ajuste suffisamment bien aux données empiriques pour que les estimations des paramètres soient fiables. La valeur de  $\chi^2/dl$  est inférieure à 5, elle est égale à 3.023. Les coefficients GFI et AGFI ont respectivement les valeurs de 0.970 et 0.930. L'indice RMR est égal à 0.065 et le RMSEA est égal à 0.096. Quant aux NFI et le CFI, ils ont respectivement les valeurs suivantes de 0.912 et 0.941.

Les estimations des coefficients de régression et les pourcentages de variance expliquée  $R^2$  nous permettent de vérifier les autres hypothèses expliquant les différents liens qui peuvent exister entre les composantes de l'alignement et la performance de l'entreprise.

Le coefficient de régression entre l'alignement stratégique des TI et la performance de l'entreprise est significatif (le  $t = |2,916|$ ). Ce résultat nous permet de confirmer notre première hypothèse. De même, le coefficient de régression entre l'alignement structurel des TI et la performance de l'entreprise est significatif (le  $t = |2,076|$ ). Par conséquent, notre troisième hypothèse est confirmée. Par contre, le coefficient de régression entre l'alignement technologique des TI et la performance de l'entreprise n'est pas significatif (le  $t = |0,658|$ ). Ce résultat nous permet de rejeter notre quatrième hypothèse.

## VI. DISCUSSION DES RÉSULTATS

Concernant notre question principale de recherche, qui consiste à déterminer l'impact de l'alignement des TI sur la performance des entreprises, nos résultats rejoignent ceux des travaux antérieurs en TI qui ont mis en évidence le lien étroit entre l'alignement des TI et la performance [Chan et Huff, 1993 ; Brown et Magill, 1994 ; Chan et al., (1997) ; Croteau, et al., (2001) ; de Leede et al., (2002) ; Irani (2002) ; Kearns et Lederer, (2003)]

Les analyses statistiques ont montré le rôle déterminant des facteurs stratégiques, qui sont l'implication de la direction générale, le rôle de la direction informatique et la valeur accordée aux TI, dans l'amélioration de la performance. Certes, l'impact de l'alignement stratégique des TI sur la performance de l'entreprise a été prouvé dans de nombreuses recherches en SI tels que Bergeron et al., (2001), Croteau et al., (2001), Luftman (2000) et Chan et al., (2007).

La dimension structurelle de l'alignement paraît aussi déterminante dans l'explication de la performance des entreprises. Ce résultat concorde avec les travaux de Yu Yuan Hung et al. (2010), Zhu et al. (2004), Hong et al., (2002).

Le degré d'évolution organisationnelle et l'intégration des TI au sein de l'entreprise, constituent les principaux éléments qui ont contribué à l'évolution de l'entreprise et lui ont permis d'améliorer son niveau d'alignement global.



## VII. CONCLUSION

Notre travail de recherche s'inscrit dans une logique cumulative et vient enrichir les travaux antérieurs traitant la problématique de l'alignement des TI et la performance des entreprises. En fait, les travaux de recherche portant sur l'alignement des TI sont peu nombreux dans des pays en voie de développement. Par conséquent, notre travail a contribué d'une part, à combler le manque de recherches enregistré à ce niveau et d'autre part, à enrichir et à approfondir nos connaissances par rapport à la problématique étudiée.

La contribution pratique majeure de notre travail doctoral consiste en la possibilité pour les entreprises de diagnostiquer l'évolution de leurs technologies d'information, d'avoir une base de référence et de déterminer le niveau d'alignement entre leurs dimensions stratégiques, structurelles et technologiques. En effet, le concept d'alignement constitue un outil très utile pour la conception et le management des TI et principalement pour les directions informatiques. Ce travail de recherche peut guider ces directions dans le processus d'alignement en continu. Il peut également leur permettre d'avoir une vision technologique et stratégique de l'entreprise.

Actuellement, la question cruciale pour tout dirigeant d'entreprise n'est plus uniquement de savoir pourquoi il faut investir dans telle ou telle technologie et quelle technologie faut-il choisir, mais plutôt quelle est la capacité réelle de son organisation à assurer son équilibre et sa cohérence dans un contexte technologique complexe.

En effet, Levy(2000) avertit que les TI, même les TI alignées, ne sont pas stratégiques. Pour qu'elles le soient, elles doivent être précieuses, uniques, et difficiles à imiter par les concurrents. En partant de ce constat, la présente recherche détermine les facteurs clés pouvant aider les managers qui envisagent de faire un investissement en TI. Dans ce sens, Kearns et Lederer (2000) précisent que bien que l'alignement efficace des TI avec la stratégie de l'entreprise peut fournir l'avantage compétitif, l'inverse - aligner la stratégie de l'entreprise avec la stratégie TI - peut entraîner des pertes potentielles. Pour cette raison, les chercheurs et les praticiens doivent être prudents au sujet des TI.

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## ANNEXE

### Opérationnalisation des construits :

#### 1 - Le construit « alignement stratégique » :

#### \*\* « Implication de la direction de l'entreprise » :

**Q1** : Le pilotage des TIC inclut l'ensemble des responsables des services de l'entreprise.

**Q2** : La direction prend en compte habituellement dans ses décisions les TIC déjà développées dans l'entreprise

**Q3** : La direction intègre régulièrement dans ses choix les besoins en TIC

**\*\* « Implication de la direction des TI » :**

**Q4**: Les responsables des TIC participent habituellement au pilotage de l'entreprise

**Q5** : La gestion des TIC fait appel aux connaissances et au savoir-faire des différents services de l'entreprise

**Q6** : Les décisions et les orientations stratégiques des directions sont systématiquement communiquées sous format

**\*\*Valeur accordée aux TI**

**Q7** : Dans votre stratégie globale l'information et les TIC sont des sources d'un avantage compétitif

**Q8** : Les outils informatiques disponibles dans l'entreprise sont cohérents avec la stratégie déclarée de votre entreprise

**Q9** : Les TIC permettent une meilleure prise de décision

**2 - Le construit « alignement structurel » :**

**\*\* Niveau d'évolution organisationnelle liée au développement des TIC**

**Q10** : Grâce aux TIC, le partage de l'information s'est amélioré

**Q11** : Dans les groupes projet, la communication directe entre les membres est facilitée grâce aux TIC

**Q12** : D'une manière générale, les TIC ont permis une meilleure coordination entre les différents services

**\*\*Degré d'intégration des TIC au sein de l'entreprise**

**Q13** : Les collaborateurs mobilisent au quotidien des procédures décrivant les tâches à effectuer

**Q14** : Lorsque les collaborateurs trouvent une solution à un problème, ils alimentent systématiquement une base de connaissances

**Q15** : Les résultats issus des travaux de groupe sont accessibles directement en ligne dans l'entreprise

**3 - Le construit « alignement technologique »**

**\*\*Degré de complémentarité des investissements liés aux TI**

**Q16** : Votre entreprise analyse parfaitement ses besoins en TIC

**Q17** : Votre entreprise a une meilleure planification et un bon contrôle des ressources en matériels et en logiciels

**Q18** : Votre entreprise élabore des critères de sélection spécifiques pour l'acquisition de nouvelles technologies de l'information.

**\*\* Niveau d'évolution technologique**

**Q19** : Votre entreprise a une meilleure évaluation des tendances de développement des TIC

**Q20** : Votre entreprise vous organise souvent des programmes de formation

**Q21** : Votre entreprise maîtrise parfaitement les technologies qu'elle a développées

**4 - Le construit « performance de l'entreprise » :**

**\*\*La croissance de l'entreprise**

**Q22** : Grâce aux TIC, la productivité de votre entreprise s'est améliorée

**Q23** : Grâce aux TIC, la part de marché de votre entreprise s'est accrue

**Q24** : Le taux de croissance de votre entreprise est satisfaisant

**\*\*La rentabilité de l'entreprise**

**Q25** : Grâce aux TIC, il y'a une diminution des coûts dans votre entreprise

**Q26** : Le rendement du capital investi en TIC est satisfaisant

**Q27** : Le chiffre d'affaire de votre entreprise a augmenté





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GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH  
Volume 12 Issue 5 Version 1.0 March 2012  
Type: Double Blind Peer Reviewed International Research Journal  
Publisher: Global Journals Inc. (USA)  
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

# Organization Excellent and Self Assessment through Organization Excellence Model

By Dr. Mohammad Reza Abasi & Mahdi Esmaeeli

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**Abstract** - Nowadays, achieving to excellence in organization is necessary because, frequent changes in global markets, has faced organizations with different challenges. The secret of survival in organizations is paying attention to need and expectations of customers and stakeholders. Using of business excellence models is one of the effective methods in getting organization excellence and so, organizations have different approaches. Applying these models, which one of them is using available business excellence model and creating customized excellence models for organizations or specific complexes. Once of the most useful excellence models recently used is EFQM which has been created by European foundation for quality management. This model as a powerful tool for measuring establishment of systems in various organizations is used. A business excellence model is an answer to these questions: what does a lender organization like? What objectives does it have and what criteria is organization managed based on?

**Keywords** : self assessment, European foundation for quality management, business excellence, EFQM.

**GJMBR-A Classification** : FOR Code: 150312, 150305 JEL Code: M12, D23



*Strictly as per the compliance and regulations of:*



# Organization Excellent and Self Assessment through Organization Excellence Model

Dr. Mohammad Reza Abasi<sup>α</sup> & Mahdi Esmaeeli<sup>σ</sup>

**Abstract** - Nowadays, achieving to excellence in organization is necessary because, frequent changes in global markets, has faced organizations with different challenges. The secret of survival in organizations is paying attention to need and expectations of customers and stakeholders. Using of business excellence models is one of the effective methods in getting organization excellence and so, organizations have different approaches. Applying these models, which one of them is using available business excellence model and creating customized excellence models for organizations or specific complexes.

Once of the most useful excellence models recently used is EFQM which has been created by European foundation for quality management.

This model as a powerful tool for measuring establishment of systems in various organizations is used. A business excellence model is an answer to these questions: what does a lender organization like? What objectives does it have and what criteria is organization managed based on?

By applying these models, organizations not only can have a self assessment for level of its success in execution of improvement programs in some periods of time but also can have a benchmark about its performance in comparison To other organizations especially the best.

Now, majority of large organizations have gotten some state and national award upon EFQM model which have caused their maturity.

In this article, basis and fundamentals and also elements of business excellence are discussed [1].

**Keywords** : self assessment, European foundation for quality management, business excellence, EFQM.

## I. INTRODUCTIONS

Using a system for evaluation of organizations is very effective to create and development of safe competition in market and also identify the leader organization as a pattern. Organizations need to be managed correctly and wisely with open view to environment, the other hand, increasingly, emersion of large and small competitors in different sections of industry and service, minimizing market, changing definition of organization audience from customer to stakeholder, concentration an supplying need and expectations of stakeholders, causes endeavor for organizational excellence.

organizational excellence models is one of the (best practice) best models for organizations and self assessment, which emphasizes on creation a pram worn for evaluation of organization in respect of achieving organization a excellence level.

This model was born in 1950's, and has a totality attitude and makes possible to evaluate some firms, somehow, it can be valuable base for utilization of best practices of leader organizations.

On this side, during recent decades, thinkers of management science, relying on leader organizations experiences, continuously have been looking for solutions to improve the situation and movement to excellence. Their studied and researches have led to create tools such as CRM, PM, SIX SIGMA, ISO, BSC, 5S and TQM.

FQM has been use widely in Europe and the word, so that now, more than 2000 organizations in Europe and more than 60% of 25 European companies and thousands companies from various small and medium industries apply this model [2],[3].

### *History of organizational excellence models:*

Emersion of excellence models started when GUSE (Japanese union of scientific engineers) invited Dr. Deming who had been having some improvements in field of Quality to present a lecture in 1951 and has been formalized In Japan by registry of an award namely Deming in 1950. this award has been being granted to organizations and individuals have had studies, researcher on TQM and statistic Quality control, or have caused their development and this award also has been being granted in newer section, to operational units who have reached remarkable improvements by applying these quality control tools and TQM. After three decades of Deming award presence in Japan industries owners, economic firms' managers and officials American gently realized, that their capability in competition against Japan has decreased and one after another, American markets in products and services have been being captured by Japanese companies. They obviously realized that instead of pay attention to quality as a necessity for continuous business and in a higher level, successful existence in global competition, there wasn't frequent emphasize on quality in American companies, because managers, didn't believe to quality concept or hadn't enough information on how doing in this field. On top of this worries, an article named "why Japan can but we can't".

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Published in one of American magazines which considered cause of Japanese progress during some decades after the Second World War these survey and studies, Deming started remarkable effect of Deming award on performance improvement of Japanese companies increasing quality level of their products and services and ultimately capturing international markets by them to industries.

Therefore Malcolm Baldridge, merchant minister of American of this time submitted a suggestion for setting an award to the congress, and finally in 1987, set as rule named "Malcolm Baldridge" and has being granted from 1988, to excellent and leader organizations in education and health sections. Near the end of 1980's which Europe economy was in threats of for east spatially Japan, a group of senior managers of 14 European leader organizations namely (Philips, Bt, Fiat, Renault, Sulzer, Volkswagen, Dassault, Electrolux, Klm, Nestle, Olivetti, Bull, Bosch, Cibageigy) gathered to get rid of available risk and find the future leadership. Their wellness and consulting led to establish an independent foundation for quality. A foundation which it is perspective was glorying European companies in the world and its mission was spreading information and presenting management courses and identifying achievements and motivation and admiring passengers of excellence and development rout.

So in 1989, European foundation for quality management established and approved by European Union. It was introduced as business excellence in which there was framework for judgment, organization self assessment and finally getting European quality prize. This measure went in precise in 1992. This model indicates stability advantages, which are necessary for an excellence organization.

Rapidly European companies paid attention to this model, and it was shown that also both public organizations and small industries like this model and applied it. In 1995, version of EFQM related to public service section published, also in 1996 specific model for small and medium industries developed. In 1999, the most important review of model, in 2001 version of small and medium industries and in 2003, a new version of EFQM with limited change presented. Finally in 2010, review and presence of new version of model done by overall change on it.

EFQM is originally similar to (Malcolm Baldridge) and there is no basic difference in basis and between them.

In the other words, both of models are under total quality control framework and are tools for establishing system in organizations and measuring level of success in establishing system upon TQM by organizations. The main differences of these models are quality of criteria, marking and executive procedures.

In fact, general framework of these models is the same.

Among three basic and famous models: Deming, Malcolm Baldridge, and EFQM, for excellence. EFQM is the most popular around the world.

Members of central commitment of EFQM are director manager from European companies. Who are selected for four years and are selected as conservative members for four years which is done annually.

Executive commitment also has 20 members of the same companies who not only do so as a representative in total quality, but also present necessary report to control commitment. Members of executive commitment, in fact play a role in and guidance and supporting strategies of business plans, supervising a plans present complete and ultimately developing EFQM. Nowadays, 19 countries are responsible for accruing objectives of these organizations [4]-[6].

Leadership model of EFQM is a tool for leadership of organization. Which hasn't got a prescription frame work and is away to excellence or reaching to point in which organization is sure for development in three aspect of quality, innovation and improvement of system in order to supply and enhance of internal and external stakeholders such as investors, employees and society [2].

#### *Goals of organizational excellence model*

This model as a powerful scientific tool has some goals as follow:

- A tool is used for self assessment in order to determine organization situation on its way to excellence and helping to understand gap between goals and actual.
- A way to find familiarity between best practices of other organizations.
- This is a structure for organization management system.
- To balance between various stakeholders.
- To motivate to learn through internal and external optimization.
- To guide to identify improvable areas.
- Understand of motivation cause business outputs.
- It is a base for creation common language and thought fundamental [7].

## II. LEADERSHIP CONCEPTS

Fundamental concepts of EFQM are eight qualitative concepts which are basis of planning and establishing of quality system and without considering to type and amount of activity and organization size, are applicable for them. These concepts also support organization excellence model. What are come later are fundamental concepts of excellence and also expectable profits for organizations, in case of considering to every concept.

*a) Achieving Balanced Results*

Leadership is just achieving these results surrounding stockholder's benefits.

This means to pay attention all of stockholder's points of view depending on their importance who are employees, customers, suppliers, society, shareholders and others who have financial benefits in organization. Expectable advantages of this concept are creation added value for all stakeholders, creation of common concentration and direction organization wide all stakeholders, understanding current and future performance requirement of organization which helps in determination of objectives and stockholders' happiness.

*b) Adding Value For Customers*

Leadership cause sustainable value for customer, meanwhile final judgment on quality of products and services is done by customer, so customer satisfaction is very important. Creation faithfulness in customer and getting market share is just feasible through paying serious attention to current and potential customers.

Expectable advantage of this concept are: available acquiescent customers, sustainable success of organization, motivated employees, competitive advantage understanding, high level of customer retaining and getting their trust and increased market share.

*c) Leadership With Foresight, To Inspire And Honesty*

Leadership is just inspire and catholic leadership with honesty and stability in goal. Leadership means goals determination in individual to try in getting organization goals. In a leader organizations, managers in practice and theory are inspires to employees on organization leadership direction and draw precise perspective of organization for them. They move correctly on the way to organization goals and are stable. And prepare atmosphere in which employees can work well.

Expectable advantage of this concept are: getting to commitment, motivated and effective labor consistent and pattern behaviors organization with development set of values moralities and sharing them organization wide, development of an obvious identity for organization and its inside, and objective and direction.

*d) Management Through Processes*

Leadership, organization management through systems and processes an organization who wants to be lead, should be managed by set of processes and systems.

Expectable advantage of this concept are: increasing liability of organization to the stakeholders, effective risk management and maximize efficiency and effectiveness in achieving organization to its mentioned

goals and giving products and services, realistic and effective decision making .

*e) Success Through Employees*

Leadership is maximizing personal taking part and their development an organization who want to be a leader showed maximize personal taking part in affairs. For using all of potential capability of organization empowering employees in doing their duties and creation common values and trust culture in organization is the best.

*Expectable advantages of this concept are:*

Putting potential capability of employees to practice continues improvement of personal capability and performance, under taker and motivated labor, creating dependency to organization goals and aims in employees level, very valuable mental possession and increasing competitive sense through development employees perspective.

*f) Creativity and innovation development*

Leadership is challenging current situation and changing through creativity development and also learning and creating innovation and improvement opportunities. An organization who wants to be leader, should challenge current situation and care much to innovation and creativity in organization.

In this organization, individual should transfer your knowledge to others and learning culture means learning and teaching innovation and continuous improvement are basis of all affairs.

*g) Alliances*

Leadership is creation and maintaining of high added value alliances, alliances is a long term business relationship.

An organization who wants to be a leader should somehow be a partner for other organizations who create added value for organization in order to get the long term profitable relationship, exchange of knowledge and experiences and trust should be basis of mutual relationship

Expectable advantages of this concept are: increasing survival chance efficiency and effectiveness improvement, optimizing core competences, sharing risks and costs and its reducing for organization, added value for stakeholders and improvement of organization competitive capability.

*h) Responsibility For Sustainable Future*

Leadership is catching up at least law frameworks in which organization acts and also responsible for stakeholders' expectations in society.

An organization, who wants to be a leader, should pay much attention to the society and act more than regulations and expectations of society.

Considering moralities in work is one of the characteristic of the leader organization.



Expectable advantages of this concept are: increasing value of organization brand, healthier and safer, work space improvement in picture of organization in society, risk management and stronger governorship structure, motivated employees, customer faithfulness.

More access to financial resources and increasing stakeholders' trust and certainly to organization [8],[9].

### III. EXCELLENCE CRITERIA AND SUB CRITERIA

Organizations in which has been set continuous improvement as a basis and value are continuously looking for a non experimental framework for their position and situation.

EFQM is as assessment helps an organization to assess correction of affairs and whether it earns fair results or not.

This model evaluates whole organization with 9 criteria. In this model it has been presented a relationship between method (result occurrence way) and results (what occurred) and also balance between cause and effect.

*EFQM model is divided into two sections*

A : enablers; including 5 out of 9 criteria and are factors enable organization to reach the best results (result acquiring causes)

B : results which are 5 out 9 criteria, they indicate achievement due to good execution of enablers (consequences of cause's emersion)

Model structure in three criteria is somehow every criterion is divided into different sub criteria and every sub criteria include special guidance points which help organization in execution of their desirable excellence model [10].

In addition, there are 32 criteria in model which 24 results out of 32 sub criteria relate to enablers and 8 out of 32 sub criteria relate to results criteria. Every enabler criteria include 5 sub criteria (else criteria number 2 which include 4 sub criteria) and every one of results criteria includes 2 sub criteria as follow [2]:

#### a) Leadership

Excellence leadership sets perspective and mission and facilitates condition for achieving them. Sub criteria related to leadership are: leaders determine perspective, mission, values and ethics in organization and play a role in organization excellence culture. Leaders identify and lead organizational changes. Leader cause motivation in employees and knowledge and support them, leader co operate with customer, business, alliance and society representatives. Leader personally takes part in making sure on creation, development and establishment of management systems and continuous improvement.

#### b) Strategy

Organizations, do their mission and perspective through an intensive strategy and stakeholders and considering market and sector in which they do. Policies, plans, goals and processes are developed and put into practice for acquiring strategies. Sub criteria related strategy is: organization strategy is accomplished through key process framework. Strategy is set, revised and updated. Strategy is based on acquired information of performance measuring, researches, learning and creative activities. Strategy is based on current and future needs and expectations of stakeholders.

#### c) Human Resource

Leader organizations, manage, develop and utilize maximum potential capabilities of their employees in individual team and organization levels. They promote justice and equality and let them participate in affairs and enable them.

Sub criteria related to human resource are: human resource are managed and developed, employees knowledge and competences are identified, developed and maintained. Employees participate in organization activities and are enabled.

Employees and organization have dialogue; employees are admired and paid attention.

#### d) Resources and Alliances

Leader organizations plan and manage their external alliances and internal resources in order to support policies and strategy and its effective performance. During planning and management of resources and alliances, these organizations balance between current and future organization needs society and environment. Sub criteria related to resources and alliances are: external alliances, financial resources, building, material and equipments, knowledge and information are managed.

#### e) Process, products and services

Leader organizations, design, manage, and improve their processes in order to acquiescent customers completely and create added value for them and other stakeholders. Sub criteria related to processes, products and services are: processes are designed and managed systematically. Processes are improved by innovation in case of need, in order to meet the customer requirements completely and create added value for them and other stakeholders. Products and services are designed and produced upon customers' needs and expectations. Products and services are produced, presented and supported. Relationship to customer is managed and reinforced.

#### f) Customers results

Leader organizations measure results related to their customers comprehensively and get them. Sub criteria related to customer results are two indices which



one of them is deductive indices indicate deductions and imagery of customer to organization which are acquired through customer comments, focus intensive groups, marking by sellers and considering customers appreciates and complaints, and another is performance indices which are used in organization to demonstrate, understand, predict and own performance improvement in respect to customers and forecasting external customer's deductions.

#### g) Human resources results

leader organizations, comprehensively measure remarkable results related to their human resources and get them, sub criteria related to employees are two indices which one of them is deductive indices indicate deductions and imagery of employees to organization which are acquired through feedback and field research, focus intensive groups, interview to employees and structured assessment of employees, some of these indices are: training and development of enabling connections, motivation, equal opportunities, leadership participation, learning opportunities and success, job security, wages and incentives, colleagues relationships, change management, and another is performance indices which are used in organization to demonstrate, understand, predict and own performance improvement in respect to employees and deductions, some of these indices are: achievements, utilization, motivation, participation, satisfaction, assessment, training, rapid response to requests, prepared service to employees, level of requirements and reassignments and employees faithfulness.

#### h) Society results

leader organizations, comprehensively measure remarkable results related to society and get them, sub criteria related to society are two indices which one of them is deductive indices indicate deductions and imagery of society to organization which are acquired through feedback and field research, reports, public gatherings, public seminars and governmental references, some of these indices are: organization picture, ethic behavior, connection to responsible, creation equal opportunities, action as responsible citizenship, publishing information related to society, participation in education and training, supporting curing and welfare works, volunteers and philanthropic works, and another is performance indices which are used in organization to demonstrate, understand, predict and improvement of own performance in respect to society and its deductions, some of these indices are: change management in recruitment level, relationships to officials is some cases such as: certificate, import or export, planning, custom clearance, received citations and prizes, exchange of related information and best practices in field of social responsibility, audits and report to society.

#### i) Key results

Leader organizations, comprehensively measure results related to main elements of strategy and get them, sub criteria related to key results are two indices which one of them is strategic key achievements that are key results, are defined by organizations and are adapted in strategy. some of these indices are: budgeted performance, profitability information related to investment and possessions, general data related to market, and another is key performance indices which are used in organization to demonstrate, understand, predict and improvement of performance key achievements which some of these indices are: cash flow, maintenance and repair costs, project cost, depression, validity, ...[2],[11],[12].

Marking in organization excellence model is done as follows in Fig. 1 [12]:

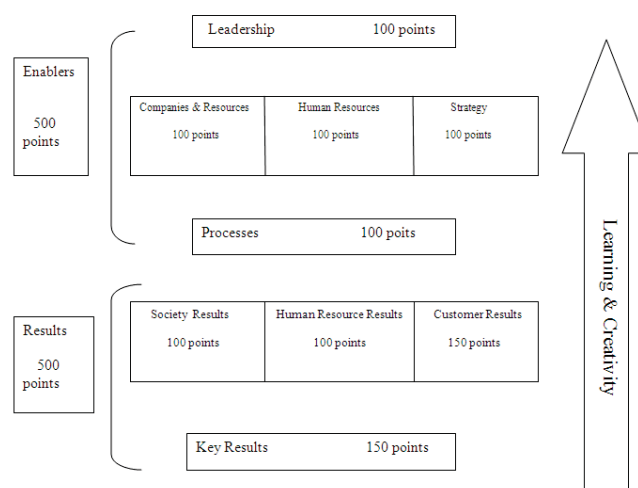


Fig. 1: organization excellence model

## IV. SELF ASSESSMENT

Self assessment is a regular, procedure based and comprehensive overview of organization activities and results upon a performance excellence model like EFQM. Self assessment let organization identify its strengths and weaknesses and needed areas for improvement clearly.

Self assessment has advantages such as employee's participation to processes improvement in all levels, integrated and coordinated evaluation in major and minor level. Identifying and sharing useful experiences in organization, facilitating benchmark, identifying strengths and weaknesses and areas needed for improvement, coordination and integration among operational and strategic programs [8].

#### a) Self assessment process

Self assessment includes ordinal process as follows:

Commitment for doing self assessment, self assessment schematization, building and training self assessment teams, informing and development of self assessment program, doing self assessment development of corrective actions plan, corrective actions.

#### *Self assessment approaches in EFQM model*

Questionnaire approach is the cheapest method and is done rapidly, this approach in a fine way to collect information about employee's deductions. The simplest kind of this model is using yes/no questionnaires.

Matrix diagram approach, this approach needs a little training. This questionnaire evaluates upon personal points of view like questionnaire approach. This approach could be applied in every level of organization four steps of doing this approach are: informing personal marking, consensus meeting, and executive planning

#### *b) Workshop approach*

This approach needs active participation of management team of the unit is doing self assessment. Members of self assessment team collect information and submit to every other in one workshop, then they get consensus through overview and promotion of marking and executive programs. This approach has 5 main elements. They are: training, gathering information, marking workshop, developing improvement executive plans, and overview kind of executive plans promotion.

#### *c) Performa approach*

This approach is more precise than other approaches, because, more people from different units are engaged in gathering information; in fact one of the methods for decreasing volume of assessment work is developing set of Performa.

In this method, one page form could be prepared for every sub criteria; in this case, total report has 32 pages. In this approach the most important factors to success in quality of information.

Process simulation approach for winning the prize which is a copy of European quality prize, process could be used for assessment one unit or whole of organization. This approach is done through developing declaration for one unit or whole of organization upon model criteria. One team including trained assessors considers declaration and then determines improvable areas strengths and weaknesses in organization. Marking in this method is very precise [13].

RADAR logic for organization assessment based on criteria, there is logic for marking criteria in the core of organization excellence model which is called RADAR logic, including for elements results, approach, deployment, assessment and refinement.

This logic tells that an organization, needs to determine results as a part of processes of strategy

(these results cover performance of organization in aspects of financial, operational and stakeholders, deductions sides) planning, creation and development integrated set of logical and fair approaches in order to get the current and future needed results, deployment of approaches in a systematic way to ensure their complete execution and over viewing and assessment of approaches and execution of these approaches upon analysis of earned results and current learning activities. Finally by using these assessment and overview needed improvement are identified, set to priorities, planned and executed When an excellence model is used in an organization, it should be considered elements approach, deployment, assessment and overview, logic for marking in every element of enabler criteria and element of results of this logic in every criteria of results section [9],[10].

#### *d) Excellence levels in prize*

Excellence levels, distinguishes organizations in achieving to excellence and show their success on way to excellence, there are 5 levels as follow:

First level : certificate is granted to organization try to assess their performance by an excellence model and categorized activities of own organizations into 9 criteria

Second level : citation is granted to organization try to deploy and execute elements of 9 criteria and can earn at least 400 points

Third level : finalist which is granted to organization move according to model and is fast and accurate, they also move based on preset tables and programs and can earn at least 550 points

Fourth level : prize winners: which is granted to organization pass the processes fast and use accurate reliable and on time information are assessed by quantitative criteria and should get at least 630 points

Fifth level : award winner: which is granted to organizations which all of 9 criteria as rules have been deployed and have been being executed and self assessed in a fast, accurate and standard way and they should get at least 700 points [6],[14].

## V. CONCLUSION

In current competitive global business condition, it is necessary for organizations to be self assessed in order to inform their performance one of the most powerful techniques in this field is organization excellence of EFQM. although assessment of organizations cause to identify weaknesses and help to remove them however it is necessary using management tools for upgrading performance level of organization and helping to it in order to move on excellence way, because the competition language is the same in all of the world and companies have no choice else learning comprehensive organizational management alphabet. Where and activities related to

organizational excellence is considered and one of important activities in organizations and will be used as a base of comparison among organizations in the same industry, so organizations are serious that after doing executive steps, to prepare themselves for presence in the national quality or national efficiency and organizational excellence prize process. It is obvious that by using experience of presence in mentioned prize process and in next steps by meeting the requirements and execution improvement plans in company, there will be a nice vista in respect to organizational excellence goals in front of organization [15].

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GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH  
Volume 12 Issue 5 Version 1.0 March 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 Service Delivery and Good Governance in Institutionalization of Taxation in Nigeria: An Analytical Perspective

By Festus O. Egwaikhide & Elijah A. P. Udoh

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**Abstract** - This paper examines the key strategies for institutionalizing taxation in Nigeria. Using descriptive analysis the paper shows that tax collection in Nigeria is low and inefficient. Bulk of the revenue for financing government activities come from the proceeds from petroleum sales. However, there is prospect for taxation in Nigeria. Therefore, it is argued that taxation can be encouraged and made a national culture if good governance is achieved as the basis for prompt and effective service delivery.

**Keywords** : *Taxation, Nigeria, Governance, Institution, Service Delivery.*

**GJMBR Classification** : *FOR Code: 150107, JEL Code: K34*



*Strictly as per the compliance and regulations of:*





# The Roles of Service Delivery and Good Governance in Institutionalization of Taxation in Nigeria: An Analytical Perspective

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**Abstract** - This paper examines the key strategies for institutionalizing taxation in Nigeria. Using descriptive analysis the paper shows that tax collection in Nigeria is low and inefficient. Bulk of the revenue for financing government activities come from the proceeds from petroleum sales. However, there is prospect for taxation in Nigeria. Therefore, it is argued that taxation can be encouraged and made a national culture if good governance is achieved as the basis for prompt and effective service delivery.

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## 1. INTRODUCTION

In 2007-2008, the world economy experienced the worst financial crisis since the Great Depression. The financial crisis prompted reassessment of certain principles and practices in financial sector policy making, and led to important changes in structure of financial systems worldwide. To the developing countries, the era of cheap external loans for domestic development was truncated. The unfolding fiscal reality demanded carefully budget adjustment and fiscal management to avoid unnecessary cuts in essential public services. Hence, there was strong demand to revive taxation in the polity as a critical step towards addressing the fiscal challenges of the moment. While world economy is still struggling with the fragile economic recovery, especially in emerging and developing countries; some developed countries in Europe and America have had to battle with one form of sovereign debt crisis or the other.

To kick-start the discussion: What is taxation? How can it be institutionalized in the polity? To be very precise, taxes are compulsory payment imposed by legislation. Taxation is used to withdraw resources from the private sector of the economy for the government to cover the cost of providing public goods and services law and order (security), healthcare, education, among others. Revenue from taxation generally constitutes a substantial part of the total revenue of governments; and so, taxation has occupied an important position in the specialised discipline of public finance.

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Taxation imposes a burden on the taxpayers with reduced welfare as a direct consequence. This raises the concern regarding the distribution of tax burden. On this, two dominant approaches are generally emphasized in the literature. First, is the benefit principle of taxation which says that tax obligation should be directly related to the benefits individuals derive from public goods and services. This is based on the price theory of public finance since it is in quid pro quo terms. The second one is the ability-to-pay principle which states that each individual should pay tax according to his/her ability. Both principles have attracted several weighty criticisms, however. There are problems of measurement of benefit and ability-to-pay. For instance, ability-to-pay refers to individual's economic well-being that could be measured by income, consumption and wealth. Even each of these indicators of welfare is beset with a myriad of problems.

From the foregoing, there are justifications for the sustained interest in taxation. When used properly, taxation can serve as a potent instrument for resource mobilization and allocation. In particular, it is through the tax system that revenue can be generated to finance democratic governance. It is also clear that taxation pursues and hurts the taxpayers and, therefore, it is a burden. There is a third argument that is easily appreciated. Given the existing factor endowments and technology in a given society, the resultant income distribution may be Pareto-optimal, but not ethically and socially desirable. A good system of taxation is needed to promote social equity with respect to the distribution of income and wealth. As part of the budgetary policy of the government, taxation is an effective tool for promoting economic growth and macroeconomic stability.

The word 'institutionalize', derived from institution, has many connotations. To keep the discussion simple, definition particularly relevant to the current discourse is adopted. In this guise, 'institutionalize' refers to the act of initiating a new idea or culture into the custom of the society or polity. In other words, it means introducing something new that has not been in existence or have been lost in the course of time.

From the topic, what do we mean by institutionalizing taxation in the Nigerian polity? We are simply referring to the introduction of taxation as a new custom into the framework or the recognized principles which lie at the foundation of the state or nation. This would involve the introduction of taxation as a basic component of policy and the management of the state.

The concept of taxation may not look altogether new to the country, in fact, it is entrenched in the constitution of the Federal Republic of Nigeria. Borrowing from historical facts, taxation is nothing new to the various groups recognized together as the nation-state Nigeria. In the pre-colonial era, the effort to finance war and the military led to varying patterns of bargains between the traditional government (representing the state) and the people. Various cultural practices recognized the power of the traditional rulers to tax the people either in kind or cash. The power to tax entailed the power to create and consolidate political communities. It created the financial basis for the provision of public goods and services to all citizens, and enabled the redistribution of economic resources. In this sense, taxes were not only the price of civilization, but indeed, the first and strongest component of the financial powers of any political community (see Menendez, 2001).

The custom of taxation was not eroded by advent of colonialism. The colonial administration raised revenue through taxes, both direct and indirect taxes, in all the regions of the country. Depending on the cultural background of the people, direct and indirect methods were more effective in mobilization of tax revenue for the supply of public services. Even after political independence, tax revenue continued to emerge as source of funding for public projects in the country though in decreasing proportion with passage of time.

However, presently this practice or behavioral pattern seems to be lacking in the life of the Nigerian society. The discovery of petroleum in the 1970s and the enormous revenue generated by the sector seem to have dealt a heavy blow on taxation and service delivery in the country. The abundance of oil resources has in retrospect subverted concerns for increased efficiency in government, while also expanding the public sector beyond sustainable levels.

Perhaps the most important outcome of the combination of oil riches and ineffective government was the emergence of an informal economy in Nigeria. This hidden economy accounts for a large share of the national output and is both difficult to document and tax. Free-riding behaviour of this informal economy results in sub-optimal provision of some essential public services and deterioration in economic inequality beginning from the late 1970s. Since then, the customary practice of taxation has not enjoyed full acceptance. And its

centrality in the life of the nation has also been undermined in recent years.

For the past two decades or so, the stability of the political community, called Nigeria, has been under severe threat. The political and legal order have tilted in favour of the powerful few to the detriment of the masses, who are deprived of a fair access to essential public services and of public insurance against unemployment, sickness, old age and bad luck.

There is no other time that the issue of institutionalizing taxation could have been more appropriate than now. With the uncovering of the 'oil revenue veil' by the global economic crisis, reality demands that taxation be institutionalized in our polity, as the only sustainable means of financing government developmental activities.

In this exposition, we examine the role of service delivery, good governance and enforcement mechanism in ensuring that tax payment is revived in Nigeria. The rest of the paper is organized in three sections. Following this introduction is an overview of the Nigerian tax system. The next section dwells on the strategies for institutionalizing taxation in Nigeria. Section four provides some concluding remarks.

## II. OVERVIEW OF THE NIGERIAN TAX SYSTEM

### a) *Essential Features*

The dominant motivation for taxation in developing countries, Nigeria inclusive, is to generate revenue with which to finance public administration and publicly provide economic and social services. Additional motivations are incomes redistribution and correction of market imperfections. The success of a country's tax policy in achieving these objectives depends largely upon its tax structure and the tax administration machinery in place. In this section of the paper we present an overview of Nigeria's tax system.

Nigeria currently operates a federal system comprising three levels of government at the federal, state and local. The major types of taxes in Nigeria are indicated in table 1. These taxes differ in terms of the level of government that legislates or collects and administers the taxes. As the table portrays, most tax legislation is done by the federal government. These taxes are generally classified into two: those relating to income and capital gains earned by corporate bodies and those on the income and capital gains accruing to individuals. The federal government makes the laws and also collects all taxes accruing from corporate bodies, such as quoted and unquoted limited liability companies. While the federal government makes laws for personal income and capital gains taxes accruing from individuals, the actual collection is done by the government of the tax payer's usual place of domicile.

Table 1 : Tax Jurisdiction in Nigeria

Federal	State	Local
1. Import Duties	1. Football Pools and Other Betting Taxes	1. Rates
2. Excise Duties	2. Entertainment Taxes and Estate Duties	2. Tenement Rate
3. Export Duties	3. Gift Tax	3. Market and Trading Licenses and Fees
4. Mining Rents and Royalties	4. Land Tax other than on Agricultural Land	4. Motor Park Duties
5. Petroleum Profit Tax	5. Land Registration and Survey Fees	5. Advertisement Fees
6. Companies Income Tax	6. Capital Gains Tax (Administration)	6. Entertainment Tax
7. Capital Gains Tax (Administration)	7. Personal Income Tax (Administration)	7. Radio/Television License Fees
8. Personal Income Tax (Legislation)	8. Stamp Duties	8. Property Tax (Administration)
9. Value Added Tax	9. Property Tax (Legislation )	
10. Stamp Duties (Legislation)	10. Motor Vehicle and Drivers License Fees	
11. Dividend Tax	11. Stamp Duties (Administration)	

Source: *The Nigerian Constitutions and the VAT Decree of 1993 (and as Amended in 1996).*

However, the legislation, administration and collection of personal income taxes from personnel of the armed forces as well as those of the external affairs and the federal capital territory are exclusively carried out by the federal government.

Taxes in Nigeria can be broadly grouped into three for the purpose of noting their broad features. These are:

- Taxes that derive from income and wealth;
- Taxes related to expenditure or consumption; and
- Production-based taxes

This grouping of taxes follows the general distinction usually made between direct and indirect taxes. Generally, direct taxes are associated with income and wealth rather than consumption and expenditure. Income tax is payable by both physical persons and juristic or legal entities including associations of persons, etc. The rates, exemptions and rebates are all determined for each year of assessment and are prescribed in the annual budgets.

A company, being a legal entity distinct and separate from individual share-holders comprising it, also pays income tax (called corporation or company income tax). However, companies enjoy various tax concessions for encouraging investment in general and in specific areas and industries in particular. These tax concessions have changed quite frequently in coverage and rates causing a good deal of uncertainty.

Other direct taxes include provisions for taxation of capital gains and gifts, an annual tax on wealth and estate duties. Direct taxes of states and local bodies include taxation of agricultural incomes, land revenue, taxes on buildings etc.

Indirect taxes of the federal government include taxation of capital transactions, taxation of advertisements, customs duties and excise duties. Indirect taxes of states and local bodies include sales tax, certain excise duties, entertainments tax, taxation of motor vehicles, registration and stamp duties, etc.

In general, therefore, income and wealth-related taxes are direct taxes, while expenditure or consumption and production-based taxes are indirect taxes. The direct taxes, unlike the indirect taxes, are avoidable.

Thus, income and wealth-related taxes are personal income tax, company income tax, petroleum profit tax, capital transfer tax, capital gains tax and property tax. Among the expenditure or consumption-related taxes are sales tax and customs duties. Sales tax applies to expenditure on locally manufactured goods while customs duties apply to imported consumption goods. In this category also is the value Added Tax (VAT). Production-based taxes are excise duties charged on local manufactures, and landing duties imposed on imported intermediate inputs.

Contributions to total tax revenue of the Federal Government by direct and indirect taxes from 1990 to 2009 are shown in table 2. The increasing importance of direct tax revenue relative to indirect taxes is very obvious. This may be explained by the dominance of the oil sector in the economy. There was, however, a decreasing share of direct tax revenue in the total government revenue between 1995 and 1999. This is mainly due to declining revenue from petroleum profit tax following the reversal of fortunes in the oil sector.

**Table 2 :** Percentage Contributions to total revenue from  
Direct and Indirect Taxes

Year	Direct Tax Revenue	Indirect Tax Revenue
1990	59.54	40.46
1991	79.88	20.12
1992	79.38	20.62
1993	82.77	17.23
1994	69.76	30.24
1995	47.77	52.23
1996	53.31	46.69
1997	50.40	49.60
1998	51.53	48.47
1999	59.26	40.74
2000	73.19	26.81
2001	64.67	35.33
2002	58.56	41.44
2003	71.98	28.02
2004	78.46	21.54
2005	84.73	15.27
2006	83.23	16.77
2007	77.60	22.40
2008	81.52	18.48
2009	82.16	17.84

Table 3 and table 4 show, respectively, the yields of the various components of direct and indirect taxes. As depicted in table 3, Petroleum profit tax has dominated the direct tax revenue over the years. For instance, in 1990 petroleum profit tax accounted for 85.07% of direct taxes. In 1995 it contributed 50.2%, while in 2005 and 2006 it accounted for 83.58% and 87.99%, respectively. It dropped drastically in 2009 to 60.69% as a result of substantial increase in both company tax and federal government independent revenue.

Source: CBN Statistical Bulletin, 2007 and Annual Report and Statement of Account, 2008 and 2009.

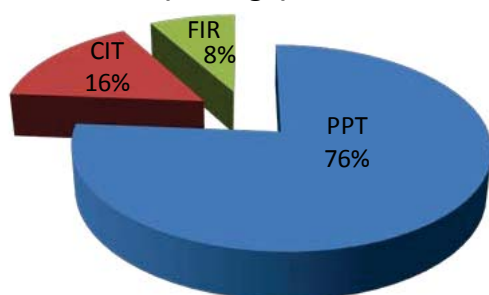
**Table 3 :** Percentage Contributions to Total Direct Tax Revenue

Year	Petroleum Profit tax (PPT)	Company Income tax (CIT)	Fed. Govt Independent Revenue (FIR)
1990	85.07	9.48	5.45
1991	84.90	8.42	6.68
1992	83.30	8.77	7.93
1993	79.59	12.84	7.56
1994	72.59	20.82	6.59
1995	50.32	25.69	23.99
1996	75.11	21.55	3.34
1997	66.63	25.26	8.10
1998	60.34	29.55	10.12
1999	71.25	20.03	8.72
2000	85.48	8.32	6.20
2001	84.97	9.13	5.90
2002	71.39	16.22	12.40
2003	80.18	13.47	6.36
2004	86.23	9.48	4.29
2005	83.58	7.12	9.31
2006	87.99	10.57	1.44
2007	71.58	15.60	12.82
2008	84.12	12.47	3.41
2009	60.69	27.44	11.86

Source: CBN Statistical Bulletin, 2007 and Annual Report and Statement of Account, 2008 and 2009.

Tax revenues from traditional income-based services, such as company income tax and personal income tax, are still very low. Besides, tax from domestic outlay is also far from developed. Company income tax, which is the most valuable source of all income related taxes, constitutes only minimally to total federal government revenue. Its share of total federal government revenue from 1990 to 2009 is also shown in table 3. The table also shows that the federal government's independent revenue (a revenue item under which is grouped all revenues collected from capital gains tax (of all sources), dividend tax, withholding tax on bank deposits, casino tax, airport tax, stamp duties and penalties). In recent years, the total contribution of this source of revenue has averaged about 8% of total direct tax revenue (see also Figure 1). A salient feature of the Nigeria Tax system is its heavy dependence on a single commodity – petroleum. This is clearly evident from table 3 and figure 1.

**Figure 1: Percentage contribution to total Direct taxes, 1990-2009 (Average)**



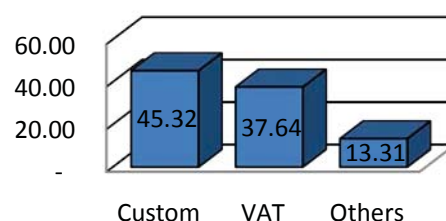
**Table 4 : Percentage Contributions to Total Indirect Tax Revenue**

Year	Customs and excise duties	VAT	Others
1990	40.20	n.a	59.80
1994	71.59	28.41	0.00
1995	40.12	22.29	37.58
1996	61.52	34.67	3.81
1997	6.22	33.56	4.24
1998	54.43	34.81	10.75
1999	55.46	29.72	14.83
2000	45.05	25.97	28.98
2001	41.51	22.34	36.16
2002	52.76	31.59	15.65
2003	58.90	41.10	0.00
2004	57.66	42.34	0.00
2005	56.66	43.34	0.00
2006	38.07	47.47	14.46
2007	39.89	47.86	12.25
2008	37.11	53.36	9.53
2009	34.42	54.19	11.39

Source: CBN Statistical Bulletin, 2007 and Annual Report and Statement of Account, 2008 and 2009

As shown in table 4, tax revenue in Nigeria also seems to depend largely on foreign-oriented activities. For example, bulk of federal revenue was derived from import duties which are based on foreign-oriented consumption. To this end also, the rising contribution to total revenue by VAT is noteworthy (see Figure 2).

**Figure 2: Average Percentage Contributions to total Indirect Tax Revenue, 1995-2009**



Tax collection constituted a paltry 7.1% of the GDP in 1996, the smallest in the 90s. However, tax revenue remained consistently below 20 % of GDP since the 90s. The relative low tax share of GDP is certainly consistent with the belief in a market – dominated economy. Non-tax revenue did not do any better during the period. As a percentage of GDP, it also stayed below 20 %, except in 1992 and 2000 when it stood, respectively, at 21 and 22.6 percent (see table 5). The volatility of revenue from oil is also obvious from the table. Although this was as high as 30.6 % of GDP in 1992, 33.7% in 2000, and 32% in 2005, low rates of 11.9 % and 12.92% were recorded in 1998 and 2009, respectively.



*Table 5* : Tax, Non-Tax, Total, Oil and Non-oil Revenues as Percentage of GDP

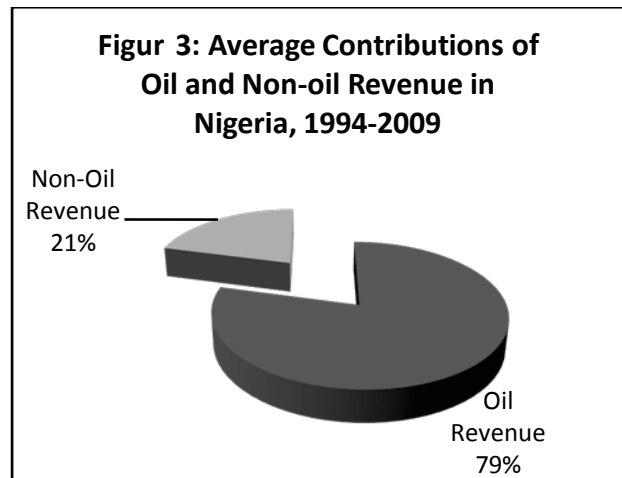
Year	Tax Revenue	Non-tax Revenue	Total Revenue	Oil Revenue	Non-Oil Revenue
1990	19.60	16.50	36.10	26.50	9.60
1991	18.00	13.90	31.90	26.10	5.80
1992	14.50	21.00	35.50	30.60	4.90
1993	13.10	15.00	28.00	23.60	4.40
1994	9.30	13.00	22.30	17.70	4.60
1995	9.20	14.60	23.80	16.80	7.00
1996	7.10	12.30	19.40	15.10	4.30
1997	7.30	13.80	21.10	14.90	6.20
1998	8.00	9.00	17.00	11.90	5.10
1999	11.70	16.90	28.60	21.90	6.70
2000	17.80	22.60	40.30	33.70	6.60
2001	16.50	15.10	31.60	24.20	7.40
2002	11.80	9.90	21.70	15.40	6.30
2003	11.70	13.70	25.40	20.50	4.90
2004	15.00	18.60	33.60	28.70	4.90
2005	18.10	19.20	37.30	32.00	5.30
2006	14.99	17.50	32.13	28.48	3.65
2007	13.08	26.98	27.67	21.60	6.06
2008	17.20	15.60	32.38	26.88	5.50
2009	11.84	17.69	16.42	12.92	3.50

*Source: Computations by the authors*

#### *b) An Assessment of the Tax system*

Tax system of a country is an integral part of the overall economic system of the country and is expected to contribute to the achievement of chosen social and economic objectives. An appropriate tax policy brings about the required tax system and manifests itself in the rate structure, tax deterrents and incentives and the like. The federal tax system is a progressive tax rate system. This is because it meets the ability-to-pay principle of taxation and is generally a fair and equitable tax system and the distance of income after taxes is more equally distributed. What may still be in doubt is whether the country's tax structure is equally guided by the Benefit-Received Principle. However, over the years the preponderance of payroll taxes at the federal level and of income taxes at the state level has tended to make the federal tax custom less progressive.

A salient feature of the Nigerian Tax System is its heavy dependence on a single commodity – petroleum. This is clearly evident from figure 3 which shows the average percentage shares of oil and non-oil revenue in total government receipts from 1994 – 2009.



*Source: Computations by the authors*

On the structure of the tax system, we note that the shift from indirect tax to direct tax as the main source of government revenue is not, in any way, a true reflection of Musgrave's (1969) thesis that as nations develop the tax base shifts from indirect to direct tax. The case in Nigeria is caused by the dominance of petroleum profit tax.

Tax revenues from traditional income-based services, such as company income tax and personal income tax, are still very low. Besides, tax from domestic outlay is also far from developed. Company income tax, which is the most valuable source of all income related taxes, constitutes only an annual average of about 16% of total direct tax revenue. Its share of total federal government revenue is shown in table 6.

*Table 6 :* Percentage shares of Major Tax types in Federal government Revenue

Year	Petroleum Profit tax	Company Income tax	Fed Govt Independent Revenue
1990	27.43	3.06	1.76
1991	38.24	3.79	3.01
1992	27.03	2.84	2.57
1993	30.71	4.96	2.92
1994	21.20	6.08	1.93
1995	9.32	4.76	4.44
1996	14.64	4.20	0.65
1997	17.53	6.65	2.13
1998	14.67	7.18	2.46
1999	17.31	4.87	2.12
2000	27.55	2.68	2.00
2001	28.64	3.08	1.99
2002	22.65	5.14	3.93
2003	26.54	4.46	2.10
2004	30.19	3.32	1.50
2005	34.34	2.92	3.82
2006	33.63	4.04	0.55
2007	26.25	4.82	4.70
2008	35.75	5.30	1.45
2009	25.94	11.73	5.07
<b>Average</b>	<b>23.98</b>	<b>4.79</b>	<b>2.68</b>

*Source: Computations by the authors*

The table also shows that the federal governments independent revenue (a revenue item under which is grouped all revenues collected from capital gains tax (of all sources), dividend tax, withholding tax on bank deposits, casino tax, airport tax, stamp duties and penalties). In recent years, the total contribution of this source of revenue amounts to about 2.68% of federal government revenue. The overall picture of the tax system and federal government shows that the contribution of income related tax to total government revenue is quite small.

Whenever tax revenues are altered by introducing new or abolishing existing taxes, raising or lowering tax rates, or abiding or eliminating deductions,

exemptions, or exclusions, particular group of persons either benefit or are hurt, and the existing pattern of income distribution is altered. However, it would seem that changes in the country's tax structure were mostly occasioned by revenue needs and other objectives of government rather than by distributional considerations. Nevertheless, these changes had distributional side effects which tended to be regressive in the sense of reducing the progressivity of existing tax structure.

Starting with the criterion of adequacy, we find that over the years, tax revenue as a percentage of total federally collected revenue has not increased fast enough. The tax system has not exhibited a good deal of buoyancy. It has not also exhibited elasticity when we note that year after year the tax revenue has not increased substantially in spite of variations in coverage and rates of taxation. That tax revenue has not been able to yield enough resources for the government explains the latter's resort repeatedly to market borrowings and deficit financing to meet its increasing requirements. Our tax policy has aimed at raising tax revenue through upward revision of tax rates and, wherever possible, extending the coverage of the taxes. Since the scope for revision of rates and coverage is limited in direct taxes, our tax policy has concentrated upon tapping indirect taxes to a disproportionate extent. This has made our tax system inequitable and regressive. Even the direct taxes have suffered some inequity, especially on account of tax evasion. The large scale tax evasion (both in the direct and indirect taxes) means that the proportionate burden upon those who are paying the taxes has increased very much. Such large scale tax evasion not only causes loss of revenue to the government, it also distorts the consumption pattern in the economy and diverts its productive resources to a wasteful end.

The system is not doing any better on the criterion of efficiency. On account of complicated laws and rapid changes in their provisions, our tax system scores low in respect of the qualities of simplicity and certainty. In the process of providing a tax incentive or a tax deterrent for several economic and other objectives, has led to a very complicated system of tax laws. Complexity of the tax system works against its efficiency.

The system of indirect taxation also contributes to inequalities. In terms of rate and coverage, the system is highly progressive. While necessities are exempted from taxation or are being taxed at quite low rates, luxuries are subjected to higher rates. But the evil of large scale tax evasion is prevalent in this case as well. In certain cases while indirect taxes are collected from consumers by way of excise duties or sales tax, the same is evaded and misappropriated by the producer or seller. Similarly, taxation of inputs and intermediate goods is itself regressive. This is because such taxes have cost-cascading effects. This enables

manufacturers and sellers to mark up prices by margins far in excess of the taxes imposed. Moreover, the system breeds a process of taxation of taxes and this pushes up costs and prices still further, and inflation worsens inequalities.

Tax provisions are expected to be of help to the economy in achieving a quicker rate of capital accumulation and economic growth. But they are concerned more with provision for investment and less with those to encourage savings. The incentives provided to attract people towards savings are limited and grossly inadequate in view of rising prices and falling purchasing power of money. However for this purpose our direct taxes are studded with a large number of exemptions, rebates and the like for encouraging saving, and channelling of investment into particular sectors. Priority industries get a more favorable treatment. Incomes from particular investments are exempted from income taxation up to a certain extent. To the extent these incentives go, they are good. But we find that in some cases there are too many provisions relating to these objectives and the tax laws have lost simplicity and probably even effectiveness. Instead they tend to provide certain loopholes to the tax dodgers. All told, our tax policy seems to have failed in curbing consumption and diverting savings into selected lines of investment. Also, the rate of growth of the economy also has not been fast enough.

### III. STRATEGIES FOR TAXATION

In the introductory part of this paper, the point was made that the issue of taxation is pivoted around bargaining between the state and its citizens as it involves a quid pro quo. That is, the state provides public goods and services – examples are security, education, water and sanitation, and roads – from the revenue collected from taxes. Apparently, this social contract means that the citizens have accepted the moral obligation to pay tax because of the benefits derived from public goods and services provided (by the way, paying tax is an important requirement of a good citizen). This reciprocity between the state and the citizens may not always balance for the simple reason that one of the parties could fail to deliver on its promises or bargains. The bargaining position depends on the balance of power between the state and taxpayers. In turn, the balance of power is influenced by the degree of organisation of the taxpayers in a given society<sup>i</sup>. On the part of government, creation of incentive-based schemes linking tax payment with service delivery seems the best bait. In particular, turning the tide of public sector inefficiency and corruption or in present day language ‘good governance’ is an imperative.

As a policy framework, ‘good governance’ imposes demands on policy makers in their exercise of power. It encompasses:

- an effective state – i.e. one that possesses an enabling political and legal environment for economic growth and equitable distribution
- civil societies and communities that are represented in the policy making process with the state facilitating political and social interaction and social interaction and fostering societal cohesion and stability
- A private sector that is allowed to play an independent and productive role in the economy

All three elements, singly and in combination, together with sound economic management are essential for sustained development as emphasized in the African Development Bank (ADB) assessments<sup>ii</sup>

An example of imbalance between tax-service exchange is easily appreciated from the findings of the monumental empirical enquiry by the Centre for Tax System Integrity in Australia<sup>iii</sup>. Surveyed results showed that most Australians were generally disillusioned with the poor democratic governance in the country during the period covered. In part, this was because of the belief that the rich and powerful were those that controlled the decision making, while the poor had very little to say. However, only 15 per cent of the respondents expressed satisfaction in the manner the government spent tax revenue. In spite of this, it was revealed that most Australians still want to pay their taxes. The basic reasoning here is that in a society where the taxpayers are relatively satisfied with public service delivery, there is greater compliance with tax payment. Therefore, it stands to reason that a government that wants to maximise tax revenue must have the incentives to develop the institutional capacity with which to provide public services to the people.

In Nigeria, the ruling elites are patently self-serving, unprogressive and non-developmental<sup>iv</sup>. It is not surprising therefore that the country is littered with leaders who made promises but failed to deliver. So, government expenditure has been largely wasteful. With little doubt, if any, this partly explains why the citizens could be defiant about taxation. Digging further on defiance will certainly be beneficial. Braithwaite's discussion of defiance with respect to Australia is used as a guide. Braithwaite identified two types of defiance, namely, resistant and dismissive defiance in Australia. According to him, the citizens that exhibit resistant defiance do not oppose the authority in exercising its power, for they are concerned about how the authority uses its power. He posits that resistant defiance does not threaten the existence of the authority but it might be “noisy, irritating, embarrassing and disruptive to an authority”; and that it could be managed through listening and improving service delivery. But, dismissive

defiance threatens the existence of the authority. This is because, those dismissively defiant do not respect the authority since they do not believe it would ever transform into a public institution that would be beneficial to the society. It is further argued that the authority must battle for its survival when the citizens are defiant. In the context of taxation, Braithwaite expressed that while taxation might be a threat to taxpayers, but those dismissively defiant threaten the existence of the tax authority. Both types of defiance were reported for Australia. This suggests that there should be constructive state-society dialogue on the issue of taxation. Good governance can establish the confidence of the people about the state and facilitates the tax-service exchange process.

Second issue which must be tackled, though not altogether unrelated with governance in a way, is corruption in tax administration. Corruption affects the quality of governance and is reinforced by poor governance. It forces officials to make decisions that do not serve the public interest but promote the interests of corrupt individuals. Administrative efficiency is at a low level because patronage and nepotism tend to encourage the recruitment of incompetent people. As a consequence public service may not be optimally delivered.

A variety of factors contribute to corruption in tax administration. First, complexity of tax laws and procedures creates ambiguities in their interpretation and opens avenue for officials and tax-payers to manoeuvre the laws the way it suits them. Second, lack of adequate monitoring and supervision of the tax system is another factor that creates room for sharp practices on the part of the taxpayers and the collectors. Third, when political leaders themselves are not committed to the process of taxation and transparency, it leads to corrupt practices in the administration of taxes. Lastly, corruption in tax administration may just be a part of the overall corruption in the public sector. When the general environment in the public sector is characterised by corruption, the tax system may not be an exception.

The cost of corruption to the society is extremely high. It can lead to loss of trust in democracy, in leaders and fundamental institutions. Further, it can provoke social unrest and threaten macroeconomic stabilization. Hence, it is quite necessary to find solution to tax corruption in the polity.

To tackle this issue of corruption in tax administration, some rational measures have to be taken. First, a rational tax system with simplified tax laws should be established. Second, corruption should be rebuffed at all level. It should be classified a national crime. Agencies such as the Economic and Financial Crime Commission (EFCC) and Independent Corrupt Practices and Other related Offences Commission (ICPC) should be well empowered to stamp out

corruption in the polity. Third, sanction for corrupt officials should be severe. Lastly, the use of information technology to combat corruption should be adopted. The use of technology in tax administration will reduce the distortionary power of local officials, cut cost and increase transparency. It will automate government actions and procedures, hence reducing delays and face to face contact. This will build transparency and trust.

Finally, to institutionalize taxation in the polity a good enforcement mechanism is required. Human beings, generally, prefer to take and would not like to give. Without appropriate enforcement mechanism most taxpayers will not voluntarily pay their taxes. Tax, as defined in this study, is a compulsory not voluntary levy and some compulsion is needed to ensure prompt payment.

#### IV. CONCLUSION

To conclude this paper, it is useful to summarize the key issues. First, the fiscal challenges emanating from the economic meltdown provides the justification to institutionalize taxation in the polity as a way of escape. Second, a critical assessment of the historical facts shows that the willingness to pay tax is customary to the people of Nigeria. However, over the years failure to focus on the benefit-principle has dampened the enthusiasm towards taxation. Third, this situation was further worsened by the failure of the tax system to meet certain criteria of an efficient tax system. Ambiguous tax laws, inconsistent rates and coverage provided opportunities for tax evasion and sharp practices on the part of the tax collectors. The result is poor service delivery and unequal distribution of wealth and income.

This scenario of a partial break down in the tax-service exchange process calls for a re-institution of the state-citizens bargaining process. The two stakeholders, the state and the citizens must be willing to take up their responsibilities. A participatory state, in which the citizens take part in all decisions, including taxation, is recommended. Our democracy should strengthen the masses not the political elites in power to exploit the citizens. Government should develop adequate capacity to provide public services. In a state where the citizen provides the entire public infrastructure, the government has no moral justification to demand for taxes from the citizens.

In the paper, it was also observed that failure to develop our tax system has been the result of over dependence on oil revenue. Removal of emphasis on oil revenue as the basis of fiscal action would lead to a more responsible government and better service delivery.

Lastly, restructuring of the tax system for efficiency and effectiveness is necessary. Tax rates

should be reviewed to discourage evasion. Usually a taxpayer will balance the penalty of tax evasion if caught against the amount of taxes. If the difference is significant he/she will prefer to pay the tax but where the difference is small he will take the risk.

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## ENDNOTES

<sup>i</sup> Institution may refer to an organization founded and united for a specific purpose, a group of people who work together, express belief in a divine power etc. For instance, we have educational institutions, religious institutions and so on. In another context, institution connotes a custom that for a long time has been an important feature of some group or society, or a specific practice of long standing, example, the institution of marriage, the institution of slavery and so forth. Lastly, institution could also refer to the act of initiating a new idea, introducing something new or starting something for the first time.

<sup>ii</sup> Brautigam (2006).

<sup>iii</sup> See ADB(1993; 1998; 1999)

<sup>iv</sup> This is reported in Braithwaite (2007) covering the period 1999-2005.

<sup>v</sup> A few members of the ruling elite are progressive, however.





GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH  
Volume 12 Issue 5 Version 1.0 March 2012  
Type: Double Blind Peer Reviewed International Research Journal  
Publisher: Global Journals Inc. (USA)  
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

## The Impact of the Strategy in Determining Transfer Prices: Case of the Tunisian Companies

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**Abstract** - The emergence of the transfer pricing is the consequence of the appearance of big and complex modern enterprise structured by centers of autonomous responsibilities. These centers often make recourse to the internal transfers between the different divisions, what requires the determination of a relative price to these transactions that is probably the transfer pricing. The transfer pricing edge is determined among others by several methods, those founded on the concept of costs but on the price of market as well as by the negotiation between the various centers of responsibilities in the organization.

**Keywords** : *Transfer price - negotiation – vertical integration - diversification – decentralization.*

**GJMBR-A Classification** : *FOR Code: 150503, 150507 JEL Code: M31,P22*



THE IMPACT OF THE STRATEGY IN DETERMINING TRANSFER PRICES CASE OF THE TUNISIAN COMPANIES

*Strictly as per the compliance and regulations of:*



# The Impact of the Strategy in Determining Transfer Prices: Case of the Tunisian Companies

Habib Affes<sup>a</sup> & Zied Bouaziz<sup>o</sup>

**Abstract** - The emergence of the transfer pricing is the consequence of the appearance of big and complex modern enterprise structured by centers of autonomous responsibilities.

These centers often make recourse to the internal transfers between the different divisions, what requires the determination of the relative price of these transactions that is probably the transfer pricing.

The transfer pricing edge can be determined among others by several methods, those founded on the concept of costs but one of the price of market can be well accepted by the negotiation between the various centers of responsibilities in the organization.

In this work, the multiplicity of methods, the fixing of the transfer pricing is subordinated by other determining factors of which the most important are essentially the taxes and the strategy. Different is the object of our research is to clarify the methods of determinations of the transfer price on the one hand and on the other hand, the strategic and tax implications of the transfer pricing.

In the goal to clarify this work well, we led a year closed investigation to 32 technical Tunisian enterprises that make recourse to the transfer pricing.

**Keywords** : *Transfer price - negotiation - vertical integration - diversification – decentralization.*

## 1. INTRODUCTION

The turbulence of the environment encourages the companies with the international scales that with the national scales to adopt more effective management styles. This encourages the existence of some rules to manage the internal transfers between these entities. These last are explained by effective techniques on the matter such as those of the internal delivery price. The literature on the transfer pricing (TP) includes work of several authors like Watson and Baumler (1975), Eccles (1985), Spicer (1988), Emmanuel and Mehafdi (1994), van der MeerKooistra (1994), Colbert and Spicer (1995) and Boyens and Al (1999).

These studies treat all of the importance of the organisational and strategic context in the determination of the methods of the transfer pricing.

Watson and Baumler (1975) theorized the price of transfer within the framework of the strategies of differentiation. Eccles (1985) proposes that the system of internal delivery price depends on the organisational strategy on vertical integration and diversification.

Spicer (1988) and Colbert and Spicer (1995) affirm while being based on the theory of the costs of transactions and on the organisational economy that the transfer pricing depends on several factors inter alia the contextual factors.

The adoption of some effective management styles is essential. So the decentralized organizations are in the obligation to resort to rules to manage the internal transfers by the technique of the transfer pricing. This work will try to know the transfer pricing up to what point can be regarded as being a tool of allowance of the resources and measurement of the performances all while being based on the strategic and tax characteristics of Tunisian companies?

Our problems are summarized in the fact that the transfer pricing did not cease gaining in importance in the last few years at the same time as sources of concerns of the tax authorities and as a source of competitive advantage whose companies seek to draw from it the best part in spite of the difficulties of their installation.

Does this encourage us to study the strategic characteristics of the Tunisian companies influence they practices of this technique?

In order to treat the various aspects of the problems, we propose to evoke like major goal for this work up to what point to explain the transfer pricing, considered as being a control mechanism and on operational piloting, depends in an objective and realistic way of the strategic choices adopted by the Tunisian companies.

With an aim of clarifying the technique of the transfer pricing well we will proceed to two types of investigations. First theoretical is based on a literature abundant and disparate and the second emanates from an empirical investigation carried out in the Tunisian context.

We will illustrate our theoretical research by another empirical based on a questionnaire. This last will determine the reality of 32 companies characterized by

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decentralization and calling upon the technique of the transfer pricing in order to confirm or to cancel the assumptions of research.

The organization of our research is the following one. After a first introductory section, we will devote the second to the presentation of the bases and the methods of determinations of the transfer pricing. The third section will be reserved for the exposure of the determinants of the transfer pricing (strategy). A fourth section will make it possible to present our theoretical investigation and to draw the suitable conclusions.

## II. BASES AND METHODS OF DETERMINATIONS OF THE TRANSFER PRICING

### a) *Bases Of The Transfer Pricing*

The literature assigns with the system of transfer pricing certain numbers of objectives among which those of optimal allowance of the resources, of maximization of the profit, performance evaluation and motivation of the managers (Kaplan 1982, Eccles 1985, Colbert and Spicer 1995 and Smith 2002 b).

This whole of objectives is also at the origin of three principal theoretical approaches of the transfer pricing (Mbianga 2003). They are the approaches economic, organisational or strategic and sociological.

#### i. *Economic approach*

This approach rests on the transposition of a famous theorem of the economic theory known as neo-classic showing that the invoicing at the marginal cost makes it possible to optimize the allowance of the resources (Borkowski 1990)

#### ii. *Strategic or organisational approach*

The organisational approach is developed little compared to the economic approach. She considers that a policy of transfer interns is not limited to the fixing of a price, but which she includes/understands of the organisational choices (degrees of freedom left in the centers to buy outside, modes of regulation of the conflicts). Any solution can be conceived provided that it is coherent with the strategy of the company (Colbert and Spicer 1995).

#### iii. *Sociological approach*

Stress that the internal transfers are a conflict mode of regulation of the reports/ratios in the company where they transpose an apparent logic from market since they do not found a real relation of suppliers with customers (Book 1991).

Swieringa and Waterhouse (1982) constitute the principal founders of this approach.

### b) *Methods Of Determinations Of The Transfer Pricing*

Several methods of determination of the transfer price are generally quoted in the literature. A good enumeration is made by it in (Kaplan 1982, Gervais

1988), or (Ancil et al. 1999). The empirical studies carried out show that some only are used in practice. The methods of determination of transfer pricing are numerous. However, we distinguish three main categories with several alternatives it acts of the methods founded on the price contract, those founded on the production costs and finally that resting on the negotiation or hybrid (Mbianga 2003).

#### i. *The evaluation by reference to the contract prices*

The reference of the market seems logical in the case of transfer between center. The evaluation by the contract price envisages the use of several techniques for the determination of the transfer pricing, enter others, the contract price in force, the readjusted contract price and the double price.

#### ii. *The evaluation by reference to the costs*

The evaluation by reference to the cost is particularly used in the case of the companies decentralized. However to found a system based on the cost it is preferable to determine the method of calculating of the costs as well as the margin which must be added to this cost if necessary. Several techniques based on the costs of which most important are the method of the complete cost, the method of the raised variable cost of a fixed price of standing fixed overheads and that of the standard variable cost plus a profit margin and a contribution budgeted for to the absorption of the standing fixed overheads of the center supplier.

#### iii. *The negotiation*

The use of the negotiation for the determination of the transfer pricing testifies the existence to a price founded well by various divisions, that appears by the presence of a consensus between the various parts implied in the transfer (division and head office) and of the realization of the objects of decentralization in term of autonomy of divisions while respecting the good being of the company (Gervais 1988).

The negotiation especially plays a big role in the determination of the transfer pricing for the decentralized companies (Kaplan 1982). She is proposed like the only means to arrive at transfer pricing which carries out the convergence of the objectives of the firm and to justify and evaluate the performance of divisions (Waston and Boumler 1975, Kaplan 1982, Mbianga 2003).

## III. DETERMINANTS OF THE INTERNAL DELIVERY PRICES

According to Gervais (1988), Book (1991) and Borkowski (1997), there exist several determining factors the choice of a policy of transfer pricing of which most important are the strategic context in which are the internal transfers, the environmental conditions which include the legal conditions such as the tax regulation,

the availability within the company of a countable system which makes it possible to generate information concerning the costs and in end the occasional or permanent nature of the internal transfers.

Moreover, Gervais (1988) notes that in practice the choice of a price policy of transfer seems to depend on two capital variables namely:

It context strategy structure in which are the internal transfers

Them legal, financial and tax constraints which are essential on the centers responsibilities.

#### a) *The Taxation*

All other techniques of transfers indirect, the system of the transfer pricing is regarded as being a means of escaping the rigor from the taxation rules (Vine grower 1996). Indeed, the leading authorities of the group have the possibility of choosing an optimal distribution of the products or loads between the various companies of the groups.

It is commonly allowed that the transfer pricing are used like a means to minimize the taxes of the company. If the transfers are done between subsidiary companies of a group of company located in different geographical areas such as for example the multinationals, we note that the transfer pricing are established in the manner to show all the profits in a subsidiary company located in an area with low level of imposition and not to assemble any profit in the other subsidiary companies located in countries strongly imposed.

However, the recourse to such handling of the transfer pricing can be contradictory with the problem of measurement of the performance and the motivations of the persons in charge. The firm is selected to found a policy of transfer pricing which must meet two not easily reconcilable aims with knowing to be made profit from the advantages of decentralization on the one hand and pay a minimum of tax on the other hand.

Theoretically, some suppose that a firm can separate the problem from the tax on the problem of the reward by founding a double system of transfer pricing, for the tax objective and the other for the objective of internal control in particular the evaluation and the motivation. However in practice this solution is used very little because the majority of the companies use same accountancy for the two objectives (Chan and Chow 2001).

#### b) *Strategy*

The success of a company is strongly conditioned by its capacity to face the complexity of its external environment and intern, it is called to lay down his objectives and to implement strategies dice the beginning (Mintzberg1995).

The transfer pricing are regarded as a means to implement the strategy and that are the strategic objectives of the company which determine the policies of these prices (Colbert and Spicer1995).

Several researchers agree on the importance of the role of the strategy of the company in the explanation of the choice of the policies of transfer pricing by the leaders. They affirmed that the adoption of a particular policy of transfer pricing is mainly given by the strategic directions of the company.

Indeed, Bouquin (1991) arrives at the following conclusion that "a system of transfer pricing must be the image of the strategy of the company or group, and its evolution must at least accompany the evolution by the strategy".

Moreover Bouquin (2000) watch that the adaptation of a particular policy of transfer pricing is mainly given by the orientations strategic of the company.

Gervais (2000) notes that the transfer pricing are very often only the reflection of the couple strategy - structure chosen by the firm and of the legal constraints, financial and tax which are imposed to him.

Shih (1996) stresses that the strategic consideration has a great influence on how the firms choose the methods of price determination for the relations of long-term transfers.

The assertions presented above constitute to some extent a strong testimony of the existence of a relation between the strategy and the determination of the transfer pricing within the organizations.

The bonds which the strategy and the policies maintain transfer pricing register in the dynamics of the relation strategy controls. This relation is recently the object of a renewal of attention on behalf of the researchers (Tooth 1990, Simons 1990, Bouquin 2000).

Recent research showed, helped in that by work on the formulation and the implementation of the strategy (Mintzberg and Waters 1985 and Mintzberg 1995), that the bonds which control management and in particular the NCV and the strategy maintain are more ambiguous than it is believed (Book 2000).

While referring to panoply of study, we can note that there is a relation between the transfer pricing and the strategy of company. Indeed, very undertaken must lay down its policy of transfer pricing by respecting a coherence with its strategy not to confront itself with a failure of strategic choice (Bouquin2000, Dent1990).

Eccles (1985), of Colbert and Spicer (1995) and Mbianga (2003) constitutes the most remarkable work evoking the interactions of the policies of the transfer pricing with the strategic context of the company.

The use of the transfer pricing like a strategic tool appears clearly in work of Eccles (1983,1985), it finds a relation contingent between the strategy, the structure and the policies of the transfer pricing.

Starting from an empirical study being based on a sample of American companies, Eccles (1983, 1985) has highlight which the policy of the transfer pricing must always be the reflection of the strategy and the mode of organization adopted by the firm.

Eccles (1985) establishes bonds between the policies of transfer pricing and the strategy. It draws up then a typology of the policies of transfer pricing has

four types of strategies and structures (the relation strategy structure being indissociable).

*Table 1* : synthetic outline of the assumptions of research and the variables

Theoretical base of the assumptions	Assumptions of research	Variables
Kaplan 1982, Eccles 1985, Colbert and Spicer 1995, Smith 2002 B and Mbianga 2003	H1: The objective of the transfer pricing depends on the behaviors of the persons in charge of centers	- objective of the transfer pricing - behavior of the persons in charge
Gervais 1988 and Bouquin 2000	H2: The base of the transfer pricing depends on the structure adopted by the companies	- base of the transfer pricing - structure of company
Gervais 2000, Eccles 1985, Book 1991 and Colbert and Spicer 1995	H3: The policy of the internal transfers depends on the strategy adopted by the Tunisian companies.	- internal policy of transfer. - strategic direction

#### IV. EMPIRICAL VALIDATION

On the level of this section we will present the methodology of research which we continued to answer the problems of our study as well as the methods of analysis used in order to validate our assumptions empirically.

Information referring to the elements internal management including the policy of the transfer pricing is not the subject of an obligatory or optional disclosure in the financial statements of the Tunisian companies. This irrefutable fact leads us to choose the investigation and by calling upon the questionnaire for the data-gathering.

##### *a) The choice of the sample*

The object of our study being to check the relation between the strategic characteristics of the company and the practice of determination of the

transfer pricing. The population will consequently be consisted companies which practice the transfer pricing.

Into final, the number of the companies which composed the final sample is increased to 32 companies (combination between group of company and decentralized companies).

Actually, the questionnaire was sent to 45 companies. 13 companies did not answer the questionnaire for various reasons which are articlent mainly around a simple negligence on behalf of the persons in charge of these companies. The rate of answer is thus about 71%.

The composition of the final sample is of 32 companies belonging to the various industrial sectors and calling upon the technique of the transfer pricing. These companies are collected near the API one (arranges industrial promotion relating to the year 2005-2006).

*Table 2* : the constitution of the sample

Types of industries	Numbers of the companies	% percentage
Agri business industries	9	28
Chemical industries	10	31.5
Textile industries and clothing	5	15.5
Industries electric, mechanical engineering industries and metallurgical	4	12.5
Industries of the construction materials ceramics and glass	4	12.5

*Source: API agency of industrial promotion 2006.*



### b) The Questionnaire

The questionnaire was elaborate on a theoretical basis. Indeed, its main roads were defined while referring to the theoretical part of this memory and its general form was adopted on the basis of article certain of the American and French literature.

The procedure of investigation proceeded over one period of approximately 4 months (October 2005 until the end of the month of January 2006).

### c) Methods Of Analysis

Being given the objective of our research (the study of the practice of the transfer pricing in relation to the characteristics strategic of the company) and the qualitative nature of the variables, the adopted methods of analysis are the following ones: The bivariate analysis refers in our case being studied of the tables of contingency called still the cross tables or simply the two-dimensional boards.

The advantage of the bivariate analysis is to be easily comprehensible by a user even not very familiar of the statistical analysis. The disadvantage is that each analysis represents only one weak part of information available and that the number of possible combinations is very high as soon as the number of variables is important

This level, we seek through the bivariate analysis the independence or the association of the two variables elements of the study.

Following the analysis of independence (Khi square), we made resort to the multivariate analysis presented by the Factorial Analyze method Correspondence (AFC) in order to examine more in detail the relation of dependence in term of correspondence.

### d) The interpretation of the results

The bivariate analysis uses the technique of the tables of contingency and the test of independence of khi square. The results obtained for each crossing are summarized in the form of two tables. It is now a question of checking the various assumptions of research by using on the one hand the test of khi square and on the other hand the AFC

**H1 : The objective of the Transfer price depends on the behaviours of the persons in charge of centers.**

Tests du Khi-deux

	Valeur	ddl	Signification asymptotique (bilatérale)
Khi-deux de Pearson	25,244 <sup>a</sup>	9	,003
Rapport de vraisemblance	26,581	9	,002
Association linéaire par linéaire	,756	1	,384
Nombre d'observations valides	32		

a. 16 cellules (100,0%) ont un effectif théorique inférieur à 5. L'effectif théorique minimum est de 1,31.

Considering nonthe satisfaction of the second condition relating to the application of the test of khi square to knowing any theoretical frequency does not have to be equal to zero and not more than 20% of the theoretical frequencies are lower than 5 in the validation of our assumptions, we made resort to another test which is similar to the first (Phi and Vde Cramer).

Phi is a measurement of association or connection based on khi square and consisting in dividing the statistics khi square by the sample size and taking the square root of the result.

The V of Cramer is also a measurement of association based on khi square The V of Cramer always lies between 0 and 1, with zero indicating the absence of association between the variables of line and column and the values close to 1 indicating a degree of association raised between the variables of line and column.

### Symmetric measures

Nominal by Nominal:	,888	0.03
Number of valid	,513	0.03
	32	

a) The null hypothesis is not considered.

b) Using the asymptotic standard error in the null.

It is a question of checking the H0 assumption: **independence enters the two variables.**

**Phi =0,888 P= 0.03<0.05**

**V of Cramer=0,513**

We can reject H0 and speak about the dependence between the variables with knowing the behavior of the persons in charge of centers and the objective of the transfer pricing

It should be noted that the recourse to the use of a AFC (Factorial Analysis of Correspondence) makes it possible to examine more in detail this dependence in term of correspondence and to answer the following question: is what there exists a particular behavior for which corresponds a particular objective.

However, it is useful to choose the most important factor while being based on the singular value because it can be interpreted as being the correlation between method line and method column or on the basis of proportion of inertia explained.

We can affirm that the first dimension allows better an interpretation of the bonds between method line and method column (VS = 0.788). The first factor is able to restore 78,8% of initial information.

Features points lines <sup>a</sup>

Responsible behavior				Inertie	Contribution				
		1	2		point inertia		Dimension inertia		
					1	2	1	2	Total
opportunism conflict mutual understanding information asymmetry	,250	-,754	,930	,194	,180	,569	,576	,424	1,000
	,313	-,052	-,396	,032	,001	,129	,021	,585	,606
	,219	1,589	,200	,440	,700	,023	,989	,008	,997
	,219	-,652	-,697	,123	,118	,279	,599	,330	,929
	1,000			,789	1,000	1,000			

## a) Principal normalization symmetric

By examining each dimension we can have the idea on the methods lines (Behavior of the persons in charge of centers) which are the person in charge of their formation. We have the contributions absolute and relative.

For the first factor we can limit ourselves to these two points namely: opportunism and the mutual agreement on the performance to recover 88% of initial information.

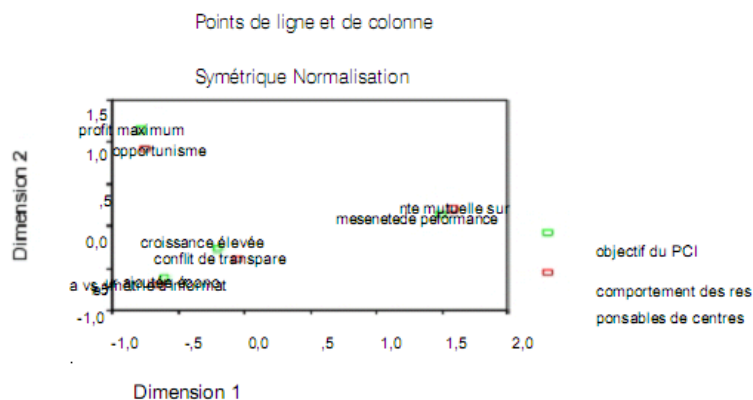
in the same way, the second factor with a contribution as important as the first, indeed, information recovered about 85% is presented by the opportunism and the asymmetry of information.

a

		Score dans la dimension			Contribution				
					De point à inertie de dimension		De dimension à inertie de point		
objectif du PCI	Masse	1	2	Inertie	1	2	1	2	Total
profit maximum	,188	-,787	1,151	,186	,147	,653	,491	,508	,999
valeur ajoutée écono	,281	-,602	-,618	,128	,129	,282	,627	,319	,946
mesure de performance	,250	1,495	,133	,443	,709	,012	,995	,004	,998
croissance élevée	,281	-,202	-,268	,031	,015	,053	,288	,245	,533
Total actif	1,000			,789	1,000	1,000			

## a. Normalisation principale symétrique

For the points columns, the first factor makes it possible to restore 86% of the initial information distributed between maximum profit and measurement of performance. The second factor has in its turn such an important contribution, it is able to recover 94% of initial information.



According to the graph, we note that there exist particular behaviours for which a well defined objective such as for example the correspondence between the mutual agreement corresponds to the performance and the measure of performance.

There is tendency more than the average so that the persons in charge of centers having a behaviours characterized by a mutual agreement on the performance have an objective clear of transfer pricing to knowing measurement of performance.

## H2: The base of the Transfer price depends on the structure adopted by the companies.

To check the possible relation between the base of the transfer pricing and the structure of company, we called first of all upon the test of independence Phi and Vde Cramer which is similar to the test of khi square:

Mesures symétriques

	Valeur	Signification approximée
Nominal par Nominal Phi	,557	,042
V de Cramer	,394	,042
Nombre d'observations valides	32	

a. L'hypothèse nulle n'est pas considérée.

b. Utilisation de l'erreur standard asymptotique dans l'hypothèse nulle.

It is a question of checking the H0 assumption: **independence between the two variables** object of the study to knowing the base of the transfer pricing and the structure of company.

$$\Phi = 0,557 \quad P = 0,042 < 0,05 \quad V \text{ of Cramer} = 0,394$$

We can reject H0 and speak about the dependence between the variables with knowing the base of the NCV and the structure of company.

In the same way, the recourse to the use of a AFC makes it possible to examine more in detail this dependence in term of correspondence.

Following this type of analysis we note in this table that the risk of rejection of H0 is relatively weak ( $0,042 < 0,05$ ). This makes it possible to reject this assumption and to admit the correspondence. Moreover, we can affirm that the first dimension allows better an interpretation of the bonds between method line and method column ( $VS = 0,533$ ). The first factor is able to restore 91,7% of initial information.

With regard to the methods lines and their interpretation compared to each factor selected we called upon this table which determines the characteristics of the points lines:

Caractéristiques des points lignes<sup>a</sup>

		Score dans la dimension			Contribution				
					De point à inertie de dimension		De dimension à inertie de point		
fondement du PCI	Masse	1	2	Inertie	1	2	1	2	Total
les prix de marché	,375	-,934	,070	,175	,614	,011	,998	,002	1,000
les coûts	,375	,662	,368	,096	,308	,317	,915	,085	1,000
mélange des prix de	,250	,408	-,657	,039	,078	,672	,562	,438	1,000
Total actif	1,000			,310	1,000	1,000			

a. Normalisation principale symétrique

By examining each one of dimension we can especially have an idea on the methods lines in the presence of the absolute contribution (contribution of point with inertia of dimension) and of the relative contribution (contribution of dimension to inertia of point).

In the same way, the second factor with a contribution as important as the first. Indeed the

information recovered about 98,8% is presented by the prices based on the costs and the mixture of the contract price and those founded on the costs.

As for the methods columns the following table shows the characteristics as of these points

Caractéristiques des points colonnes<sup>a</sup>

		Score dans la dimension			Contribution				
					De point à inertie de dimension		De dimension à inertie de point		
structure de société	Masse	1	2	Inertie	1	2	1	2	Total
très décentralisée a	,344	,252	-,536	,027	,041	,615	,424	,576	1,000
fonctionnelle avec u	,375	,624	,388	,087	,274	,351	,896	,104	1,000
matricielle ou multi	,281	-,140	,138	,196	,685	,033	,996	,004	1,000
Total actif	1,000			,310	1,000	1,000			

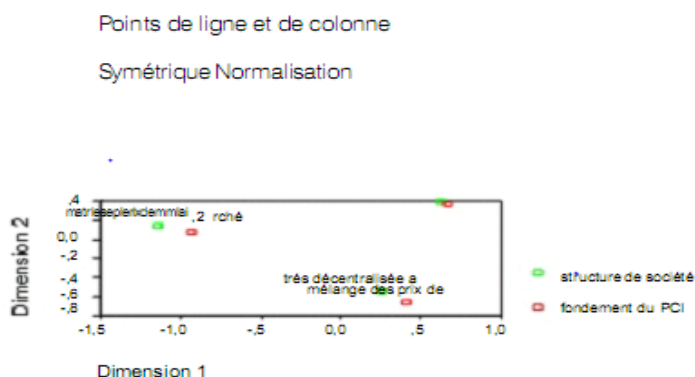
a. Normalisation principale symétrique

Indeed, the first factor makes it possible to recover 95,9% in given term of inertia or contributions absolute on the one hand by the matrices or multidivisional structure with a strong independence and the functional structure with a high degree of co-operation.

We as note that the second factor with a rather important absolute contribution as the first factor, the points which it form are, on the one hand, the structure very decentralized with a multidivisional form (61,5%)

and the functional structure with a high degree of co-operation (35,1%). what makes it possible to recover 96,6% of the contributions absolute.

Lastly, According to the graph, we engrave that there exist particular structures for which there exists a suitable base of the transfer pricing. For example, for a matrices or multidivisional structure with a strong independence between the units it corresponds a transfer pricing based on the contract price.



### H3: the policy of the internal transfers depends on the strategy adopted by the Tunisian companies.

To check the absence or the presence of possible link enters, on the one hand, the policy of the internal transfers and, on the other hand, the strategy of the company, we called upon the test of independence.

Mesures symétriques

	Valeur	Signification approximée
Nominal par Nominal Phi	,601	,021
V de Cramer	,425	,021
Nombre d'observations valides	32	

- L'hypothèse nulle n'est pas considérée.
- Utilisation de l'erreur standard asymptotique dans l'hypothèse nulle.

Phi = 0,601  $p=0,021 < 0,05$  V of Cramer = 0,425

We can reject H0 and speak about the dependence between the variables with knowing the policy of the internal transfers and the strategic direction of the companies.

By examining this table, we notice that the risk of rejection of H0 is relatively weak ( $0.021 < 0.05$ ), which makes it possible to reject this assumption and to admit the correspondence between the two variables.

The recourse to the singular value makes it possible to determine the importance of dimension and it can be regarded as the correlation between the lines and the columns.

For the first dimension it has one (VS = 59,8%), therefore the latter allows better an interpretation of the bonds between method line and method column. The first factor is able to restore 98,9% of initial information

With regard to the methods lines and their interpretation compared to each factor selected we called upon this table which determines the characteristics of the points lines:

politique des cessions internes		Score dans la dimension			Contribution				
					De point à inertie de dimension		De dimension à inertie de point		
					1	2	1	2	Total
délégation de la sou	,313	-1,099	,107	,226	,632	,056	,999	,001	1,000
priorité à l'approvi	,438	,701	,172	,129	,359	,203	,994	,006	1,000
une part de l'approv	,250	,148	-,434	,006	,009	,741	,522	,478	1,000
Total actif	1,000			,361	1,000	1,000			

a. Normalisation principale symétrique

For the choice of the points of the first factor, the same principle is applied to know Min of points/max of inertia, which encourages us to be limited to the two following points:

The delegation of the source of supply (63,2%) and priority with the internal provisioning and of the most imposed transfers (35, 9%). These two points make it possible to recover 99,1% of initial information.

In the same way, the second factor with a contribution as important as the first, indeed, the information recovered about 94,4% is presented by the priority to the internal provisioning and of the most imposed transfers and by a share of the provisioning is internal.

a

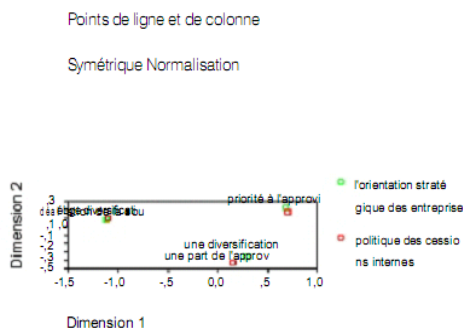
l'orientation stratégique des entreprises		Score dans la dimension			Contribution				
					De point à inertie de dimension		De dimension à inertie de point		
	Masse	1	2	Inertie	1	2	1	2	Total
grande diversificati	,375	,690	,235	,108	,299	,326	,988	,012	1,000
faible diversificati	,313	-1,121	,079	,235	,657	,031	,999	,001	1,000
une diversification	,313	,292	-,361	,019	,045	,643	,860	,140	1,000
Total actif	1,000			,361	1,000	1,000			

a. Normalisation principale symétrique

For the points columns, the first factor makes it possible to restore 95,5% of initial information fragmented between the strategic direction of the companies characterized by a great diversification and weak integration (29,9%) and that determined by a weak diversification and close integration (65,7%).

In the same way, the second factor presents a very important absolute contribution that the first. Indeed, it is able to deliver 96,9% of initial information in term of absolute contribution.

Finally, according to the graph, we notice that there exists a particular policy of transfer pricing for which it corresponds a suitable strategic direction adoptee by the Tunisian companies. For example, for a strategic direction characterized by a strongly developed diversification and integration it corresponds an internal policy of transfer characterized by a share of the provisioning is internal.



## V. CONCLUSION

The study of the relation of the practices of the transfer pricing with the strategic and organisational characteristics of the Tunisian company was based on an investigation near companies of decentralized groups and the companies which uses this practice within the centers.

The two types of analyzes to knowing the bivariate and multivariate analysis show the existence of a relation of dependence between the behaviour of the persons in charge of centers and the objective of the transfer pricing.

This result thus makes it possible to validate the first assumption empirically. Moreover, the AFC makes it possible to affirm that there exist particular behaviours for which corresponds a well defined objective

In the same way for the second assumption H2, we note according to the two types of analysis which this assumption is checked and we can affirm empirically that the base of the NCV depends on several factors enter others the structure adopted by the Tunisian companies.



Finally we as perceive, according to the two types of already quoted analyzes, as the last assumption is checked.

The empirical results is proof of the existence of a similarity between the theory and the practice.

In conclusion, the results of this study showed that the strategic and organisational characteristics are well reflected in the practices of the internal transfers on the level of the Tunisian companies.

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GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH  
Volume 12 Issue 5 Version 1.0 March 2012  
Type: Double Blind Peer Reviewed International Research Journal  
Publisher: Global Journals Inc. (USA)  
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

# Liquidity Risk Management: A Comparative Study between Conventional and Islamic Banks of Pakistan

By Anjum Iqbal

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**Abstract** - The banking sector is viewed as an important source of financing for many businesses. In order to appraise and weigh up the soundness and reliability of banking industry, the information on the risk and how the fluctuations are managed are important to consider. Among the financial risks liquidity risk of the bank are crucial to consider. Appalling financial condition of the banks can lead to decreasing the value of bank. Managing the liquidity risk is required to be monitored and managed effectively and cautiously. Liquidity management is part of the larger risk management of the banking sector, whether they are conventional or Islamic. This study investigated the size of the bank, Non-performing loan ratio (NPL), return on assets (ROA), return on equity (ROE), capital adequacy ratio (CAR) with the liquidity risk of conventional and Islamic banks of Pakistan. The study is done on the secondary data for the period 2007-2010. The study found the significant and positive relation of CAR, ROA, ROE and size of the bank with the liquidity risk in both the models, whereas the negative and significant relation of NPL is observed in both the models.

**Keywords** : *Liquidity risk, Islamic bank, conventional bank.*

**GJMBR-A Classification** : *FOR Code: 150203, 150205 JEL Code: G21, G32*



*Strictly as per the compliance and regulations of:*



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## 1. INTRODUCTION

Islamic banking emerged as a practical reality and started functioning in 1970s. Since then it has been growing continuously all over the world. Presently, Islamic banking industry has reached US\$1.0 trillion US dollars by the end of 2008. International Rating Agency, Standard & Poor estimates that Islamic financial industry has potential to grow to US\$4.0 trillion over medium term. The speed of the growth of Islamic banking all over the world including Pakistan has been expedited since 2002. (Awan, 2009) The importance to investigate the liquidity risks faced by Islamic banks of Pakistan could be justified by the fact that in Pakistan the Islamic banks are engaged in significant roles to complementing the services as parallel to the conventional banks. Islamic banks of Pakistan show a significant growth from the last many years. According to the State Bank of Pakistan, Islamic banking industry (IBI) continued to grow during the second quarter of 2011 with improved asset quality. By growing at 13 percent during the quarter, Islamic banking assets stand

at Rs. 560 billion, constituting more than 7 percent share of overall banking industry's assets. In terms of deposits the industry share of IBI has reached 7.6 percent (Islamic banking Bulliten, June 2011).

The concept of liquidity risk in finance principally lies in two areas (a) the market liquidity risk and (b) the funding liquidity risk. The former related to the financial instruments in the financial market. This may due to inadequate market depth, market disruption or the inability of the bank to access the market. The later liquidity risk is related to the solvency, it is the possibility that a bank may be unable to meeting funding requirements to finance its assets. It also includes the obligation of banks to make payments to third parties.

The current research study will focus on the second area of liquidity risk I-e funding liquidity risk. The underlying objective of the study is to compare the liquidity risk of the Islamic and the conventional banks in Pakistan. The analysis is done of the period 2007-2010. The difference between the liquidity risk of Islamic and conventional banking is also analyzed. Currently there are 5 Islamic banks operational in Pakistan that provide full fledge Islamic service. The analysis is done using the secondary data and the factors influencing the liquidity risk of the banking sector are used in the hypothesis, tested empirically, by find the descriptive, correlation and regression analysis on the data. More over the ratio analysis of the means of the data from 2007-2010 are also done. Lastly the conclusion, recommendations and limitations of the research study are given.

### a) *Liquidity risk of conventional Banks*

Liquidity risk problem in banks is defined as the risk of being unable either to meet the obligations of the depositors or to fund increases in assets as they fall due without incurring unacceptable costs or losses. From the risk point of view two explanations can be made. First the deposits on the liability side of the balance sheet creates the instantaneous liabilities irrespective of the outcome of the usage of the funds on the asset side, thus if the optimal utilization is not made a mismatch occurs on the liability and asset side. Secondly medium to short term assets are funded by the stream of short term liabilities including the dues of the other banks.

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The liquidity problem also arises because of the depositors deciding to redeem their deposits but the bank has not enough cash in hand. In real, banks find imbalances in the asset and liability side on the regular basis and must need to manage that accurately else they would face solvency risks. In order to understand the liquidity risk of the Islamic banks we first need to understand the underlying principles of the Islamic Banking.

#### b) *Liquidity Risk of Islamic banks*

The liquidity risk is the important to management for the conventional as well as the Islamic banks in order to be solvent. Principally, any effort by Islamic banks to construct a sound liquidity management should be arranged across the real business transaction. Because the Islamic banks deals in the real assets for so it deals in within the business cycles, cooperation among the business partners and good conduct of the stakeholders. This is the core stone of all the Islamic banking operations. So Islamic banks are more exposed to the liquidity risk there is disharmony between business partners or an obvious decline of business condition.

As Islamic banks are operating on the trust basis according to the Shariah values and principles, which infuse the industry from the inside, treat the bank management, shareholders and stakeholders as trusted business partners (Yaqoobi, 2007). This ultimately forms a system of cooperation among the business partner, cooperation, symmetric information and balance in the allocation of funds on both the asset and liability sides.

Prominent feature is of the PLS which directs sharing of risks among all the business participants thereby reducing the liquidity risks. But the Islamic banking operations associated with the real business transactions, they are more exposed to various kinds of business and market risks such as price fluctuation risk, asset losses risk, amortization and economic downturn risk. These risks may affect the performance of the Islamic banks and causes a mismatch between the assets and liability. The various contracts available to Islamic banks can be divided into three categories: (a) profit and loss sharing contracts such as Mudarabah and Musharakah (b) trade based contracts such as Murabaha, Salam and Istisna and (c) service based contract such as Ijarah. (Ali, 2004).

## II. LITERATURE REVIEW

There are extensive studies done on the comparison of Islamic and conventional banks and among them the liquidity risk management is of high concerns.

According to the Deloitte (the second largest accountancy firm in the world) report of Middle East Islamic Financial Survey done on September 25, 2010 liquidity ratio received the highest score and was

considered the top priority, followed by the solvency ratio, leverage ratio and return on average assets, respectively. The issue of liquidity in Islamic finance has been widely argued, and several proposals are now under consideration to develop this segment of the industry. Central banks in the region and elsewhere in Asia, as well as industry standard-setters, are setting the stage for developing this market by means of innovative Shari'ah-compliant short- and medium-term instruments.

Liquidity in financial market has numerous implications. Liquidity signifies the ability of a financial firm to keep up all the time a balance between the financial inflows and outflows over the time. (A & Ganga, 2009).

The study implies the descriptive, correlation and regression analysis for comparative analysis of Islamic and conventional bank's liquidity risk management in Pakistan for the period 2006-09. The sample of 6 conventional and 6 Islamic Banks are taken for study. The independent variables i.e size of the bank, Networking capital, return on Equity, Capital Adequacy ratio and return on assets are used and found their impact on the dependent variable of liquidity risk. The authors have found that conventional banks in Pakistan were more tend on the way to considering projects with long-term financing. In addition the study found that superior performance in elements of assets and return confirmed that they had better profitability and liquidity risk management than Islamic banks (Akhtar, Ali, & Sadaqat, 2011).

The paper investigates the factors influencing the risk management practices of Islamic banks in Pakistan. The authors used the size, leverage, NPLs ratio, capital adequacy and asset management ratios as independent variable and their influenced is checked on the liquidity risk. The study comprises of the data of Islamic banks from the period 2006-2009. A significant positive relation is found of the size, asset management and capital adequacy ratio and NPLs ratio have a significant negative relationship with the liquidity risk (Ahmed, Akhtar, & Usman, 2011).

Ismail(2010) conducted the study discuss the liquidity risk management of Islamic banks of Indonesia and recommend policies to improve the management of liquidity risk. Islamic and conventional Banks face a number of risk areas which may affect their performance and operations. Liquidity risk is one of the major areas. Therefore the banks should have the robust liquidity risk management policies, a responsive assets and liability committee. Author argued that the Islamic banks minimize the liquidity risk from both internal and external perspectives. This is due to Shariah values and principles being followed (Ismail, 2010).

The study is done by Muhammad, Tariq and Momeneen (2009) to find out the comparative performance evaluation of the conventional and Islamic



banks in Pakistan from 2005-09. The study used the sample of 22 conventional banks and 5 Islamic banks. The model used is the Bank-o-meter model is used to measure the solvency of the banks. Profitability and liquidity of banks are compared using nine financial ratios. For measuring the liquidity loan to asset ratio, liquid assets to deposits ratio and loan to deposits and borrowing ratio is calculated. The results show that conventional banks are more dominant in liquidity management. The results concluded is the low share of market occupied by the Islamic banks than the conventional banks (Muhammad, Tariq, Tahir, & Momeneen, 2009).

The authors Ika and Abdullah (2011) compared the Islamic and conventional banks in Indonesia from the period 2000-07 and measured the profitability, liquidity and credit abilities of Islamic and conventional banking sectors. They used the financial ratio analysis to measure the liquidity of banks. The ratios included cash deposit ratio, loan deposit ratio, current ratio and current asset ratio. The sample consisted of 6 conventional banks and 3 Islamic banks. Mann-Whitney model is used to test the hypothesis. The study concluded that the Islamic banks are more liquid than the conventional banks (Ika & Abdullah, 2011).

Muhammad and Manarvi (2011) they compared the performance of the Islamic and the conventional banks in Pakistan from the period 2005-09 using the CAMEL test. A sample of 10 banks consisting of 5 Islamic and 5 conventional banks was taken for study. The author concluded that the Islamic banks are better in processing adequate capital and presents a better liquidity position of Islamic banks as compared to conventional banks in Pakistan. Islamic banks showed a safer position specified by the debt/equity ratio (Muhammad & Manarvi, 2011).

Awan (2009) used the comparative analysis of the Islamic and the conventional banks in Pakistan from the period 2006-2008. The analysis is the done while keeping in view the size of the banks. The banks of the same size are used for the analysis purpose. The sample consists of 6 Islamic banks and 6 conventional banks are taken. The preliminary Islamic banking model is also discussed. The ratio analysis shows that Islamic banks out perform in assets, deposits, financing, investment and quality of services and recovery of loan (Awan, 2009).

The liquidity ratios Net loans to total asset ratio, liquid asset to deposit ratio, short term fund ratio is used for comparison of Islamic and conventional banks of Pakistan for the period 2006-2010. The financial ratios and trend analysis reveals a good performance of Islamic bank. (Akhter, Raza, Orangzab, & Akram, 2011).

An important feature to note about Islamic banks in Gulf Cooperation Council Countries (GCC) is their relative excessive liquidity. This has been interpreted as implying that most Islamic banks have the

tendency to indulge in quick return lending. Moreover, this high ratio of funds shows the difficulty that Islamic banks may be facing in finding avenues for short-term investment of funds as well as reluctance to undertake a project-related funding. The extent to which Islamic banks can overcome the application of fund problem would depend on the willingness of the government to create suitable (non-interest bearing) short-term instrument as an outlet for excess funds of Islamic banks. Islamic banks had a significantly higher Cash to Assets and cash to deposits ratio when compared to conventional banks. (Loghod, 2006)

The study does the analysis of the liquidity position of Islamic and conventional banks in Bangladesh for the period 2003-2006. Long term liquidity position and short term liquidity position is analyzed using the regression model and Islamic banks seemed to perform better than the conventional banks (Islam & Chowdhury, 2007).

Liquidity risk is defined as a mismatch between the maturities of two sides of the balance sheet. Creating the risk management is important for both the Islamic and conventional banks. Liquidity is divided into two types by the author the one is the liquidity of assets which is defined as the inability to sell assets at current market prices and liquidity instability of liability which is defined as the inability to assess sufficient funds to meet payment obligations in a timely manner (Arab & Anas, 2008). A bank with a strong liquidity profile should generally be able to survive. Much of the funds of Islamic financial institutions come through PLS investment accounts without any fixed obligation attached to them. Rather the problem for Islamic financial institutions has been excess liquidity. Islamic banks need to be even more cautious about the maturity structure of their assets. In order to remain solvent, banks need to maintain assets of a short-term nature. The Establishment of specialized institutions for managing liquidity risks has helped to solve the liquidity problems. This paper argues for the need for Islamic banks to strengthen risk management practices. Without an efficient capital market to operate within, Islamic banking finance will not continue to grow meaningfully. The market requires liquidity and price transparency to enhance a secondary market.

### III. RESEARCH METHODOLOGY

#### a) Objectives of the study

- The objective of the research study is to compare the liquidity risk of the Islamic and the conventional banks in Pakistan from the period 2007-2010 using the ratio analysis by comparing the mean values of ratios.
- The relationship and effect of the independent variables including the size of the bank, NPL ratio, ROE, ROA and CAR on the dependent variable that



is liquidity risk is analyzed. This analysis is done using the descriptive, Pearson correlation and regression analysis.

#### b) Sample of the research

At present 5 full fledged Islamic banks and 23 Conventional banks are operating in Pakistan. Total 5 Islamic banks and 5 conventional banks are included in the sample. Five Islamic Banks that are included in the sample are mentioned in the annexure a table 3.1.

#### c) Selection Criteria

KPMG international is a global network of professional firms. In KPMG Banking survey, 2010, Pakistani banking sector has been divided into three segments: large size banks, medium size banks and small size banks. This classification is done on the basis of size, assets, deposits, loans and financing of the banks. The same criterion is used as a yardstick for selection of banks out of the third segment.

#### d) Hypothesis

H1: There is a positive relationship between the size of the bank and liquidity risk.

H2: There is a negative relationship between non-performing loans and liquidity risk.

H3: There is a positive relationship between return of equity and liquidity risk.

H4: There is a positive relationship between return on assets and liquidity risk.

H5: There is a positive relationship between capital adequacy ratio and liquidity risk.

#### e) Research Model

$$Y_1 = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon$$

The variable along with their proxies are mentioned in the annexure a table 3.2. The factors influencing the liquidity risk are the same as being used by (Akhtar, Ali, & Sadaqat, 2011) in their research study. Beta measure and standard deviation is used as the important measure of the risk factor as proposed by Modigliani and Pogue (Modigliani & Pogue, 1974) where Beta is the relative measure of the risk and standard deviation is the measure of the total risk.

## IV. DATA ANALYSIS

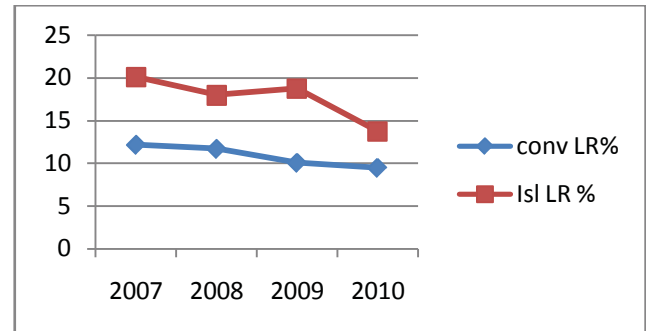
#### a) Ratio Analysis

The ratio analysis on the historical data from the period 2007-2010 of the conventional and Islamic banks of Pakistan is done. The ratios includes the liquidity risk measured by cash and cash equivalent to total assets, size of the bank, non-performing loan ratio, return on equity, capital adequacy ratio and return on assets. For the better comparison, each year the average ratios for Islamic and conventional banks are considered and then mean of each ratio for each variable is calculated.

#### i. Liquidity Risk

The liquidity risk of the Islamic and conventional banks is measured using the cash and cash equivalent to total assets. The high figures of the ratio show the better liquidity position.

Figure 4.1: Liquidity Risk

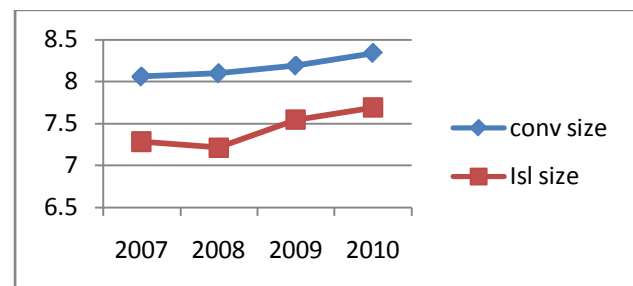


According to figure Islamic banks had intermittent deposit to asset ratios showing varying amount of cash and cash equivalents to total assets. This ratio means that Islamic banks have the high liquid assets than the conventional banks.

#### ii. Bank Size

The size of the bank is measured by taking the logarithm of total assets.

Figure 4.2: Bank size

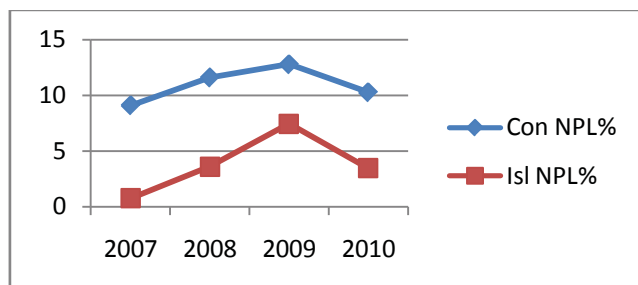


The size of the conventional banks is more than Islamic banks. This is because the Islamic banks are the new entrants in the banking industry of Pakistan. The mean figure of Islamic bank is 7.286 in 2007 the figures are lower because most of the Islamic banks started operated in Pakistan in 2007. However both the banks are showing increase of size from the period 2007-2010.

#### iii. Non-Performing Loan Ratio

The non-performing loan ratio is measured using the non-performing loans to total advances. The higher ratios indicate the large number of bad debts and ultimately the loss for the banks.

Figure 4.3 : Non-performing loan ratios

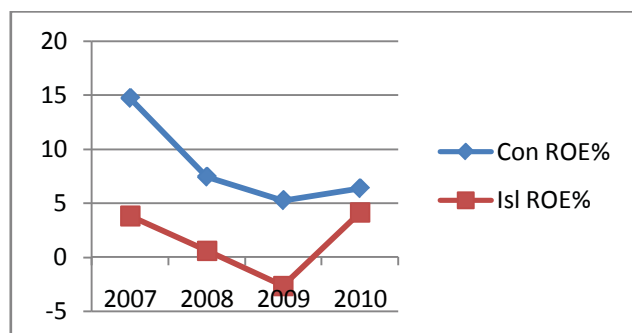


The NPL ratio shows that the Islamic banks have the low ratio of NPL than the conventional banks. The highest figure of the NPL ratio is in 2009. The reason is in Islamic banks there is a prohibition of interest other modes of trading including the profit sharing like Musarakha and Mudarabaha is used. Moreover, high NPLs to deposits ratio of Conventional also reflects the reckless lending practice of Conventional banks and this is one of the main causes of their existing liquidity problem.

#### iv. Return On Equity

The return on equity is measured as the ratio of net income to total equity. The high ratios indicate the better return to the investments of the shareholders.

Figure 4.4 : Return on Equity

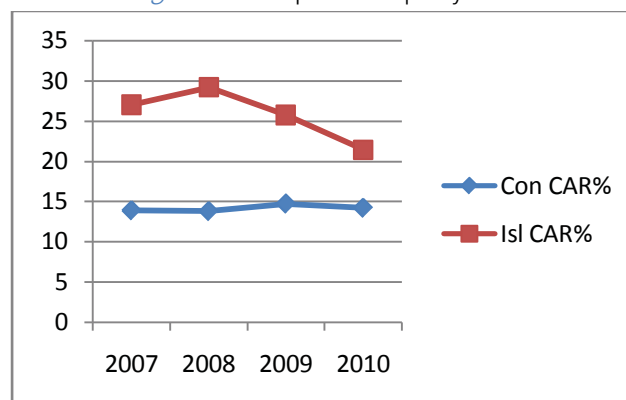


The ROE of the conventional banks are higher than the Islamic banks. So a less excess to the market is seen where the Islamic banks are trying to expand initially. However a decreasing trend is seen of the ROE in both banks through out the years 2007-2009. This shows that slowly Islamic banks are moving towards a better ROE position which is inline with the conventional banks. ROE predicting handsome dividend for the shareholders of Islamic banks in near future.

#### v. Capital Adequacy Ratio

A Capital Adequacy Ratio is a measure of a bank's capital. It is expressed as a percentage of a bank's risk weighted credit exposures. This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world.

Figure 4.5 : capital adequacy ratio

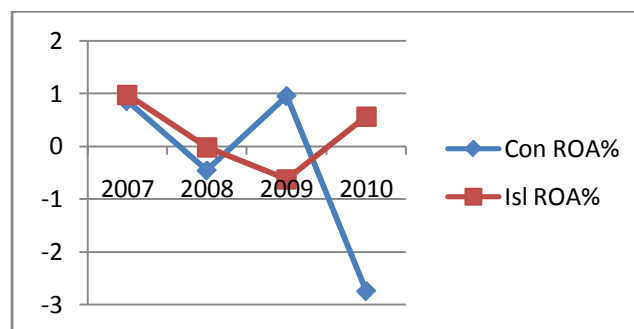


The capital adequacy ratio of the Islamic banks are observed to be much higher than the conventional banks. Islamic banks maintained a very high CAR which means that they had abundant capital to manage any shock to the balance sheet. Their high CAR denotes their ability to maintain confidence in the Islamic banking system and protect their depositors and lenders. The high CAR of Islamic banks shows their financial soundness. This comparison proves that Islamic banks have been many steps ahead of Conventional banks and had more capital than them.

#### vi. Return On Assets

The return on assets is calculated as net profit of the banks to total assets. The return on assets ratio indicates how much the banks are generating profit through efficient employment of its resources.

Figure 4.6 : Return on Assets



The return on assets of the Islamic and conventional banks is showing a decreasing trend from 2007 to 2008. The ROA of the Islamic bank fell more which shows the lack of management. Furthermore, Islamic banks are focused on growth and expansion strategies which deviates them from profit-oriented strategies. Conventional banks lead the way in earning on their invested assets. This determines better investment decision, more profit for banks and shareholders.

#### b) Descriptive Statistics

The table below shows the descriptive analysis of all the dependent variable liquidity risk and the

independent variables including size of the banks, Non-performing loans to total advances, ROE, ROA, CAR of the conventional and Islamic banks. It includes the mean, maximum, minimum and the standard deviation of the conventional and the Islamic banks. The value of the mean reports the arithmetical average of the variables which are included in the study. The minimum and maximum values indicate the lower and the highest value of the variable. The standard deviation exhibits the diversity or variability in the data set of each variable. A small standard deviation point towards that the data points are inclined to be extremely close to the mean; while high values of standard deviation points that the data set is broaden out over a large range of values.

**Table 4.7 :** Descriptive statistics of Conventional Banks

Descriptive Statistics-Model 1 (Conventional Banks)				
	Minimum	Maximum	Mean	Standard deviation
Liquidity risk	0.0567	0.1712	0.11345	0.36274
Size	7.47	9.5	8.1725	0.52887
NPL	0	0.614	0.179525	0.137942
ROE	-0.28	0.49	0.063225	0.15389
CAR	0.1053	0.985	0.236985	0.23433
ROA	-6.15	1.47	-0.11605	1.87343

### c) Pearsons' Correlation Analysis

**Table 4.9 :** Correlation Matrix of Conventional Bank (Model 1)

Correlations-Model 1 (Conventional banks)						
		Lriskc	Sizec	NPLc	ROEc	ROAc
Lriskc	Pearson Correlation	1				
	Sig. (2-tailed)					
Sizec	Pearson Correlation	0.113	1			
	Sig. (2-tailed)	0.063				
NPLc	Pearson Correlation	-0.188	-0.313	1		
	Sig. (2-tailed)	0.042	0.178			
ROEc	Pearson Correlation	0.535	0.251	-0.137	1	
	Sig. (2-tailed)	0.014	0.284	0.563		
ROAc	Pearson Correlation	0.510	0.022	0.015	0.628	1
	Sig. (2-tailed)	0.021	0.924	0.946	0.002	
CARc	Pearson Correlation	0.310	0.162	-0.072	0.142	0.129
	Sig. (2-tailed)	0.018	0.492	0.762	0.547	0.584

**\*\*Correlation is significant at the 0.02 level (2-tailed), \* Correlation is significant at the 0.05 level (2-tailed)**

The correlation shows that the size has the positive and significant relation with the liquidity risk at 94% level of significance. The Pearson value of the size is 0.113 which shows the weak relation between the liquidity risk and size of the conventional banks. NPL shows a negative relation with the liquidity risk and the relation is significant at 96% significance level. ROE

**Table 4.8 :** Descriptive statistics of Islamic Banks

Descriptive Statistics- Model 2 (Islamic Banks)				
	Minimum	Maximum	Mean	standard deviation
Liquidity Risk	0.0705	0.3965	0.1762	0.094919
Size	6.5	8.18	7.434	0.41984
NPL	0	0.1463	0.03816	0.03704
ROE	-0.1168	0.17	0.01383	0.8987
CAR	0.0958	0.518	0.258655	0.012921
ROA	-3.49	1.8	-0.1065	1.33101

shows a positive and significant relation at 99% significant level. ROA of the conventional banks have the positive and significant relation with 98% significant level. The CAR shows a positive and significant relation with the liquidity risk and the significant level is 99%.

Table 4.10 : Correlation Matrix of Islamic Bank (Model 2)

Correlations-Model 2 (Islamic Banks)						
		LRiski	Sizei	NPLi	ROEi	ROAi
LRiski	Pearson Correlation	1				
	Sig. (2-tailed)					
Sizei	Pearson Correlation	0.079	1			
	Sig. (2-tailed)	0.674				
NPLi	Pearson Correlation	-0.088	0.13084	1		
	Sig. (2-tailed)	0.057	0.58244			
ROEi	Pearson Correlation	0.155	0.60165	-0.34	1	
	Sig. (2-tailed)	0.051	0.00501	0.142		
ROAi	Pearson Correlation	0.02	0.42031	-0.483	0.8876493	1
	Sig. (2-tailed)	0.019	0.06501	0.031	1.79	
CARi	Pearson Correlation	0.115	-0.7012	0.156	-0.548267	-0.4634
	Sig. (2-tailed)	0.046	0.00057	0.512	0.0123175	0.0396

**\*\*Correlation is significant at the 0.02 level (2-tailed), \* Correlation is significant at the 0.05 level (2-tailed)**

The correlation shows the positive and significant relation of the size of the banks with the liquidity risk. NPL shows a negative relation with the liquidity risk and the relation is significant at 95% significance level. ROE shows a positive and significant relation at 95% significant level. ROA of the conventional banks have the positive and significant relation with 99% significant level.

#### d) Regression Analysis

Table 4.11 : Regression Analysis of Conventional Banks (Model 1)

Coefficient-Model 1 (Conventional Banks)			
	Standardized Coefficients	t	Sig.
	Beta		
(Constant)		2.489	0.026
Size	0.33223	1.59	0.013
NPL	-0.2224	-1.107	0.029
ROE	0.40485	1.572	0.014
ROA	0.2334	0.935	0.024
CAR	0.2605	1.343	0.012
R-Square	0.497	Prob (Fstatistics)	0.000
Adjusted R-square	0.372	Durbin Watson Stat	1.988

Here the F-statistics is less than 0.05 which shows that the model 1 is statistically significant. The R-square value for the Model 1 is 0.497 which shows that 49.7% of the variability in the liquidity is explained by the independent variables. The adjusted R-square value is 0.372 which shows that 37.2% of the liquidity risk is explained by the independent variables. The Durbin-Watson statistics value is 1.988 which is approximately equal to 2, shows that the error term is independent and is free of autocorrelation.

In the Model 1 the size of the bank have the positive and significant relation with the liquidity risk. The better size of bank indicates that the banks have the better ability to establish big market share and generate higher profits. The beta value shows that 33% changes in the liquidity risk is observed as a result of 1% increase in the size of the bank. The NPL ratio has the negative significant relation with the liquidity risk with the confidence level of 98%. This shows the greater the bad debts of the conventional banks the more with adverse will be the liquidity position of the bank. The figures shows that for every 1 % increase in NPL ratio the liquidity risk increases to 22%. ROE has the significant and positive relation with the liquidity risk in the Model 1. The figure shows that 1% of the increase in ROE the liquid position goes to 40%. Similarly the capital adequacy ratio (CAR) has significant positive relation with the liquidity risk with 99% confidence level.

**Table 4.12 :** Regression Analysis of Islamic Banks (Model 2)

Coefficient-Model 2 (Islamic Banks)			
	Standardized Coefficients	t	Sig.
	Beta		
(Constant)		0.423	0.679
Size	0.030656	0.073	0.059
NPL	-0.00295	-0.01	0.01
ROE	0.994461	1.614	0.041
ROA	0.762249	1.325	0.037
CAR	0.327953	0.92	0.022
<b>R-Square</b>	0.718	<b>Prob (F-statistics)</b>	0.001
<b>Adjusted R-square</b>	0.521	<b>Durbin Watson Stat</b>	2.74

The F-statistics of the Model 2 shows that the model is a good fit. The R-square value shows that 0.718 or 71.8% of the variability in the liquidity risk is explained by the independent variables. The Adjusted R-square value shows that 52.1% of the explanatory variable is explained by the independent variables. The Durbin-Watson statistics value is 2.574 which show that the error term is independent and is free of autocorrelation. There is no autocorrelation in the error term.

In the Model 2 the size of the bank have the positive and significant relation with the liquidity risk at 95% confidence level. NPL ratio has the negative significant relation with the liquidity risk with the 0.00 % of the significance level. The figures show 0.3% decrease is observed in the liquidity because of 1% increase in the value of NPL.

ROE has the significant positive relation with the liquidity risk in the Model 2. The figures show that 99% increase is observed in liquidity position as a result of 1% increase in ROE. The capital adequacy ratio (CAR) has significant positive relation with the liquidity risk with 98% of confidence level. The ROA has the significant positive relation with the liquidity risk in the Model 2 with the 97% confidence level. The figure shows that 76% of the liquidity position is observed due to 1% increase in ROA. This is because each transaction in the Islamic banks must be backed by the asset rather than dealing in money. Hence the return on assets has the positive relation with the liquidity risk. The more returns an asset yield the better will the liquidity position of the Islamic banks.

The size of the bank positive and significant relation with the liquidity risk in both the Models hence Hypothesis H1 is accepted. The NPL ratio has negative significant relation with the liquidity risk in both the models hence H2 is accepted. The capital adequacy ratio and return on assets and return on equity have the

significant positive relation with the liquidity risk hence H3, H4 and H5 are accepted. The regression highlights the NPL of the bank to be negatively and significantly related to the liquidity risk in the Model 1 and Model 2 which is in accordance with (Ahmed, Akhtar, & Usamn, 2011), (Akhtar, Ali, & Sadaqat, 2011). The same results are supported by (Sawada, 2010). This study found to have a significant positive relation and significant relation of capital adequacy ratio, return on assets with the liquidity risk in both the models. These results are in line with results of (Akhtar, Ali, & Sadaqat, 2011). The relation of Return of equity with the liquidity risk is positive and significant. These results are supported by (Rosly & Zaini, 2008).

## V. CONCLUSION AND RECOMMENDATIONS

### a) Conclusion

The study examines the liquidity risk management through the comparative analysis of the Islamic and the conventional banks of Pakistan from the period 2007-2010. The sample included 5 Islamic and 5 conventional banks of Pakistan. The selection criterion is based on KPMG banking survey report 2010, Pakistan. The independent variable includes the size of the bank, NPLs ratio, ROE, CAR, and ROA. The dependent variable includes the liquidity risk which is the measure of the most liquid assets of the banks. The analysis is done using the ratio analysis of the averages of the variables involves along with the descriptive and regression analysis.

The ratio analysis shows that better liquidity position of the Islamic banks as compared to the conventional banks. This shows the Islamic banks having the more of the liquid assets to pay off its obligations. The NPL ratio of the Islamic banks is showing a decreasing trend which means less of the non-performing loans of the Islamic banks and hence the less losses. It also predicts the better operations of the Islamic banks as compared to the conventional banks. The size of the Islamic banks is less than that of the conventional banks this is due to the fact that Islamic banks started operating in Pakistan in 2007. The capital adequacy ratio of the Islamic banks is far ahead of the conventional banks. Islamic banks seem to have to better the strong cushion against the balance sheet shocks such as payment of liabilities and the cover up their losses to protect their depositors and lenders. The regression analysis shows the NPL ratio having the significant positive relation with the liquidity risk this means more of the NPL ratio leads to the greater liquidity problems therefore hypothesis H2 is accepted for both the Models. The ROA along with CAR shows the significant positive relation with 98% and 90% confidence interval respectively in Model 1 and same ratios have the positive significant relation with the



liquidity risk with 98% and 97% confidence interval respectively in Model 2. Hence the hypothesis H4 and H5 are accepted for both the Models. The size of the bank shows the significant positive relation with the liquidity risk so the hypothesis H1 is accepted for both the Models.

#### b) Recommendations

In order to mitigate the liquidity risk of the banks, banks are recommended to:

1. Have a stand by account, these includes increase of the liquid assets of the banks
  - a) Currencies these are the liquidity that banks hold to meet daily transaction needs and that will be placed in the central bank if there is a surplus;
  - b) Central bank certificates. These are the safe and liquid deposits in the central bank;
  - c) Other commercial bank deposits. These are the bank's short-term deposits in the other commercial banks. Although these are less liquid than the central bank certificates, these deposits can also be redeemed on short notice;
  - d) Cash items in the process of collection. These include the checks deposited in the central bank or the other commercial bank deposits for which credits have not yet been received.
2. For the expected irregular demand for liquidity, the most recommended technique is to estimate accurately the short-term demand for liquidity. For the unpredictable irregular demand for liquidity, the techniques are:
  - a) having a Contingency Funding Plan,
  - b) combining cash flow matching and liquid assets,
  - c) prudently allocating the assets,
3. On the practical level, asset liability committee (ALCO) arranges the strategies to implement the liquidity management policies in cooperation with the Business Risk Management Committee, the Operational Risk Management Committee, and the Financial Risk Management Committee. Particularly, ALCO:
  - a) manages and monitors the daily liquidity position and collaterals on the asset and liability sides;
  - b) perceive any liquidity imbalance;
  - c) determines strategies to mitigate liquidity imbalance; and
  - d) Maintains good relationships with external parties to cooperatively manage and foresee liquidity pressures.
4. One of the common techniques used in banking theory to improve the performance of asset and liability is called the Gap Analysis. This technique aid the output of the assets side and the liability side over a certain period of time. It suggests that banks maintain a higher return on the asset side than the liability side.

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## ANNEXURE A

*Table 3.1:* List of banks included in the sample

Sr.No	Conventional Banks	Sr.No	Islamic Banks
1	The Bank of Khyber	1	Meezan bank Limited
2	Askari Bank Limited	2	Bank Islami Pakistan Limited
3	Bank Alfalah Limited	3	Al Baraka Bank Limited
4	NIB Bank Limited	4	Dubai Islamic Bank Limited
5	Sonari Bank Limited	5	Burj Bank Limited

*Table 3.2 :* Variables and their proxies

	Dependent variable	
Y1	Liquidity Risk	cash and cash equivalent to total assets
	Independent variables	
X1	Size of the bank	Logarithm of the total Assets
X2	Non-performing Loan ratio	Non-performing loans to Total advances
X3	return on equity	Net profit after tax to Total equity
X4	Capital adequacy ratio	Tier 1 capital + Tier 2 capital / Risk Weighted Assets
X5	Return on Assets	Net profit after tax to Total assets
€	Error term	



GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH  
Volume 12 Issue 5 Version 1.0 March 2012  
Type: Double Blind Peer Reviewed International Research Journal  
Publisher: Global Journals Inc. (USA)  
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

## Challenges and Scopes of Establishing a New Amusement Park in Khulna City, Bangladesh

By Sadia Afroj

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**Abstract** - Amusement park is not only a source of entertainment but also a vibrant source of profit for a country. Rapid economic growth along with evolving of service sector espouses a substantial number of people who have regular income with diversified need. Among those needs entertainment plays a very important role. Because today's people are very much concern about their mental health. They are aggressively active in entertainment market in order to maintain as well bring something new to their busy and rigid life structure. On the other hand, already structured Bangladesh theme park sector cannot no longer rely on centered leading due to immense competition and rapid evolving global market. It needs to be spared throughout the country. In order to earn handsome profit as well as ensure continuous growth, any entertainment sector needs to find new areas for providing service. Starting a new venture with new items with latest technology, extreme customer care and promptness in all area of operation can be finest solution of it. Today's very much competitive business world it has become the toughest task to achieve customer satisfaction through quality service. In case of starting a new business and survive by competing with the prevailed sectors is more difficult.

**Keywords** : Amusement, challenge, scope.

**GJMBR-B Classification** : FOR Code: 150205 JEL Code: G32



*Strictly as per the compliance and regulations of:*



# Challenges and Scopes of Establishing a New Amusement Park in Khulna City, Bangladesh

Sadia Afroj

**Abstract** - Amusement park is not only a source of entertainment but also a vibrant source of profit for a country. Rapid economic growth along with evolving of service sector espouses a substantial number of people who have regular income with diversified need. Among those needs entertainment plays a very important role. Because today's people are very much concern about their mental health. They are aggressively active in entertainment market in order to maintain as well bring something new to their busy and rigid life structure. On the other hand, already structured Bangladesh theme park sector cannot no longer rely on centered leading due to immense competition and rapid evolving global market. It needs to be spared throughout the country. In order to earn handsome profit as well as ensure continuous growth, any entertainment sector needs to find new areas for providing service. Starting a new venture with new items with latest technology, extreme customer care and promptness in all area of operation can be finest solution of it. Today's very much competitive business world it has become the toughest task to achieve customer satisfaction through quality service. In case of starting a new business and survive by competing with the prevailed sectors is more difficult. Because in every steps the customer will compare the aspects or offering of the current sectors with the new one. To maintain customer satisfaction it is necessary to understand the perception, attitude, expectation, psychology and motivation about a particular issue. considering this, in the very challenging environment any organization needs to keep the improvement flow smoother and marketing properly through effective planning and execution of conception, quality pricing and promotional campaign and selecting the exact distribution channel. The thorough evaluation will help to understand about the reason behind starting such venture, its specialty, operation and the acceptance of the park through the measurement of customer expectation.

**Keyword** : Amusement, challenge, scope.

## I. BACKGROUND OF AMUSEMENT PARK OF THE CITY

In the last two decade, there has been a revolutionary development in the enjoyment park sector in Bangladesh. The establishment and development of such theme park introduced a new era of entertainment for the people of Khulna also. To keep attached with this experience the idea of theme park introduced here. In the city there are three amusement parks available with same level of services for its visitors. Because the rides, time of operation, service charge or other facilities are

more or less same or there are very little differences among them.

The first amusement park was introduced in Khulna in the year 1981 at Jahanabad Cantonment with the direct control and supervision of Army Core Infantry. Many retired persons were jointed with the authority later. From the very beginning it is providing its service with zoo. The initial capital of the park was about 25 million with a land property of 2 acre. The second amusement park of Khulna "Wonder Land" in Khalishpur started at June 7, 1996 with the cooperation of Khulna City Corporation. The owner of the park is G.M.M Rahman who has another six parks in different areas of Bangladesh. The city corporation leased the total land for the park for 20 years with a charge of 0.25 million for first 10 years and 0.35 million for the next 10 years. The third and last theme park "Mujgunni Shishu Park" started its operation in 31st January 2007 at Mujgunni, Boyra with 70.5 million initial capital and land area of 5 acre. The total number of visitors of these parks per month is about two thousand for each and revenue per month is approximately Tk. 1,50,000.00 Same types of rides are available in all three parks. In the zoo there are very few numbers of animals and birds. Most of the cases are empty now.

### a) Challenges and scopes of starting a new business

Every business has complex involvement with other people, groups and organizations in a society. Some of these are intended and desired where some others are unintentional and not desired. The factors with which a business is involved have an interest in the decision, action and participation of that business. Customers, suppliers, employees, owners, creditors and local communities are affected by the profitability, prosperity and economic success of the business. Because each needs the others; each influences other. Business and the related aspects are entwined so completely that an action taken by one will inevitably affect the other.

To fulfill the customer's demand and objectives, vision and strategies of the forthcoming venture some factors must need to analysis. Because the business acts to produce goods and services that the customer want, recognize the social impacts and of its activities and is concerned with the social and economic affects. Market feasibility, financial availability, and profitability of the business are the most vital aspects that should be

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clarified before starting the business. This study helps to identify the probable challenges as well as find the prospected areas for the business. Any business needs to understand economic phase, marketability, corporate social responsibilities, competitive challenges, government rules, corporation and public regulations, business ethics, ecology and other environmental issues.

On the basis of challenges, activities of all business assumption about where to concentrate, compete and how. This strategic process produces major changes in virtually every future action. Sometimes business needs restructure the operation, eliminate some activities that seems too distant from the company's strength or too vulnerable to competitors. Recognition of business operation occurs frequently when the company tries to improve the quality of the product comparing the competitors, reduce the cost and improve the speed with which they respond to customers by using the scope available in its environment.

#### *b) Challenges for starting a new amusement park in Khulna city*

A number of factors play major role in determining overall success or failure of the business of an amusement park. It is just like a swimmer who needs to understand condition in the water. The business must know the basic environmental aspects to properly maneuver them for future success. At the time of feasibility analysis of the amusement park -The Fantasy World different challenges and scope came forward to us we our projected amusement park may consider issues given below;

##### *i. Economic challenges*

The economic dimension of a venture's general environment is the overall health of economic system in which the business operates. Particularly important economic factors that the new venture must consider are available market information, inflation, rate of interest and scope for bank loan, availability of fund for new business, employment-unemployment situation etc. For a new business like an amusement park, these factors should be considered and evaluate very carefully. Because these factors affect the demand for different products one hand and another hand determines the future profitability or chance of durability of the business. The major economic challenges for our business are;

- *Unstructured market information:* At the time of establishing a new business, the entrepreneurs needs organized or reliable source to acquire the facts about the market condition. But in Khulna there is hardly any source of structured market information. It is an impediment to pre-business viability and business operations. Business needs to rely upon the business associate, other predecessor's experience, suppliers and their

bankable customers. For a new venture there is no authentic source of business information or any publications that can act as relevant source to fix the future course of actions.

- *Unavailability of Bank loan and higher cost of capital:* The business is owned by equity shareholders and the prospected investment in this park is Tk 10 crore. At first a loan of Tk.5 crore was asked from Standard Chartered Bank, but the bank was not interested to handle this amount. The bank agreed to lend Tk. 3 crore only for the project. So, we need to convince another financial institution Lanka-Bangla Finance Ltd. to lend us another Tk. 2 crore for this project. For the bank loan we have to pay 15% interest where the Lanka Bangla Finance Ltd. is charging 17% for their amount.
- *Lack of interest in investment in entertainment sector:* In Khulna most of the investors are disinterested to invest in entertainment sectors. Still they consider it as a non profitable sector. This factor acts as constrain to develop the theme park sector of Khulna. Different entrepreneurs are interested in highly profitable sectors. The City Corporation and other organizations are not so much conscious about the necessity of this sector
- *Overall economic condition of the city:* Industrial city Khulna has lost its tradition long before. The turnover of the Jute and paper industries creates serious unemployment problems in the recent years. As a result the overall economic condition of the city is so poor especially in some industrial area it can act as a threat for the profitability of the park.

##### *ii. Marketing challenges*

Today's marketing is all about creating customer value and building long term customer relationship. It starts with understanding the needs and wants, deciding in which market the business can serve best and developing a compelling value proposition by which the business can win, keep and grow its customers. If any business does so it can reap the reward in terms of profitability and customer equity. The factors which act as barriers for the development of a new amusement park in Khulna city are

- *Competition from the very beginning:* The competitors of a new business are the other business organization that will compete with the new one for survival and growth. Different business organizations compete for different kinds of resources like-quality services, performance of its employees, technological breakthrough etc. The park it will face the vast competition from the beginning of its operation. Because there are already three entertainment parks available in Khulna within smaller distance. At the initial stages it will take time to gain the customer loyalty



- *Needs of vast promotion:* The people are known about the service level of three existing amusement park of Khulna. We are offering unique service in terms of high-tech rides, water world, special event arrangement facilities and full time transportation. To inform the potential visitors about the specialty and uniqueness of the service huge promotion is required before and after the starting of the business. It increases the fixed as well as the maintenance cost of the park.
  - *Over expectation of the visitors:* At the time of starting a business the expectation of the customer remain very high. The service quality of the existing park is dissatisfactory according to the visitors. So they fixed up their expectation very high. So we need to fulfill the sky high expectation to attract and retain most possible visitors for the park. If there are any gap between the desired expectation and service level the park always bears the threat to lose its potential customers in future. It is not possible to identify the exact level of the expectation of the people.
  - *Diversified need of the visitors:* Need and demand of the people change very quickly. They are always looking for better option and frequently switch from one to another. From the very beginning we are going to offer different service which is totally new in Khulna. But entertainment sector is already developed in different parts Bangladesh and offering diversified services as it is in Fantasy Kingdom. The comparison with those theme parks may increase the expectation of the bankable visitors. The diversified need and higher expectation is a big challenge to us to meet the diversified need and meet the expectation level.
- iii. *Geographical challenges*
- At the time of choosing the location for a business it seeks for some geographical advantages from there. With the advantages each business faces some problems raised from geography. The geographical barriers for the development of an amusement park in Khulna are
- *Frequent natural desalter:* In Khulna the impact of natural calamities is intense. The proximity to Sundarban bears a risk of regular natural disaster. Natural disasters destroy the properties. The asymmetrical nature of the weather is a vital challenge for the business as well as for the visitors.
  - *Unskilled Human resource:* In Khulna the labor cost comparatively low and there is huge supply of labor. But the problem is that most of them are semi-skilled or unskilled. They have the experience of working in different jute or paper industries. This labor force is not appropriate for the operation of high-tech amusement park.
  - *Lack of training facilities:* For a business to survive and prosper it must be able to identify, select, develop and retain qualified personnel. They are the most important resource of a business. Because they supply the talent, skills, knowledge and experience to achieve the organization's objectives. At the initial stage it is difficult to get skilled labor to maintain the activities. Because in Khulna there is no scope to train the people with modern technology which is specially required in the operation of an amusement park. So it requires huge amount of money to properly train up the labor to get optimum service for them
  - *Administrative constrains:* For the establishment and development of a business the administration plays a crucial role. The proper assistance from the administrative sector can accelerate the pace of operation of the business. Thus can be an obstacle in the way of its operation. The administrative body creates various problems for the new entrepreneurs as;
  - *Bureaucratic process in licensing:* Licensing is a key issue for starting a new business. For the establishment almost 14 to 15 licenses are mandatory as trade license, city corporation permission, and environmental clearances. The process of licensing is very lengthy and takes huge time to get any information or permission in every administrative sphere. The persons related to the task, are highly corrupted in most of the places. The difficulties in acquiring the licenses for the business associated with bureaucratic procedure, corruption and lack of proper guideline
  - *Problems in acquiring machineries and other instrument:* To ensure the best quality entertainment, the park needs modern machineries for rides. Some local machines can be procured in the workshops at Dhaka. But in case of foreign machineries and equipments, problems raised when it arrived in Chittagong port and requires customs clearance. It had to wait a long time and high tax charge and inducement in different places increase the cost.
  - *Land Procurement Problems:* At the time of selecting a land for an amusement park, some aspects are considered very carefully. One hand, it requires huge land area, on the other hand it needs to be situated in such a place that is accessible to the visitors. In Khulna there are so many places to establish an entertainment park. For our projected park we acquired land in Nirala-Gollamari main point (Agrani Bank Town) With out the help of City Corporation it is almost impossible to continue it properly. But it is so taught to get the permission from the City Corporation by showing appropriate field of an amusement park.

iv. *Technological Challenges*

Technology has an enormous effect in business operation specially where the major business activities are operated and controlled by it. The dominant feature of technology is change and more change. Technology forces change on people whether they are prepared for it or not. In case of our operation we are committed to ensure the superior service in terms of different rides with the help of modern technology.

- *Lack of technical experts:* Today's industries are the midst of technological revolution. Modern technology is evolving at breakneck speed. Robotic and laser technology also are making their presence felt in the workplace. A business like amusement park needs to update its facilities with new technology to compete. But Khulna is still in a primitive stage so far as its technology is concerned in case of using high-tech technologies for park purposes. To introduce the modern technology technically skilled human recourse required. But in Khulna it is difficult get such technical expert to operates the machineries or rides.
- *Problems in case of technological failure:* For the operation of our amusement park, we are going to use modern technology which is totally new in Khulna. Most of them are imported. If the machineries or rides fail to operate properly or any technical difficulties arise, there is a huge chance to stop the major operation of the park for a long time. The substitutes of the machineries of the park are not available in the local market of Khulna or no technically expert organization to repair it within a short time. It may incur a huge loss for the business
- *Inadequate energy supply:* The rides of the amusement park are operated mainly by electricity. But due to inadequate energy supply it may create serious problem to operate in full swing. Moreover it may incurs loss due start-up & shutdown wastages and irrational labor utilization.

v. *Other Challenges*

Beside those problems there are some other difficulties in case of operating a business of amusement park. They are described below;

- ✓ *Socio-cultural measurement:* As the world moves towards it is strikingly obvious that any business needs to operate within complex webs of social responsibilities. The structure, design or strategies have been driven by intense competition in the market. Socio-cultural aspect includes the customs, norms, values and demographic characteristics of the society in which the business organization function. Within the socio-cultural boundary the needs, demand, emotion, expectation etc are shaped. In case of amusement park, it is very essential to carefully choose the entertainment items whether it matches with the practiced

customs, justified the values, touch the emotion or fulfill the desired expectation of its customers or not. If there remain any gap between the performance and expectation, it creates distance then the business may not exist for longer period of time. Before starting the full range operation it is too difficult to measure the socio-culture approach towards the business like an amusement park

- ✓ *Insufficient entrepreneurial counseling:* At the initial phase of a business counseling could help and encourage people to start own venture. But in Khulna there is no chance to get any sort of effective counseling from any organization.
- ✓ *Absence of research and development facilities:* There are very commonly perceived and also perhaps generally encountered difficulties of operation of a business like amusement park. However a close scrutiny and careful interpretation trends to reveal the lack of institutional credit, non availability of working capital, low level of technology, market access problems. Systematic and in-depth studies based on sufficiently large sample are needed to precisely identify the operational woes of the different categories of any business. Through research and development required investigation and survey can be conducted to overcome the disputes. For different business there is no standard research and development organization that can conduct necessary research and work as a reliable source for the new business
- ✓ *Regulatory agencies & interest group:* Regulatory agencies are the part of environment that has the potential to control, legislate or influence the policies and practices of a business. For example Environment Protection Agency. They have the tendency to create immense pressure before starting the park concerning some environmental and social issues.
- ✓ *Legal & Political interruption:* It refers to the government regulation of business and the general relationship between business and government. For a new venture it is important for several reasons. Because the current legal structure of a particular region partially defines what the organization can or cannot do in future. Pro-business or anti-business approach in government influences the business behavior, shaped the types of operation or promotional activities. On the other hand, political stability has ramification for future planning for the business.
- ✓ *Absence of clear-cut government policies:* For the business of an amusement park we need to fulfill all the requirement like other common business. There are some restrictions in establishing the park that we faced at the time of marketability study. But still there is no clear-cut government rules regarding the complete business action of an amusement park.

- ✓ *Image development Challenge:* For any new business it is so important to build up strong image among the people by providing superior service comparing to its competitors. Image is more than just mane or impression. It is a key element in the business's relationship with the customers. In case of an amusement park it represents the visitor's perception and feeling about the performance level or everything that they want from an amusement park. The real image of a park is to capture consumer preference and loyalty. Because if we can't successfully build a positive and strong image among the people, there is no chance to survive for the long time.

c) *Scope of a new amusement park in Khulna*

The scope of business in Khulna is comprehensive. The location in the south-west region of the country with a number of good navigable rivers, educational hub tourism based area; flood free flat land helps us to boost up our business. Khulna is considered as the regional capital and it has the large integrated port facility. The transportation, communication, the linkage with other towns and growth centers raw materials and labor availability, can make it the most important trade city in the region. It is also to revive the economical sectors by developing different industrial and service sectors. There remains a huge demand of an excellent entertainment place for all aged people of Khulna. Because the existing parks or other entertainment places are not providing standard services. The service level is also more or less same. For the entertainment the people usually go out of Khulna. If we able to establish world class entertainment park with modern technology, first rate security it certain that it will able to attain and retain huge visitors that will contribute in the local as well as in the national economy. The scopes for the establishment of an amusement park in Khulna are described below

i. *Geographical Advantages*

Khulna is located on a natural levee of the Rupsha and Bhairab rivers and characterized by Ganges tidal floodplain. As a divisional city Khulna is getting some geographical facilities which will help a new amusement park for future prospects. Easy transportation and communication system of the city will able to attract more visitors. On the other hand telecommunication system is most available in the city. To visit different attractive sites like Sundarban, Khanjahan Ali Mazar Shat Gombug Masque, Mongla port, so many people home and abroad need to pass through Khulna. These people can be our bankable customer. Many industries of Khulna have closed down. So there remain so many people unemployed. For different services this labor force will act as the prospect for the park. Because the availability of unemployed people will lower labor cost. Land of Khulna city is quite

plane and fertile. So it is easy to establish the park on the plane land easily.

The weather of Khulna is so appropriate that the outside visitors will not face any problem to adjust with its environment. Besides bearable average temperature, and consistent behavior of the nature is also a plus point

ii. *Demographical Scope*

In Khulna there is moderately rapid population growth mainly due to rural-urban migration. Population composition is characterized by a preponderance of children and young and low population of aged people. It bears a relatively a high literacy rate comparing other cities. Gross population density is high about 1800 per square Km. and large population of the city is engaged in informal sector activity. The people of Khulna city is really peace loving. They willingly participate all cultural programs strongly. They yearn for spent money for recreation. And frequently arrange different program in different occasions. The cultural mentality of the general people will be a vital source of prosperity.

iii. *Economic Advantage*

To be financial profitable, our park will attain some economic advantages form different areas. The prospected areas are;

- ✓ *Low living cost:* Though the economic condition of the city is not improved the people bear the capacity to spend money in entertainment sector. The life leading cost of Khulna is low than the other parts of Bangladesh .As the living cost is low, the people can easily expend money for their enjoyment
- ✓ *Income Structure:* Though the turnover of different jute and paper industries decline the purchasing power of the people in some areas the income level of the city is still high. The main income sources are agriculture , frozen fish exporting (specially prone) ,Business, Government and non government service. The people have the capacity to spent money for amusement.
- ✓ *Employment opportunity:* Through the park a large number of unemployed people will get the chance to contribute in pre or post construction activities of the park. Ultimately it will contribute it improve the overall economic condition of the city. For any business increase the standard of living is one of the most important motives. We are not apart from it. Obviously the employment opportunity will help a large portion to increase the standard of living as a part of our social commitment.

iv. *Other Opportunities*

For stay in Khulna there are three "Three Star" hotel and more than fifty normal hotel in Khulna that will help us to attract outside customer

- There are two public universities, four private universities, one medical college, ten collage,

eleven high school and more than two hundred primary & kinder garden school in Khulna city. There are more than three Lac students studying in all of these educational institutes. They can be the valuable customer.

- Most of the Govt. organizations, Private organizations including banks, insurance company, telecommunication organization and some service providing organizations run their activities in Khulna city. So, the employee of those organizations and their family can be considered as our valuable customer.
- Most of the shrimp exporting business organizations established in Khulna. Their foreign and outer business parties can also be considered as our valuable customer.
- Through the park we are offering such services that totally match with the religious and cultural values of the people of Khulna. So it may create emotional bonding with the people and the park.

## II. CONCLUSION

The huge need of fun and amusement in Khulna region forces to build mind-blowing places for entertainment. Not only form the view of gaining profit but also to entertain exhausted people of Khulna. In our country, this sector is introduced the beginning of 90's and others part of Bangladesh has already developed many creative and amusement sites Khulna as a divisional city has a great need of secured recreation place. The city has all the resources available with a lack of taking initiatives. From the customer point of view it is quite clear that they are fully dissatisfied with the service status of the existing parks. Though there are some problems for the establishment of a park, it is also true that it can be easily overcome those difficulties and find a prospect to gain profit and ensure a healthy entertainment source as a part of our social responsibilities. But we never unfasten from our social commitment. The establishment of a Park will aim at a higher technological use, less idle land and lower employment rate by attracting more visitors. In the long run Khulna will have more powerful global competitiveness, more business opportunities, and finally fulfill the goal of sustainable development.

### a) Recommendations

- Government and local authorities should come forward to facilitate the entertainment sectors by providing loan at lower interest rate and tax exemption facilities. Because it is an exciting profitable earning sector.
- There should be the opportunity of increasing the training facilities for the unskilled human resource for different purpose of an amusement park
- The use of technology should increase to make the total operation more effective and efficient

- Bureaucratic procedure in pre-business activities as licensing and corruption should remove.

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GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH  
Volume 12 Issue 5 Version 1.0 March 2012  
Type: Double Blind Peer Reviewed International Research Journal  
Publisher: Global Journals Inc. (USA)  
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

## ERP Implementation at King Saud University

By Sulaiman A. AL-Hudhaif

*King Saud University*

**Abstract** - This study focuses on factors that affect an ERP implementation in King Saud University from users' perspective. After reviewing related literature, a theoretical model was developed and four hypotheses were articulated to look at the status of system implementation at the university. The tools that were used in the study were a questionnaire and interviews. Both were designed by the researcher and used to achieve the aim of the study. The study shows that overall success is dependent on the satisfaction levels of the users. It also finds a significant relationship between satisfaction level and challenges on implementation. Further, the study emphasizes that the top management commitment is a very important factor for implementing the system. However, the study found no significant relationships among some of the training factors and a successful implementation of the system. The study suggests some recommendations that enhance the implementation of the system in the university.

*GJMBR-A Classification : FOR Code: 150499, 150301 JEL Code: O32, O33*



*Strictly as per the compliance and regulations of:*





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## I. INTRODUCTION

The hi-tech era of today has brought effectiveness and efficiency for organizations around the globe, and no organization can survive effectively without the adoption of the latest available technology. Enterprise resource planning (ERP) is one of such technologies used for the better running of organizations to achieve effectiveness and efficiency. ERP has been defined by many researchers as "a packaged business software system that enables a company to manage the efficient and effective use of resources (materials, human resources, finance, etc.) by providing a total, integrated solution for the organization's information-processing needs" Nah and Lau (2001). Häkkinen & Hilmola (2008) have defined ERP as a typical software package that provides integrated operational processing and access to information that extend to various firms' units and multiple organization transactions. Organized and acclimatized implementation of ERP give rise to the integration of all the functional information flow across the organization into a solo package with a common database.

Nowadays, almost all public and large private organizations around the world are implementing ERP systems, replacing the old legacy systems, which are no more compatible with the contemporary business environment. But the process of moving from old systems to an ERP system is hard and tough, as found by Kroenke (2008). Moreover, the change to the ERP system is costly and requires new actions, training and renovation of data (Zhang et al., 2005). An ERP system

costs firms \$10-to-\$100 millions, depending on the size of the firm (MA et al., 2000). An ERP is not a mere installation of software, but a complete organizational shift which requires changes in technology, process and people.

The objective of this paper is to check the status of Madar implementation in King Saud University (KSU). Madar is an ERP of KSU, This study is an attempt to evaluate the performance of Madar with the user's perspective in mind. KSU is located in Riyadh, the capital of Saudi Arabia. It was founded by King Saud in 1957. Today, the university has more than 31 colleges at 10 different locations across the country with over 70,000 students and around 20,000 faculty and staff.

Roughly three years ago, the university introduced its Madar system, which is now almost 85% complete, to speed up its process and procedures. Madar has been introduced in eight departments, namely human resources, finance, budgets, purchasing, warehouse control, administration and communication. Fifteen hundred people are working on its implementation.

## II. LITERATURE REVIEW

Much research has been carried out on the issues and factors which contribute to the success and failures of the ERP implementation. The main issues recognized by various researchers are as follows.

### a) Factors Effecting ERP

#### i. Top management Commitment

Top management commitment and support is always found to be significantly important in any ERP implementation processes (Al-Mashari et al., 2003), as top management is responsible for creating vision and plan and also for ensuring users' motivation for achieving goals. According to Nah et al. (2001) top management is responsible for the allocation of appropriate resources, such as human and financial, as part of the implementation effort and also to communicate the business vision and the role of ERP system to the users. Top management support significantly reduces the users' resistance to ERP implementation (Wu Wang, 2006). (Al- Mashari et al., 2003) argued that it is a top management duty to decide on an ERP system and to select its proper vendor, and also to assess feedback from the end users and IT professionals in advance of implementation. Further, constant monitoring of the implementation process and to provide necessary direction to the ERP team is also

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critical for successful ERP implementation. In general, top management responsibilities and duties may vary with project-to-project implementation, but their commitment and support will remain constant, as many researchers have highlighted.

## ii. *Users' Satisfaction*

Satisfaction, according to (Wu-Wang, 2006), means the sum of one's feelings and attitude toward a variety of factors that are related to the delivery of information, products and services. Literature has evaluated user's satisfaction in the context of success of ERP implementation. Without users' interest and positive attitude the ERP, or any other technology, implementation is very difficult to execute. As Satcioglu (2009) noted, in the ERP implementation the main success factors are users centered. Researchers including (Wu-Wang, 2006, Baily and Pearsons, 1983, Nah, et al, 2003) have considered the users satisfaction as a major variable for the evaluation of ERP implementation. Researchers have found many factors that can affect users' level of satisfaction with the implementation processes, including (system understanding and training, involvement in pre-implementation process, ERP product and adaptability, interaction with IT department, knowledge and involvement). All those factors increase the satisfaction and acceptance level of the users and will improve the perceived control through participating in the project implementation. Nah et al. (2003) has emphasized that users training and education about the ERP is very important as this helps increase the success of ERP implementation.

## iii. *Training*

Training to change the behavior and increase the trainee knowledge and expertise about the system and its successful implementation is very important, for lack of training has lead many projects to partial success or complete failure (Khaled et al., 2008). ERP is not so simple to use and adapt even having IT knowledge and skills, thus training of all users is important for successful implementation in any organization (Nah et al., 2001, and Wu Wang 2006). Training plans should consist of training needs, view of users' knowledge capacity and their attitude toward technology acceptance. ERP users' involvement in development and implementation processes of the system will help in identifying their needs and lack of expertise, and thus effective training can be given.

## b) *Factors Effecting ERP*

There is a long list of the factors which contribute in the successful implementation of ERP. Some of them are discussed briefly as follow:

### i. *Organizations Vision*

Organization vision and plan is very important factor in ERP the users must know the vision of the

organization and understand whether ERP is a strategic tool or a mere software solution. Without organization plan and vision, ERP should not be implemented (Nah et al., 2001)

### ii. *Software Selection*

ERP software is costly and vigorously changing, so it is elaborated in too many studies, such as Butler (1999), Bernroider and Koch (2001). The ERP software is nonspecific and, thus, has to be specified for the needs of different organizations, industry sectors, and countries (Klaus et al., 2000).

### iii. *Project Management*

For any project to be successful, there should be experienced and qualified implementers and, as ERP is a hi-tech project involving millions of dollars, that need becomes immense. Full time and fully empowered team a with all financial and material support should be available (Finney & Corbett, 2007), (Nah et al., 2001). The project manager should lead by example and motivate the project team team that is project champion, as recognized by (Nah et. al., 2001 and Francoise, et al., 2009). Successful implementation of ERP requires a fair team that consists of members with a diversity of skills from different areas (Willcocks and Sykes, 2000).

### iv. *Communications*

Project implementation and users' satisfaction depends on appropriate communication. Users' expectations at all levels need to be communicated effectively. According to Rosario (2000), users' enquiries, comments, reactions, approval and overall needs should be properly manage in project implementation. Communication in all phases of the project is significant to communicate the importance of the project along with project vision, scope, objectives, activities and all updates including changes should be communicated to all stakeholders in time (Sumner, 1999).

### v. *Change Management*

Organizations are dynamic and require a strong organizational identity that is open to change. Change management is important in entire project implementation. Thus, enterprise-wide culture and structure change, including people, organization and culture changes, are important factors in the implementation phase. Users' involvement in design and implementation of a project at different levels is one of the change management efforts. Rosario (2000) has emphasized that users must be trained and all their needs and problems must be addressed through effective ways of communication and working with change agents.

### III. ERP SUCCESS AND FAILURE CASES

The factors mentioned above, together with some others, lead to a successful implementation if

fulfilled but, if not, then are the causes of failure. Some of them are discussed here for some organizations.

*Table 1:* Successful Case Studies of ERP

Company	Major ES Results
Georgetown University (Blitzbau & Hanson, 2001).	Serving over 30000 students Financial aid and admission automated successfully.
Louisiana State University (Ethridge, Hadden, & Smith, 2000).	Serving more than 45000 students and successfully implemented Course listings, libraries, human resources, e-mail, campus information, public relations, registration, admissions and other.
The University of Nebraska-Lincoln (Gaska, 2003).	Successful ERP implementation for recruiting and admissions.
The University of Houston) (Gaska, 2003).	Serving 51,000 students and recruiting, admissions, registration, student records, and administration.
Department of Administrative Services (DOAS) of Georgia's Corporation (Songini, 2000).	Effective communications via Web page, e-mail, instant messaging, as well as face-to-face meetings and extensive planning led to a successful ERP implementation. Queries that would take a month are fulfilled immediately. Annual contract reviews which would have taken weeks in previous system are now done in hours. And it decreased the time taken for audit preparation by at least 50%.
Bradley Corporation (Dickey, 2000).	Change of business process led to a successful implementation and has gained considerable benefits, which includes lower inventory levels and warehouse space requirements, increased sales without adding more staff, decreased lead times and increased on-time deliveries.
Greece university Charalambos Spathis, John Ananiadis, (2005).	The study was based on the perceived benefits according to the user's expectation. One year after implementation, the study found that the perception of the users towards ERP was more positive than before the implementation. ERP has increased flexibility in information provision through effective monitoring of the university assets and revenue expenditure flow and, hence, improved decision making. Empirical results of the research also confirmed that a number of benefits have been derived, especially in accounting and management information.

*Table 2:* Failure cases of ERP

Company	Major Results
Royal Melbourne Institute of technology Gray .p(2003)	The university went live before the system was ready, incurring a loss of AUS\$ 47 million Furthermore, student enrolment was difficult.
Higher education sector Australia (Nielsen, 2002)	Change. Was expensive to take people out of normal positions.
Whirlpool Corp (Okolica, 2001)	No coordination between business and technical experts together with lack of consultancy lead to failure resulting in Delayed shipments of appliances to distributors and retailers
FoxMeyer Drugs (Scott, 1999)	Change management, lack of knowledgeable personnel, training employees and lack of clear goal led to failure resulting in Excess Shipment due to incorrect order, costing the company millions of dollars
Siemens Power Transmission (Pender, 2000)	Lack of top management commitment, insufficient funding to continue project.
Reebok (Holland et al., 2001)	ERP failed because system was not compatible with organization process.

## IV. THEORETICAL MODEL AND HYPOTHESES DEVELOPMENT

After reviewing literature, the following theoretical model and hypotheses have been developed to look at the status of Madar implementation at KSU.

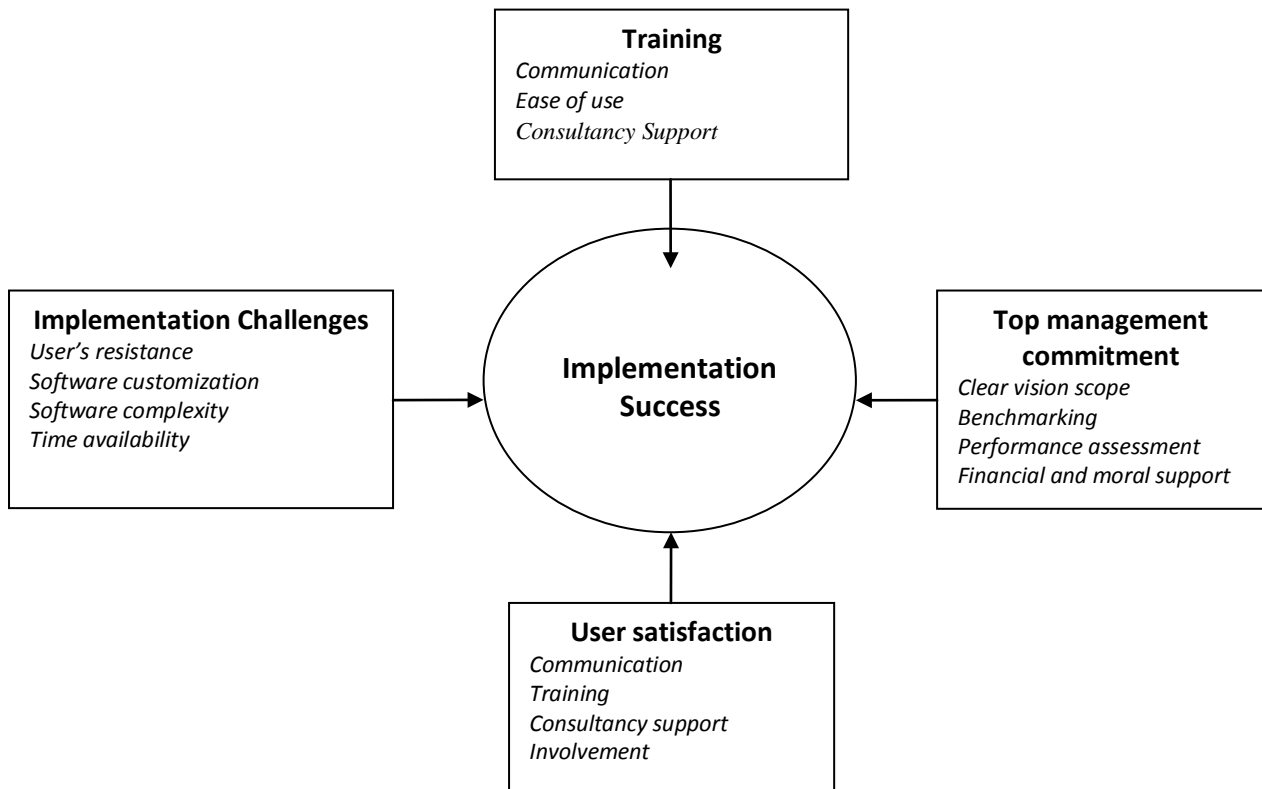


Fig. 1 : Theoretical Model

- H1. User's satisfaction has a significant impact on the success of ERP implementation.
- H2. Top management commitment has significant impact on the success of ERP implementation.
- H3. Appropriate training has a significant impact on the success of ERP implementation.
- H4. Implementation Challenges have a significant impact on the success of ERP implementation.

## V. METHODOLOGY

### a) The Research Approach

The study adopted both the quantitative and qualitative approaches because of its nature. The quantitative approach was represented by a questionnaire tool that used data collected from KSU employees, and the qualitative approach, which was represented by interviews that supported the result obtained from the questionnaire and provided the different views of the people surveyed.

The sample of the study contained 140 employees to be surveyed via copies of the questionnaire. There was also another sample onto which six interviews were administered. The questionnaires were distributed manually to KSU

employees who were using Madar, while the six interviews were conducted with responsible persons in their respective divisions for implementing Madar. The length of the interviews was no longer than 30 minutes. The feedback was obtained from 105 users of Madar but three were not taken into consideration because they were not completed and the answers to the questions were not clear, so only 102 of the questionnaire feedback copies were statically analysed, which is considered as 75 % of the questionnaire total sample.

### b) Questionnaire Design

The questionnaire was formed using three different sections, each one is described as follows: Background information about the respondent and administrative unit was the first section. The purpose of this section is to assess user involvement with respect to the overall system implementation. The second section was assigned to identifying the Legacy system used in the university as well as the status of implementation stage. The third section discusses in detail the important dimensions that affect Madar implantation. These include university infrastructure, implementation teams, benefits, challenges, success and failure from the user's prospective.

### c) Limitations

Although the adoption of technology might be common among the universities, however, the results obtained from the questionnaire and interviews might not reflect the vast majority of the universities in the region. Two reasons could be attributed to this. First, the qualitative research would always be subject to the interviewer and interviewee's own interpretation of the technology's trends and the education environments. Bryman (2004) confirmed this by arguing that the data collected using a qualitative technique will be subjected to the people's own ideas and it will be difficult to replicate. Second, the number of contributors was low, compared to the KSU staff. Such a low ratio might negatively impact the accuracy of the provided information.

## VI. ANALYSIS AND DISCUSSION

This section provides the analysis of hypotheses and discusses the relationships among different variables that are important for the successful implementation of Madar system in KSU.

### a) Questionnaire Analysis

#### i. Users' satisfaction levels and implementation of Madar

Correlations between user's satisfaction level and implementation of Madar

		Satisfaction level	Implementation (success)
Satisfaction level	Pearson correlation	1	.900
	Sig(2tailed)	.97	.000
	N	96	96
Implementation (success)	Pearson correlation	.900	1
	Sig(2tailed)	.000	
	N	96	96

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

The first hypothesis was about the relationship between the satisfaction levels on Madar and success levels on overall implementation. A significant relationship ( $P=0$ ) is found between the satisfaction levels of the users and implementation of Madar. Further, the regression value ( $r=0.900$ ) shows a correlation between these two variables. From the results  $\text{success} = \{\alpha = 6.179 + \beta = 0.866 \text{ multiplied by satisfaction}\}$  shows that overall success is dependent on the satisfaction levels of the users.

#### ii. Implementation Challenges of Madar

Results of chi-square tests for challenges in implementation of Madar

Variables	Pearson Chi-square	Significance value
Employee resistance	.765	0.06
Business process change requirements	.765	0.014
Integration with other software	.754	0.02
Software customization	.758	0.038
Software complexity	91.633	0.176
Time availability	.754	0.046

The second hypothesis was about the relationship between satisfaction level on Madar and challenges in its implementation. This study has found significant relationships between satisfaction level and challenges in implementation. The results showing relationships were, for the employee resistance ( $p=0.06 < \alpha=0.05$ ), business process change requirements ( $P=0.014 < \alpha=0.05$ ), integration with other software ( $P=0.02 < \alpha=0.05$ ), software customization ( $P=0.038 < \alpha=0.05$ ) and time availability ( $P=0.046 < \alpha=0.05$ ). All these values indicate that these variables are not independent and have relationships with the implementation of Madar. Moreover, they could be considered as challenging factors in implementation.

#### iii. Top management commitment and successful implementation of Madar

Results of chi-square tests for top management commitment and implementation of Madar

Variables	Pearson chi-square	Significance value
Inadequate pre-implementation evaluation	4.966	.420
Vision/scope	0.360	0.045
Lack of executive level commitment	0.210	0.643
Implementation assessment	1.720	0.886
Development of business case	4.754	0.447
Development of benchmarking	2.051	0.948
Consultancy (support)	2.051	0.842



Software selection	6.216	0.286
Focus on business process change	2.989	0.702
Communication	6.248	0.283
Training	5.977	0.308

The third hypothesis concerned the relationships between top management commitment and successful implementation of Madar. This study shows a significant relationship between the two variables and found that the top management commitment is very important for the implementation of Madar in KSU. The scope and vision of the project ( $P=0.045<\alpha=0.05$ ) is related to top management commitment. Compared to previous studies, the results found no significant relationships among some of the following factors and successful implementation of Madar at KSU. Respondents were found in disagreement on some variables, including pre-implementation evaluation  $P=0.420$ , lack of executive level commitment ( $P=0.643$ ), assessment of the implementation ( $P=0.886$ ) lack of consultancy provided ( $P=0.842$ ), change management ( $P=0.702$ ), problems related to project management ( $P=0.283$ ).

iv. *Training and successful implementation of ERP*

Results of chi-square tests for training and implementation of Madar

Variables	Pearson chi-square	Significance
Inadequate pre-implementation evaluation	8.367	0.137
Vision/scope	3.941	0.558
Lack of executive level commitment	6.039	0.302
Implementation assessment	1.186	0.946
Development of business case	9.964	0.075
Development of benchmarking	10.440	0.064
Consultancy (support)	3.543	0.617
Software selection	3.023	0.696
Focus on business process change	4.456	0.486
Project management (problem identification)	17.673	0.003

Implementation approach	1.774	0.879
Communication	5.251	0.386
Training	15.441	0.009

The fourth hypothesis was regarding the relationships between the levels of training and success of implementation. For Madar implementation, it was found that it depends on adequate benchmarking ( $P=0.046<\alpha=0.05$ ), identification of problems related to implementation ( $P=0.003<\alpha=0.05$ ), and adequate training ( $P=0.009<\alpha=0.05$ ). The study thus found no significant relationships among some of the following factors and successful implementation of Madar at KSU as respondents did not agree with a few variables, including pre-implementation evaluation  $P=0.137$ , changes on project vision/scope ( $P=0.558$ ), lack of executive level commitment ( $P=0.302$ ), for no assessment of the implementation ( $P=0.946$ ), lack of consultancy provided ( $P=0.617$ ), change of management ( $P=0.486$ ), problems related to project management ( $P=0.879$ ), and for poor communication ( $P=0.386$ ). There were no major problems reported with the progress/implementation of ERP in KSU. The users did complain about a lack of adequate training. Users also reported that they received very little consultancy and are facing poor communication from the top management. During the interview it is noted that users were affected by network problems. Only a few users/respondents separated the network problem from the Madar system implementation. Now the users are hopeful that things are getting better with the passage of time. One of the respondents acknowledged during the interview that there were problems in the old system, but they were familiar with them and they hope that this new system (Madar) will bring relief and will eliminate the limitations of the old system that have not yet been met.

b) *Interview results*

Interviews were conducted with six individuals, all of whom are responsible for implementing Madar in their respective divisions. The main focus was to learn more about three focus areas: Implementation of Madar, top Management commitment, and users' satisfaction. Interview respondents showed that Madar is almost 85% implemented and the Madar project Vision is Paperless organization. Objectives include Control, Time saving, Computerized systematic activities, Unification, and connecting eight departments in KSU. Respondents consider Madar as a strategic tool and are clear with the vision, rather than considering it as mere software tool. It is noted that users were trained for successful implementation but still need further consultation with the project management team.

It is noted that top management is fully committed in the implementation process. The steering/supreme committee is monitoring and

supporting all the stakeholders in the project. Top management people are found to be personally involved and are fully committed and supportive, both financially and emotionally. Communication gap was found, for project progress is not communicated to the users.

Users are satisfied with the communication sources but are not informed timely as to the overall implementation processes. It is noted that all the recommendations given by the users are accepted if they are valued. Being a public organization with government rules and regulations, it is found that changes in processes and people are minor or modifications only. Resistance to change to a certain extent was also observed. Respondents were of the opinion that Madar is performing its functions well but not up to expectation. Madar integration with other software such as archive, academic, e-register, and inventory control is encountering some obstacles. That is, first, priorities are different for academic and Madar and, secondly, old data is not clean and in order and, thirdly, each department has technically standalone systems and now there is a problem integrating them. The respondents from the project team and top management are almost happy, but they think that there are some problems from the part of the company. The major ones are delayed response for problem solving, poor communication, and accessibility to the system, especially in purchases. Contract is also an issue, as Software Company claims additional funds whenever called upon to solve problems in any department. Other problems include System breakdown, system hang-up for unknown reasons, and deficiency of specialized people, integration and availability of fit applications solutions.

## VII. RECOMMENDATIONS

1. Training should be problem-solving oriented. There is a need for more technical people who know the technicality of the implementation.
2. System should be simplified for it is stepwise so, if an error occurs on one step, then all the steps have to be repeated.
3. There should be easy accessibility to the system as now it takes longer for purchases to be fulfilled, that is, quotation first, go to the project management, then to company, then, once company approves, purchases can be made.
4. Barcodes system should be implemented in warehouse and, for effective control, there should be scanners to trace items so that no one can misuse or steal an item from warehouse.
5. There should be a good mechanism to coordinate with the company, and there should be better communication at all levels in the Madar.
6. Training should be effective and, if possible, refresher training programs should be conducted for the users throughout the year.

7. The resistance of employees can be minimized by providing a user-friendly environment, motivation techniques and enhanced training.

## VIII. CONCLUSION

The main objective of Madar implementation in KSU is a paperless organization with effective control, Time saving, Computerized systematic activities, Unification and connection of eight departments. This study focuses on the status of Madar implementation from users' perspective. Because the users are the best judges of any system, they are the best source of information as to whether a system is successful or a failure.

As the study uses questionnaires and interviews to get the results, all the critical success factors were asked, and the results are shown in the tables. The result shows that all the factors are met, apart from effective training, change management and proper communication. Change management, that is, changes in process and people, are rare in KSU because KSU is a government organization with government rules and regulations. Users were trained, but not effectively nor in problem solving. Communication is not a big issue in KSU but, for motivation, users must be kept informed about the progress of Madar. Furthermore, Madar is implemented only in the administrative side by 85%. To judge the results of Madar in KSU effectively, it must be extended to the academic side as well.

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GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH  
Volume 12 Issue 5 Version 1.0 March 2012  
Type: Double Blind Peer Reviewed International Research Journal  
Publisher: Global Journals Inc. (USA)  
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

# Dividend Policy and Share Price Volatility: Evidence from Pakistan

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**Abstract** - The main purpose of this study is to examine the relationship between dividend policy and share price volatility in Pakistani stock market. The cross sectional regression is used to analyze the relationship of share price with dividend yield and payout ratio. The dividend yield and share prices are positively relate but payout ratio is negatively related. This study suggest that dividend policy is effect the share price volatility in Pakistan and this study also proposed that signaling effect is also relevant in determining the share price volatility.

**GJMBR-B Classification** : FOR Code: 150202 JEL Code:G11, G32, E22, E22, E44



*Strictly as per the compliance and regulations of:*



# Dividend Policy and Share Price Volatility: Evidence from Pakistan

Yasir Habib<sup>a</sup>, Zernigah Irshad Kiani<sup>σ</sup> & Muhammad Arif Khan<sup>ρ</sup>

**Abstract** - The main purpose of this study is to examine the relationship between dividend policy and share price volatility in Pakistani stock market. The cross sectional regression is used to analyze the relationship of share price with dividend yield and payout ratio. The dividend yield and share prices are positively relate but payout ratio is negatively related. This study suggest that dividend policy is effect the share price volatility in Pakistan and this study also proposed that signaling effect is also relevant in determining the share price volatility.

## I. INTRODUCTION

Dividend policy remains controversial issue for many years of theoretical and empirical research, considering the one aspect of dividend policy: the link between dividend policy and stock price risk (Allen and Rachim, 1996) and dividend policy is puzzle (Black, 1976). Dividends are irrelevant to a market value of firm in a perfect capital (Miller & Modigliani 1961) and dividend policy is relevant by DeAngelo et al. (1996). Payment of large dividends reduces risk and influence on stock price (Gordon, 1963) and is a roadmap for the future earnings (Baskin, 1989). The connection between dividend payout and directorship outside the organization is negative (Al-Najjar, 2009).

Rozeff (1982) and Easterbrook (1984) assumed that payment of dividends motivates the managers to invest at high cost of capital not below and save organizational efficiencies. Some authors have stressed the importance of information content of dividend (Asquith and Mullin, 1983). Guo (2002) assumed that the investors who make the investment in ordinary shares face the un-diversifiable risk.

Kinder (2002) argue that the volatility of stock prices is dealing with money and investor is interested to know about volatility or risk. To test the significance of the relationship between dividend yield and price volatility using the control variables like size, debt, earning volatility, payout ratio and growth. These variables have a clear and strong effect on stock returns but also influence on dividend yield. For measuring the relationship between dividend policy and share price

volatility, cross sectional regression analysis is used. The independent variables are dividend yield and payout ratio are regressed with cross sectional regression analysis.

The argument has been whether business results insurance plan has any connection with share price movement. In this context, this research paper is aimed to draw and establish a relationship between dividend policy and share price volatility, with focused on Pakistani stock market i.e. KSE 100 index. The theoretical framework of this research about price volatility is created by Baskin (1989) and Allen and Rachim (1996). The main purpose of this study is to find the role of dividend policy measures i.e. dividend yield and payout ratio on share price changes in the long run which are important for firms as well as investors.

## II. LITERATURE REVIEW

Dividend Policy referred to a firm's policy and corporation's choice with regards to pay its shareholders a cash dividend or to retain the portion of earnings for re-investment in the firm.

### a) Dividend policy and share price volatility

While the MM idea claims that the people are shy of receiving results and cost gratitude, the stock cost is not independent of the results announcement. Due to details information and signalling effect, outcomes may affect the come rear and expose prices (Lintner, 1962; Gordon, 1959; Williams 1988 ; Asquith and Mullins, 1983. The results statement provides information about the flow of resources and allows the market place to calculate the organization's present earnings (Miller and Rock, 1985). Due to reduced value of results the stock options price may even go over industry place value, which is known as the undervaluation that you can buy or overstatement of investor's assessment (Downs, 1991).

From the above discussion some questions raised:

- Should results repayments be managed at the present stage or changed?
- Would people prefer constant results affiliate payouts, or those that range with earnings?
- Should results insurance plan give preference to older or newer investors?

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The connection between the results dividend policy of organizations and the movements of their stock options values has been visited at different times by different researchers (Allen and Rachim, 1996; Baskin, 1989). Some theories like information or signaling effect, the bird hand theory, clientele effect etc are used to explain the relationship of dividend policy and share price.

#### b) Theories of dividend policy

Dividend policy has been a most debate-able subject in the area of finance and numerous studies on dividend policy has been conducted by many renowned researchers like, Lintner (1956); Miller and Modigliani (1961); Bhattacharya (1979) and more recently, DeAngelo et al. (1996), Fama and French (2001), Al-Malkawi (2007) and Al-Najjar and Hussainey (2009). Some dividend policy theories are given below.

**Dividend irrelevance theory :** Miller and Modigliani (1961) argued that dividend policy has no effect on stock price and cost of capital, therefore, dividend policy is irrelevant. MM argued that business risk and basic income (from assets) are the main source of determination of value of firm. The main assumptions of this theory are:

- no taxes or transactional cost (brokerage cost)
- investors are rational
- managers act as the best agents of shareholders
- Investment policy of the firm should be certain

In conclusion from the above assumptions that dividend policy is irrelevant.

**Bird-in-hand theory :** Gordon (1959) and Linter (1962) proposed that investors value of expected dividends more high than expected capital gains. Al-Malkawi (2007) finds that benefits are sought after differently from managed (retained) earnings (capital gains). While this argument has been widely criticized by Miller and Modigliani (1961) and has not received strong empirical support, it has been supported by Gordon and Shapiro (1956), Linter (1962) and Walter (1963). The main assumptions are:

- investors have deficient (imperfect) information about the profitability of a firm;
- that capital gain is realized on the sale of a share; and
- Dividends as a signal of expected cash flows.

**Agency cost and the free cash flow theory :** Agency cost is the price of the issue of attention that prevails between investors and management (Ross et al., 2003). Miller and Modigliani (1961) assumed that no conflict between managers and shareholders and managers are the best agents of shareholders. Easterbrook (1984) also identified that agency cost does not explain yield predictions about how bond prices react to dividends.

**Signalling hypothesis :** Miller and Modigliani (1961) assumed that investors and managers have

perfect information about firm's expected earnings and dividends. Al-Malkawi (2007) asserts that to minimize the gap of information between managers and investors then dividend policy used as a tool.

**Clientele effects of dividends theories :** Clientele effect has two effects as tax effect and transaction effect (Al-Malkawi 2007). He argued that in high tax effect firm would prefer pay low or no dividend. Transaction cost effect operates in two ways, first is that small investors depend on dividend payments and in second clientele effect companies prefers cannot afford the high transaction cost of selling securities.

**Tax preference theory:** Tax preference theory has three tax related reasons for thinking

- ❖ Long term capital gains for tax
- ❖ In case of un- sold stock, capital gains should not be considered for taxation
- ❖ In case of held stock, capital gains should not be considered for taxation

### III. METHODOLOGY

The dividend policy and share price volatility relationship has been analyzed by utilizing the cross sectional regression analysis. In regression analysis, the dependent variable share price volatility is regressed against two independent variables dividend yields and payout ratio. The following regression equation is adopted to develop a relationship between share price volatility and dividend policy.

$$\text{Price Volatility} = a_1 + a_2 \text{Div-yield} + a_3 \text{Payout} + e_k$$

The number of factors influences the relationship of share price volatility and dividend policy. Therefore, to control (limit) these problems, the control variables are included in regression equation. The equation is given below:

$$\text{Price Volatility} = a_1 + a_2 \text{Div-yield} + a_3 \text{Payout} + a_4 \text{Size} + a_5 \text{Earn-Vol} + a_6 \text{Debt} + a_7 \text{Growth} + e_k$$

From expectation results, assumed that dividend yield, payout ratio and size put negative impact on share price volatility but earnings volatility and debt put positive impact on share price volatility. Baskin (1989) assumed that industry pattern also influence on the relationship of share price and dividend policy, so therefore some dummy variables are included in regression equation.

$$\text{Price Volatility} = a_1 + a_2 \text{Div-yield} + a_3 \text{Payout} + a_4 \text{Size} + a_5 \text{Earn-Vol} + a_6 \text{Debt} + a_7 \text{Growth} + a_8 \text{Dum} + e_k$$

Here,  $a$  is equation intercept and  $e$  standard error term.

#### a) Definition of variables

**Price volatility:** Price volatility is a dependent variable. For calculation of price volatility, each year share price is taken from DataStream. The range of

share prices for each year calculated and then takes average of highest and lowest share prices. For price volatility, range is divided by average and then raised the second power.

**Dividend yield:** The dividend yield is calculated as dividend per share is divided by share price for each year.

**Payout ratio:** The payout ratio is calculated as dividend per share is divided by earning per share.

**Size:** Total assets are used as proxy for size

**Earning volatility:** For earning volatility calculation taking the standard deviation of earnings before interest and taxes or operating profit (Dichev and Tang 2009).

**Long-term debt (Debt):** Debt is the ratio of total debt to total assets for each year and then takes average for all available years.

**Growth in assets (Growth):** The figures of Growth in assets are obtained by taking the ratio of changes in total assets from the beginning of year to end of year.

#### IV. RESULTS AND DISCUSSION

From table (1), the descriptive statistical analysis provides the values of mean, median, minimum and maximum, and standard deviation of non-financial firms listed in Karachi Stock Exchange 100 index. For meeting the normality of data, it is assumed that stock market prices are following the normal distribution patterns. For measuring the mean volatility, multiplying the normal distribution estimation with a constant which is provided by Parkinson (1980).

*Table 1 : Descriptive Statistical Analysis*

Variables	Mean	Median	Minimum	Maximum	Standard Deviation
Price Volatility	0.813	0.415	0.000	8.013	1.155
Dividend Yield	0.236	0.044	0.000	6.254	0.705
Earning Volatility	0.046	0.035	0.011	0.495	0.055
Debt	0.225	0.111	0.000	3.047	0.346
Growth	0.066	0.051	-0.285	0.866	0.123
Payout ratio	0.452	0.453	0.000	1.000	0.321
Size	4.666	4.236	0.561	9.441	2.032

From Table II, regression analysis results showed relationship between share price volatility with dividend yield and payout ratio which are regressed. The regression results showed that relationship of share volatility with dividend yield is positive but relationship of share price volatility with payout ratio is negative. The relationship of share price volatility with other control

variables like size, earning volatility is negative but long term debt and growth relate with share price positively. From the regression results, the relationship between dividend and share price volatility is non-significantly positive. This study results is matched with earlier study conducted by Allen and Rachim (1996) and contradicts with Baskin (1989) study.

*Table 2 : Regression Results*

Variables	Coefficients	Beta	t-statistic value	t-probability
Constant	1.713**	0.000	3.889	0.000
Dividend Yield	0.063	0.039	0.283	0.693
Earning Volatility	-0.296	-0.013	-0.0129	0.899
Debt	0.225	0.071	0.810	0.440
Growth	1.366	0.651	1.585	0.136
Payout ratio	-0.452*	-0.175	-1.889	0.079
Size	-0.152*	-0.239	-1.850	0.063

\*\* 1% significance level

\* 5% significance level

From table III, there is a positive relationship between dividend policy and stock price volatility but this relationship is not significant. These results are more matches with Allen and Rachim (1989) study results. The Pearson's correlation suggests that payout and

share price volatility correlate negatively with each other. The correlation between debt and payout is significantly negative due to less payment of debt. The payout ratio and growth correlate significantly negatively because firms have larger payout ratio.

Table 3 : Correlation Analysis

	Price Vol.	Div.Yield	Pay out	Debt	Size	Growth
Div. Yield	-0.093					
Earn. Vol	0.087	0.055				
Payout	-0.320*	0.133	0.232**			
Debt	0.053	-0.076	-0.251**	-0.026*		
Size	-0.238	-0.257**	-0.125*	0.273*	-0.330**	
Growth	0.047	-0.128*	-0.115*	-0.178*	-0.323*	0.374**

\*\* 1% significance level

\* 5% significance level

From table III, there is a negative relationship between share price volatility and dividend yield because correlation between them is negative (-0.093). The correlation between share price volatility and payout ratio is significantly negative because lower payout ratio influences the share price negatively. The correlation between earning volatility and payout ratio is significant negative due to the less payment by firms. The correlation between long term debt and payout ratio is significant negative due to the less repayment of debt. The relationship between dividend yield and size is significantly positive because larger firms pay larger amount in shape of dividends. The table III shows the positive correlation between payout ratio and growth because which firms have higher growth in assets make the higher payout ratio.

## V. CONCLUSION

The main objective of this study is to examine the relationship between dividend policy and share price volatility in Pakistan. For this purpose some controlling variables like dividend policy, payout ratio, size, debt and growth are used. The cross sectional regression analysis is used to measure the share price with these controlling variables. The findings of this study are that payout ratio and price volatility is significantly positively related. The size and debt are negatively related with share price volatility. If the findings of this study relates with other earlier studies somehow different that studies because corporate structure of firms in Pakistan is different with other developed countries. This study proposed that dividend yield is better and more important determinant factor in determining share price volatility in KSE 100 index rather than payout ratio.

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GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH  
Volume 12 Issue 5 Version 1.0 March 2012  
Type: Double Blind Peer Reviewed International Research Journal  
Publisher: Global Journals Inc. (USA)  
Online ISSN: 2249-4588 & Print ISSN: 0975-5853

# Expensed Human Resources Cost and Its Influence on Corporate Productivity: A Study of Selected Companies in Nigeria

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**Abstract** - This study examined the influence of Expensed Human Resources Cost (HRC) on corporate productivity. Human resources have been identified as one of the main sources of competitive advantage by many organizations in today's economy. This is true not only of knowledge intensive organizations, which are based on services and Intangible outputs, but also increasingly of more traditional organizations, both in the private and public sectors. However, human resources are still not recognized in the reporting mechanisms, despite an interest dating back to the 1960s in techniques such as human resource accounting (HRA). In order to investigate the above issues, the researcher gathered data from ten (10) companies listed in the Nigeria Stock Exchange (NSE) with the aid of a questionnaire using an ex post facto design. The study revealed that expensed human resources (remuneration, protection and dismissal/compensation) costs are important determinants of expensed human resources cost and does significantly influence corporate productivity.

**Keywords** : Human resource costing, human capital, Expensed Human Resources Cost.

**GJMBR-A Classification** : FOR Code: 150305, 150312 JEL Code: O15, D61, M12



*Strictly as per the compliance and regulations of:*



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Bassey, Bassey Eyo<sup>a</sup> & Tapang, Arzizeh Tiesieh<sup>c</sup>

**Abstract** - This study examined the influence of Expensed Human Resources Cost (HRC) on corporate productivity. Human resources have been identified as one of the main sources of competitive advantage by many organizations in today's economy. This is true not only of knowledge intensive organizations, which are based on services and Intangible outputs, but also increasingly of more traditional organizations, both in the private and public sectors. However, human resources are still not recognized in the reporting mechanisms, despite an interest dating back to the 1960s in techniques such as human resource accounting (HRA). In order to investigate the above issues, the researcher gathered data from ten (10) companies listed in the Nigeria Stock Exchange (NSE) with the aid of a questionnaire using an ex-post facto design. The study revealed that expensed human resources (remuneration, protection and dismissal/compensation) costs are important determinants of expensed human resources cost and does significantly influence corporate productivity. Conclusively, expensed human resources cost approach to corporate productivity measurement which have gained substantial attention and use in recent years provides further opportunities for utilization of human resource accounting measures. Finally, the study recommended that employment security should be seen as an important part of high performance HRM practices. Companies that provide their employees with job security signal a long-standing commitment to their workforce, whom in turn is more motivated to develop special skills and competencies that are valued by their company. Employees who perceive that their jobs are secure are also more likely to suggest productivity improvements and to take a more comprehensive and long-term view of their jobs and the company's productivity.

**Keywords** : Human resource costing, human capital, Expensed Human Resources Cost.

## 1. INTRODUCTION

The economic environment has shifted from industry based with a focus on physical assets such as factory, machines and equipment to a high technology, information, innovation based environment with a focus on the expertise, talents, creativity, skills and experience of people – the company's human capital. However, despite the human

capital intensive economy, traditional accounting continues to focus on traditional assets to the exclusion of the more important human assets. Current financial accounting treats human resource-related costs as expenses which reduce profit on the income statement, rather than as assets on the balance sheet which provide future benefits. As noted in Flamholtz (2002), given the growing importance of human capital and intellectual capital to economic success at both the macroeconomic and corporation levels, the nature of performance made by corporations needs to shift to reflect this reality. The recognition that corporations actually do have valuable human assets in their human capital led in the 1960s to the development of the field of Human Resource Accounting.

Certainly, many organizations have voiced the idea that their human resources differentiate them from their competitors. Particularly, the private sectors organization is widely diverse as has focused on human resources as having special strategic value for organization development. Some ways that human resources become a core competency in an organization is its ability to increase productivity and performed credibly for organization development in amidst of several competitors. The organization unique efforts to attracting and retaining employees with unique professional and technical capabilities, investing in training and development of those employees and compensating employed in ways that retain and keep employees competitive with their counterparts in other organizations.

For many organizations talented employees are the cornerstone of a competitive advantage. If the organization competes based on new ideas, outstanding customer service, or quick accurate decisions, having excellent employee is critical of course, not every organization must compete on the base of having the best employees, but even for those that do not, employees are major source of performance, problem, growth, resistance and lawsuits. Therefore, designing systems to effectively manage people with their needs, expectations, quirks, legal rights motivation and high potential is a challenge to every organization. Consequently, the increases in organization productivity and performance depend on the human resources development and management.

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The following null research hypotheses are formulated to authenticate the objectives of the study.

1.  $H_0$ : Human resources remuneration cost does not have a significant influence on corporate productivity.
2.  $H_0$ : Human resources protection cost does not have a significant influence on corporate productivity.
3.  $H_0$ : Human resources dismissal/compensation cost does not have a significant influence on corporate productivity.

## II. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The belief that individual employee performance has implications for firm-level outcomes has been prevalent among academics and practitioners for many years. Interest in this area has recently intensified; however, as scholars have begun to argue that collectively, a firm's employees can also provide a unique source of competitive advantage that is difficult for its competitors to replicate. For example, Wright and McMahan (1992), drawing on Barneys (1991) resource-based theory of the firm, contended that human resources can provide a source of sustained competitive advantage when four basic requirements are met. First, they must add value to the firm's production processes; levels of individual performance must matter. Second, the skills the firm seeks must be rare. Since human performance is normally distributed, Wright and McMahan (1992) noted, all human resources meet both of these criteria. The third criterion is that the combined human capital investments a firm's employees represent cannot be easily imitated. Although human resources are not subject to the same degree of limitability as equipment or facilities, investments in firm-specific human capital can further decrease the probability of such imitation by qualitatively differentiating a firm's employees from those of its competitors. Finally, a firm's human resources must not be subject to replacement by technological advances or other substitutes if they are to provide a source of sustainable competitive advantage. Although labor-saving technologies may limit the returns for some forms of investment in human capital, the continuing shift toward a service economy and the already high levels of automation in many industries make such forms of substitution increasingly less probable.

Wright and McMahan's (1992) work points to the importance of human resources in the creation of firm-specific competitive advantage. At issue, then, is whether, or how, firms can capitalize on this potential source of profitability. Bailey (1993) contended that human resources are frequently "underutilized" because employees often perform below their maximum potential and that organizational efforts to elicit discretionary effort from employees are likely to provide returns in excess of

any relevant costs. He argued that Human Resource Management (HRM) practices can affect such discretionary effort through their influence over employee skills and motivation and through organizational structures that provide employees with the ability to control how their roles are performed.

Human resource management practices influence employee's skills through the acquisition and development of a firm's human capital. Recruiting procedures that provide a large pool of qualified applicants, paired with a reliable and valid selection regimen, will have a substantial influence over the quality and type skills new employees possess. Providing formal and informal training experiences, such as basic skills training, on-the-job experience, coaching, mentoring, and management development, can further influence employees' development.

The effectiveness of even highly skilled employees will be limited if they are not motivated to perform. However, and HRM practices can affect employee motivation by encouraging them to work both harder and smarter. Examples of firm efforts to direct and motivate employee behaviour include the use of performance appraisals that assess individual or work group performance, linking these appraisals tightly with incentive compensation systems, the use of internal promotion systems that focus on employee merit, and other forms of incentives intended to align the interests of employees with those of shareholders (e.g. profit-and gain-sharing plans).

Finally, Bailey (1993) noted that the contribution of even a highly skilled and motivated workforce will be limited if jobs are structured, or programmed, in such a way that employees, who presumably know their work better than anyone else, do not have the opportunity to use their skills and abilities to design new and better ways of performing their roles. Thus, HRM practices can also influence firm performance through provision of organizational structures that encourage participation among employees and allow them to improve how their jobs are performed. Cross-functional teams, job rotation, and quality circles are all examples of such structures.

Thus, the theoretical literature clearly suggests that the behaviour of employees within firms has important implications for organizational performance and that human resource management practices can affect individual employee performance through their influence over employees' skills and motivation and through organizational structures that allow employees to improve how their jobs are performed. If this is so, a firm's HRM practices should be related to at least two dimensions of its performance. First, if superior HRM practices increase employees' discretionary effort, we would expect their use to directly affect intermediate outcomes, such as productivity over which employees have direct control. Second, if the returns from

investments in superior HRM practices exceed their true costs, then lower employee turnover and greater productivity should in turn enhance corporate financial performance. Therefore, in anticipation of an estimation model that focuses on these dependent variables, our review of the empirical literature concentrates on prior work examining the influence of human resources cost (HRC) on corporate productivity.

Theoretical perspectives based in sociology, economics, management, and psychology focus on different aspects of the domain of human resource management in context (Wright & McMahan, 1992). We begin by offering brief summaries of the perspectives that have guided most of the empirical studies reviewed in this study and that we feel are most likely to drive future research.

#### *a) Transaction cost theory*

This theory assumes that business enterprises choose governance structures that economize transaction costs association with establishing, monitoring, evaluating, and enforcing agreed upon exchanges (Williamson, 1979 and 1981). Predictions about the nature of the governance structure an enterprise will use incorporate two behavioural assumptions: bounded rationality and opportunism (i.e. the seeking of self-interest with guile). These assumptions mean that the central problem to be solved by organizations is how to design governance structures that take advantage of bonded rationality while safeguarding against opportunism. To solve this problem, implicit and explicit contracts are established, monitored, enforced, and revised. The theory has direct implications for understanding how HRM practices are used to achieve a governance structure for managing the myriad implicit and explicit contracts between employers and employees (Wright & McMahan, 1992). For example, organizations that require firm specific knowledge and skills are predicted to create internal labour markets that bind self-interested and bounded rational employees to the organization, while organizations that do not require these skills can gain efficiencies by competing for self-interested and bounded rational talent in an external labour market (Williamson, 1981). Contextual factors, in turn, partly determine whether the types and amounts of skills and knowledge a firm needs are likely to be available in the external labour market, the costs of acquiring them from the external market, the organization's capability for developing them internally, and the costs of doing so.

#### *b) Resource-based theory*

The resources based theory of the firm blends concepts from organizational economics and strategic management (Barney, 1991). A fundamental assumption of this view is that organizations can be successful if the gain and maintain competitive advantage (Porter, 1985). Competitive advantage is

gained by implementing a value-creating strategy that competitors cannot easily copy and sustain (Barney, 1991) and for which there are no ready substitutes. For competitive advantage to be gained, two conditions are needed: First, the resources available to competing firms must be variable among competitors, and second, these resources must be immobile (i.e. not easily obtained). Three types of resources associated with organizations are:

- Physical (plant; technology and equipment; geographical location);
- Human (employees' experience and knowledge); and
- Organizational (structure; systems for planning, monitoring, and controlling activities; social relations within the organization and between the organization and external constituencies).

Human resource management greatly influences an organization's human and organizational resources and so can be used to gain competitive advantage (Schuler & Macmillan, 1984). Presumably, the extent to which human resource management can be used to gain competitive advantage, and the means of doing so, are partly determined by the environments in which organizations operate (Wright et al., 1994). For example, in some industries, technologies can substitute for human resources, whereas in others the human element is fundamental to the business to illustrate contrast labour intensive and knowledge-intensive industries. The latter context may be more conducive to the use of human resource management as a means to gain competitive advantage.

#### *c) Human capital theory*

In the economics literature, human capital refers to the productive capabilities of people (Becker, 1964). Skills, experience, and knowledge have economic value to organizations because they enable it to be productive and adaptable; thus people constitute the organization's human capital. Like other assets, human capital has value in the market place, but unlike other assets, the potential value of human capital can be fully realized only with the co-operation of the person. Therefore, all costs related to eliciting productive behaviours from employees including those related to motivating, monitoring, and retaining them-constitute human capital investments made in anticipation of future returns (Flamholtz & Lacey, 1981). Organizations can use human resource management in a variety of ways to increase their human capital (Cascio, 1991; Flamholtz & Lacey, 1981). For example, they can "buy" human capital in the market (e.g. by offering extensive training and development opportunities). Investments of either type have associated costs, which are justifiable only to the extent the organization is able to productively utilize the accumulated capital (Tsang et al., 1991). In human capital theory, contextual factors such as market



conditions, unions, business strategies, and technology are important because they can affect the value of the organization's human capital and the value of the anticipated returns, such as productivity gains (e.g. Boudreau & Berger, 1985; Russell et al., 1993).

#### d) *Role behaviour theory*

This theory propounded by Katz & Kahn (1978), focused on roles as the interdependent components that make up an organization system. Instead of using specific behaviours and job performances as the fundamental components, this perspective shifts the focus from individuals to social systems characterized by multiple roles, multiple role senders, and multiple role evaluators. Katz & Kahn, (1978) defined role behaviors as "the recurring actions of an individual, appropriately interrelated with the repetitive activities of others so as to yield a predictable outcome." Human resource management is the organization's primary means for sending role information through the organization, supporting desired behaviours and evaluating role performances; it is effective, therefore, when it communicates internally consistent expectations and evaluates performances in ways that are congruent with the system's behavioural requirements (Frederickson, 1986). System requirements are, in turn, presumed to depend on contextual factors such as business strategies and the nature of the industry. Role theory recognizes that the behavioural expectations of all role partners can influence the behaviour of organizational members. By implication, effective HRM helps employees meet the expectations of role partners within the organization (i.e. supervisors, peers subordinates), at organizational boundaries (i.e. customers and clients), and beyond (i.e. family and society). Thus the expectations of these role partners must be incorporated into an understanding of human resource management in context.

#### e) *General system theory*

This theory is propounded by Von-Bertalanffy in 1950. In general, system theory unit of analysis is understood as a complex of interdependent parts. An open versus closed system is dependent on the environment for inputs which are transformed throughout to produce outputs that are exchanged in the environment. Open systems models seldom address organizations or large units within organization. According to Katz & Kahn's (1978), the social psychology of organizations is an exception in that it treats human resource management has been developed further by Wright & Snell (1991), who used it to described a competent management model of organizations. Skills and abilities are treated as inputs from the environment; employee behaviours are treated as throughout; and employee satisfaction and performance are treated as outputs. In this model, the HRM subsystem functions to acquire, utilize, retain, and

displace competencies. Similarly, Snell's (1992), description of human resource management as a control system is based in open systems theory. In a more narrow discussion Kozlowski and Salas (1994), presented a multilevel organizational systems approach for understanding training implementation and transfer.

### III. RESEARCH METHODOLOGY

An analytical ex-post facto approach is used. Secondary information has been obtained from specialized studies and scientific sources, while primary information was generated through a questionnaire.

The studied population consists of 10 companies listed in the Nigerian Stock Exchange (NSE). Copies of the questionnaires were distributed to all companies.

On the basis of previous studies, the questionnaire was designed in two parts: Section "A" contained items seeking information on the demographic characteristics of respondents such as sex, age, and level of education of respondents. Section "B" contained items seeking further information to measure the major variables of the study (acquisition cost, development cost, and corporate productivity).

In section "B", a Likert quintuple measurement was used to show the opinions of the study sample members on the questionnaire items. In order to find the arithmetic means of the opinions of sample members, weights were designated in agreement with the significance of each paragraph of the questionnaire, where the weight (5) was designated to the case of "strongly agree," (4) to the case of "agree," (3) to the neutral case (average), (2) to "disagree," and (1) to "strongly disagree." The items here were positively and negatively worded.

#### a) *Validation and reliability of the instrument*

The content and face validity of the instrument (HRCPAS) of the study was established by the researcher. The instrument was presented to two experts in quantitative analysis in Faculty of Management Sciences, University of Calabar, to ascertain whether or not the items on the instrument were related to the hypotheses which were required to test. The feedback from the experts showed that the items on the instrument were adequate in generating data required to test the hypotheses. Finally, they were presented to the project supervisor who vetted the instruments and removed irrelevant items, introduced new ones and approved them for administration.

To establish the reliability of the instrument the researcher carried out a trial testing using 60 respondents randomly selected from two companies, but which was not part of the sampled clusters of the study. This was done by randomly selecting 30 respondents from each company. The instrument (questionnaire) was administered to these respondents



to fill and the questionnaire was retrieved and prepared by scoring/coding; and the codes of the items split into two halves of even and odd number items. The two halves were then subjected to reliability analysis of the split-half method, using Pearson Product Moment Correlation analytical procedure.

The analysis produced correlation coefficients ( $r_{xy}$ ) ranging from 0.58 to 0.89. These coefficients were then converted to reliability estimates ( $r_{tt}$ ) using the spearman Brown prophecy formula as ascertain by Denga and Ali (1994).

*Table 3.1:* The Split Estimate or Reliability of Measure of Research Variables. (N = 60)

Variables	No. of Items	Testing	X	SD	$R_{xy}$	$R_{tt}$
Corporate Productivity	3	1 <sup>st</sup> Half	6.15	1.42	0.58	0.70
	3	2 <sup>nd</sup> Half	6.21	1.30		
Dismissal/compensation cost	3	1 <sup>st</sup> Half	5.79	1.41	0.62	0.75
	3	2 <sup>nd</sup> Half	6.12	1.20		
Remuneration cost	3	1 <sup>st</sup> Half	7.93	1.22	0.89	0.94
	3	2 <sup>nd</sup> Half	6.38	2.02		
Protection cost	3	1 <sup>st</sup> Half	7.79	1.63	0.69	0.81
	3	2 <sup>nd</sup> Half	6.36	1.57		

Source: Researcher's estimation, 2010

#### b) Model specification

The economic model used in the study (which was in line with what is mostly found in the literature) is a multiple regression model given as:

$$CP = f(HRRC, HRPC, HRDCC)$$

The statistical model becomes:

$$CP = B_0 + B_1HRRC + B_2HRPC + B_3HRDCC + u$$

Where;

CP = Corporate Productivity  
 HR = Human Resources Remuneration Cost  
 HRPC = Human Resources Protection Cost  
 HRDCC = Human Resources Dismissal/Compensation Cost  
 $B_0$  = Unknown constant to be estimated  
 $B_1$  &  $B_2$  = Unknown coefficients to be estimated  
 $u$  = Stochastic error term  
 $B_0, B_1, B_2 \geq 0$

Expected  
Sign

+  
+  
+  
+

## IV. DATA ANALYSIS

*Table 1:* Regression results of the relationship between expensed human resources cost and corporate productivity  
Dependent variable : PROD

Variable	Estimated Standard			
Coefficient	Error	T-Statistic	P-Value	
C	12.337	.845	14.607	.000
HRDCC	.406	.012	3.417	.001
HRRC	.109	.028	3.850	.000
HRPC	.372	.031	11.856	.000

Table 1 shows the summary of the regression results of the influence of human resources expensed cost (HRDCC, HRRC and HRPC) on corporate productivity. From the result, it could be found that all the independent variables are significant in the model.

The explanatory power of the model as informed by the adjusted R-square is 0.949 or 95%, and is statistically significant given the high value of the F-statistic (i.e. 82.734). The DW value is 2.088, which indicates that there exist no autocorrelation.

The model demonstrates a good fit given that about 95% of the variations in the dependent variable (PROD) are jointly explained by changes in the observed behaviour of HRDCC, HRRC and HRPC. The relatively high adjusted R-square value of 0.907 (90.7%), shows that the model fits the data well. About 5% variations in PROD can be explained by other unknown variables not captured in the present model. The high significant F-statistic value (2,997) of 82.734 confirms that the high adjusted R-square did not arise by chance [N/B:  $F_{0.01}(3,996) = 3.78$ ]. Therefore, the model is robust.

The test of significance shows that all the variables are significant when compared with the table value of 2.58 at 1% level, and then the three variables are statistically significant at 1% level. Specifically, a 1% increase or decrease in HRDCC, HRRC and HRPC would lead to an increase or decrease in corporate productivity with a margin of 0.37, 0.12 and 0.41 respectively.

The test for autocorrelation, the calculated DW is 2.088. From the table DW reading, one makes use of the following information:  $K=4$  variables,  $n=1000$  and at 5% level:  $du=1.771$ ,  $4-du=2.229$ ,  $dl=1.335$  and  $4-dl=2.665$ . By inspection, the DW value of 2.088 falls between  $du$  and  $4du$  region (i.e. 1.771 and 2.229 in this case); it therefore implies that there exists no degree of autocorrelation.

#### *a) Discussion of findings*

Our analysis and empirical results has shed some insight on expensed human resources cost and its influence on corporate productivity.

The result of this study has provided relatively strong support for the existence of a positive relationship between expensed human resources cost and the productivity of Nigerian organizations

The findings of hypothesis of this study indicates that there exist significant relationship between expensed human resources cost and performance of organizations. This finding is in order with the findings of Wan-xiang, (2001) who found out that expensed human resource cost when spend appropriately greatly motivate employees to perform beyond their expectation thereby increasing the productivity of the firm. In corroboration with the findings of this study is the finding of Yan-fen (2002) who found out that dismissal/compensation cost is a prime determinant of

organizational performance. According to him when employees are aware of the compensation plan such retirement benefit they are motivated to but their best as they are sure that they would be dully compensated at the end of the exercise.

This study also revealed that there exist a significant relationship between remuneration cost and performance of an organization. This finding is consistent with the findings of Shou-yi (2004) who found out that if a company does not pay its workers as recommended by Employee Welfare and International Accounting Standard, that company negatively motivates its employees and thus they are bound to perform below expectations.

The finding of this study also shows that there exists a significant relationship between protection (right defending) cost and employees performance in an organization. The finding of MFPRCC, (2006) is also in corroboration with the finding of this study. According to MFPRCC, (2006) most organizations failed today because they are unable to spelt out right defending cost in their annual report there scaring most employees from performing their duties diligently as they feel not protected.

## V. CONCLUSION AND RECOMMENDATIONS

Moreover, manager should recognize the critical importance of compensation and benefits since these represent significant costs for the organization and should therefore be carefully monitored and controlled. Compensation and benefits are also tangible indicators to the employees' value to the organization and should be fair and equitable.

Based on the findings, it is the opinion of the researcher to recommendation that employment security should be seen as an important part of high performance HRM practices. Companies that provide their employees with job security signal a long-standing commitment to their workforce, whom in turn is more motivated to develop special skills and competencies that are valued by their company. Employees who perceive that their jobs are secure are also more likely to suggest productivity improvements and to take a more comprehensive and long-term view of their jobs and the company's performance.

#### *a) Suggestions for further research*

In appraising this study's findings, the interested person is advised to keep in view that on the methodological constraint, this study basically made used of the ordinary least square (OLS) method. With its theoretical weaknesses, it is suggested that other sophisticated data treatment techniques such as co-integration, path analysis and error correction modeling (ECM) be use. The ECM will make the regression analysis free from any spuriously generated results.

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

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

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

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

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

**31. Adding unnecessary information:** Do not add unnecessary information, like, I have used MS Excel to draw graph. Do not add irrelevant and inappropriate material. These all will create superfluous. Foreign terminology and phrases are not apropos. One should NEVER take a broad view. Analogy in script is like feathers on a snake. Not at all use a large word when a very small one would be



sufficient. Use words properly, regardless of how others use them. Remove quotations. Puns are for kids, not grunt readers. Amplification is a billion times of inferior quality than sarcasm.

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**33. Report concluded results:** Use concluded results. From raw data, filter the results and then conclude your studies based on measurements and observations taken. Significant figures and appropriate number of decimal places should be used. Parenthetical remarks are prohibitive. Proofread carefully at final stage. In the end give outline to your arguments. Spot out perspectives of further study of this subject. Justify your conclusion by at the bottom of them with sufficient justifications and examples.

**34. After conclusion:** Once you have concluded your research, the next most important step is to present your findings. Presentation is extremely important as it is the definite medium through which your research is going to be in print to the rest of the crowd. Care should be taken to categorize your thoughts well and present them in a logical and neat manner. A good quality research paper format is essential because it serves to highlight your research paper and bring to light all necessary aspects in your research.

## INFORMAL GUIDELINES OF RESEARCH PAPER WRITING

### Key points to remember:

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

### Final Points:

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

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

Writing a research paper is not an easy job no matter how trouble-free the actual research or concept. Practice, excellent preparation, and controlled record keeping are the only means to make straightforward the progression.

### General style:

Specific editorial column necessities for compliance of a manuscript will always take over from directions in these general guidelines.

To make a paper clear

· Adhere to recommended page limits

Mistakes to evade

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



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

In every sections of your document

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

#### **Title Page:**

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

#### **Abstract:**

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

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

Write your summary when your paper is completed because how can you write the summary of anything which is not yet written? Wealth of terminology is very essential in abstract. Yet, use comprehensive sentences and do not let go readability for briefness. You can maintain it succinct by phrasing sentences so that they provide more than lone rationale. The author can at this moment go straight to



shortening the outcome. Sum up the study, with the subsequent elements in any summary. Try to maintain the initial two items to no more than one ruling each.

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

Approach:

- Single section, and succinct
- As a outline of job done, it is always written in past tense
- A conceptual should situate on its own, and not submit to any other part of the paper such as a form or table
- Center on shortening results - bound background information to a verdict or two, if completely necessary
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The **Introduction** should "introduce" the manuscript. The reviewer should be presented with sufficient background information to be capable to comprehend and calculate the purpose of your study without having to submit to other works. The basis for the study should be offered. Give most important references but shun difficult to make a comprehensive appraisal of the topic. In the introduction, describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will have no attention in your result. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here. Following approach can create a valuable beginning:

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

Approach:

- Use past tense except for when referring to recognized facts. After all, the manuscript will be submitted after the entire job is done.
- Sort out your thoughts; manufacture one key point with every section. If you make the four points listed above, you will need a least of four paragraphs.
- Present surroundings information only as desirable in order hold up a situation. The reviewer does not desire to read the whole thing you know about a topic.
- Shape the theory/purpose specifically - do not take a broad view.
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This part is supposed to be the easiest to carve if you have good skills. A sound written Procedures segment allows a capable scientist to replacement your results. Present precise information about your supplies. The suppliers and clarity of reagents can be helpful bits of information. Present methods in sequential order but linked methodologies can be grouped as a segment. Be concise when relating the protocols. Attempt for the least amount of information that would permit another capable scientist to spare your outcome but be cautious that vital information is integrated. The use of subheadings is suggested and ought to be synchronized with the results section. When a technique is used that has been well described in another object, mention the specific item describing a way but draw the basic



principle while stating the situation. The purpose is to text all particular resources and broad procedures, so that another person may use some or all of the methods in one more study or referee the scientific value of your work. It is not to be a step by step report of the whole thing you did, nor is a methods section a set of orders.

#### Materials:

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

#### Methods:

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

#### Approach:

- It is embarrassed or not possible to use vigorous voice when documenting methods with no using first person, which would focus the reviewer's interest on the researcher rather than the job. As a result when script up the methods most authors use third person passive voice.
- Use standard style in this and in every other part of the paper - avoid familiar lists, and use full sentences.

#### What to keep away from

- Resources and methods are not a set of information.
- Skip all descriptive information and surroundings - save it for the argument.
- Leave out information that is immaterial to a third party.

#### Results:

The principle of a results segment is to present and demonstrate your conclusion. Create this part a entirely objective details of the outcome, and save all understanding for the discussion.

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

#### Content

- Sum up your conclusion in text and demonstrate them, if suitable, with figures and tables.
- In manuscript, explain each of your consequences, point the reader to remarks that are most appropriate.
- Present a background, such as by describing the question that was addressed by creation an exacting study.
- Explain results of control experiments and comprise remarks that are not accessible in a prescribed figure or table, if appropriate.
- Examine your data, then prepare the analyzed (transformed) data in the form of a figure (graph), table, or in manuscript form.

#### What to stay away from

- Do not discuss or infer your outcome, report surroundings information, or try to explain anything.
- Not at all, take in raw data or intermediate calculations in a research manuscript.



- Do not present the similar data more than once.
- Manuscript should complement any figures or tables, not duplicate the identical information.
- Never confuse figures with tables - there is a difference.

#### Approach

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

#### Figures and tables

- If you put figures and tables at the end of the details, make certain that they are visibly distinguished from any attach appendix materials, such as raw facts
- Despite of position, each figure must be numbered one after the other and complete with subtitle
- In spite of position, each table must be titled, numbered one after the other and complete with heading
- All figure and table must be adequately complete that it could situate on its own, divide from text

#### Discussion:

The Discussion is expected the trickiest segment to write and describe. A lot of papers submitted for journal are discarded based on problems with the Discussion. There is no head of state for how long a argument should be. Position your understanding of the outcome visibly to lead the reviewer through your conclusions, and then finish the paper with a summing up of the implication of the study. The purpose here is to offer an understanding of your results and hold up for all of your conclusions, using facts from your research and generally accepted information, if suitable. The implication of result should be visibly described. Infer your data in the conversation in suitable depth. This means that when you clarify an observable fact you must explain mechanisms that may account for the observation. If your results vary from your prospect, make clear why that may have happened. If your results agree, then explain the theory that the proof supported. It is never suitable to just state that the data approved with prospect, and let it drop at that.

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

#### Approach:

- When you refer to information, differentiate data generated by your own studies from available information
- Submit to work done by specific persons (including you) in past tense.
- Submit to generally acknowledged facts and main beliefs in present tense.

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<b>Introduction</b>	Containing all background details with clear goal and appropriate details, flow specification, no grammar and spelling mistake, well organized sentence and paragraph, reference cited	Unclear and confusing data, appropriate format, grammar and spelling errors with unorganized matter	Out of place depth and content, hazy format
<b>Methods and Procedures</b>	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
<b>Result</b>	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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<b>References</b>	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring



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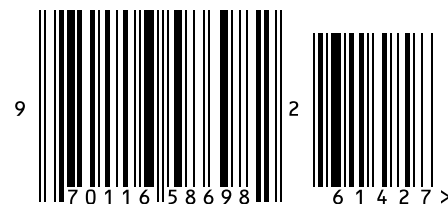




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ISSN 9755853

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