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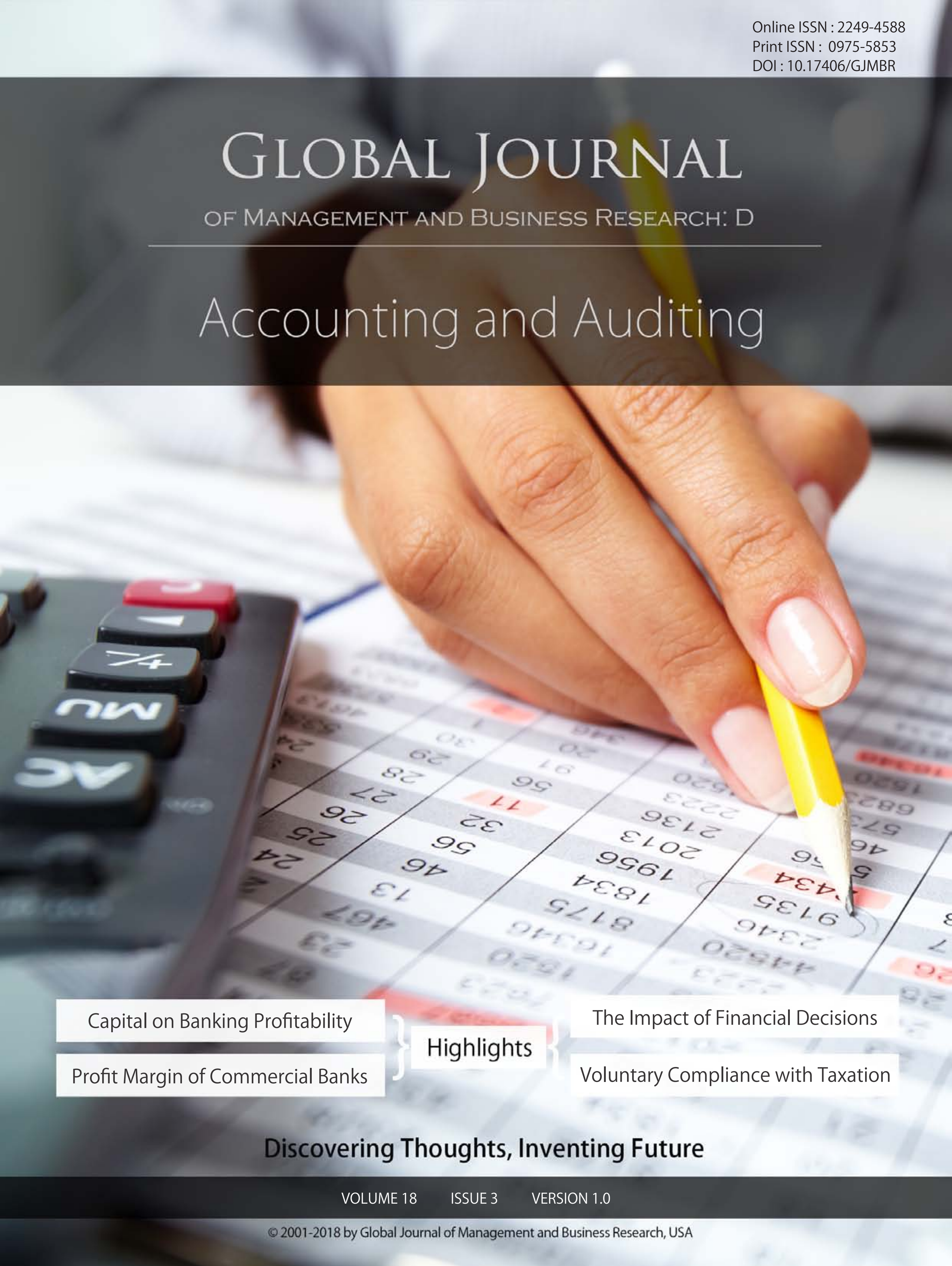

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of Management and Business Research: D

Accounting and Auditing

Capital on Banking Profitability

Profit Margin of Commercial Banks

Highlights

The Impact of Financial Decisions

Voluntary Compliance with Taxation

Discovering Thoughts, Inventing Future

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The Impact of Financial Decisions on the Profit Margin of Selected Commercial Bank's in Lagos, Nigeria

By Olaifa Olubunmi Ikeolape
Ladoke Akintola University of Technology

Abstract- The study was carried out to determine the effect financial decisions have on the profit margin of commercial banks in Lagos, Nigeria. Seven commercial bank were selected spanning the first, second and third generation banks from 1995-2004. 375 questionnaires were administered on the management cadre of the selected banks of which 350(93%) were fully completed and returned. Secondary data was extracted from the annual reports of the selected banks. The objectives were addressed using (i) descriptive statistics, (ii) multiple linear regression analysis (iii) logit regression and tobit models.

The results of the regression analysis showed that only three banks recorded a significant relationship between the profit margin and financial decisions. They are Union bank, Chartered bank and Intercontinental bank representing the first, second and new generation banks Their F-values stood at 6.797, 45.043 and 8.412 respectively. In Chartered bank there was significant relationship between the profit margin and financial decisions at both .01% and .05% levels respectively. While in the other banks the results showed otherwise.

The logit regression results also showed that profit margin was greatly influenced by capital (11.88), dividend yield (-3.70), profit margin indicator (17.53) and performance (-2.88) at 1% level of significance.

Keywords: *commercial banks, financial decisions, financial management, profits, profit margins, regression analysis.*

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THEIMPACTOFFINANCIALDECISIONSONTHEPROFITMARGINOFSELECTEDCOMMERCIALBANKSINLAGOSNIGERIA

Strictly as per the compliance and regulations of:

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The study shows that the relationship between financial decisions and the profit margin was very strong, thus, sound financial decisions are very crucial for better profit margins. It is thus recommended that banks should build and implement better strategies to help meet with the global challenges facing them to get the desired results of adequate profits.

Keywords: commercial banks, financial decisions, financial management, profits, profit margins, regression analysis.

I. Introduction

The importance of a good and virile banking system cannot be over-emphasized, as finance is the key to investment and hence, to economic growth and development. It occupies a central position in a country's financial system. They are essential agents in the development and economic growth of a nation. Their success or failure depends on the quality of decisions taken and management of resources.

Author: Lecturer in the Department of Management and Accounting, Faculty of Management Sciences, Ladoke Akintola University of Technology, Ogbomoso, Oyo State, Nigeria.
e-mail: ikeolami@yahoo.com

These decisions are performed simultaneously and continuously in the normal course of business of the organization. They call for skillful planning, control and execution of a firm's activity. These decisions form the bedrock on which firm's will either make good returns or not at the end of the accounting year (Solomon, 1969). The determinants of these crucial decisions that shape the trend of activities facilitating how the firm is run are the management team. They, amongst other factors will determine whether a firm will make profit or sustain a loss at the close of books as, the sole running of the business lies in their attitude, discretion and performance.

Financial management is a necessary tool for supporting an organization's goal and objectives. It is all about analyzing financial performance, identifying ways to use resources efficiently and finding creative ways to use resources (funds) to generate additional resources (funds). An efficient allocation of capital is a very important finance function in modern times. It involves decisions to commit the funds to investments. Such decisions are of considerable importance to firm's since they tend to determine its value size by influencing its growth, profitability and risk. Business firms and individuals now show much more concern for the management of their investments in order to obtain adequate returns. The importance of management can be observed from the concern of the business owners for adequate returns of their investment, the quest for standard service amongst the firm's customers and the acceptability of the firm among the members of the community it covers. It can be said that profitability is one of the net results of the banks management. Increase in profits must then relate to the capital invested in the firm.

Profits are measures of performance that indicate what the bank is earning on equity and other sources of funds. According to Adam (2004), profits not only provide an index by which decisions within a firm can be taken, they give ultimate answers about the effectiveness with which an organization is being managed and the efficiency of its operation. Banks came into existence because of the desire to provide services to the society at a profit. A bank should be able to generate adequate profits on each (₦) Naira of sales. If the sales fail to generate sufficient profits, it may be very difficult for the company to cover its operating expenses and interest charges. This will lead to unjustified investment and failure. Thus, preventing it from earning profit for its owners (Alashi, 2002).

Over the years there has been a high level of distress in the Nigerian banking industry. The recent crisis of financial failure in the industry and its grievous consequences were unequalled in the history of Nigerian economy. Similar crisis in the 1920's, 30's and 50's were midgets compared to the heights of bank failure in the 1990's and early 2000 (CBN/NDIC Reports, 1995, 1999, 2002).

In the Nigeria banking industry, the level of distress in banks during the previous years has mainly been due to bad financial decisions made by the management of the banks. These decisions affect all transactions and allocation of funds and operations of the bank. Ogunleye (2003); Ejiofor (1997) and Ebhodagbe (1994), asserted that " bad financial decisions has been traced to bad credit administration and management, purchase of unnecessary assets and luxury, payment of dividends when the bank is not doing well to retain shareholders, insufficient liquidity, excessive and unnecessary spending". In order to reduce the menace of distress in the banking industry a lot of guidelines, strategies and plans have been put in place by the Central Bank of Nigeria, banking professionals and analysts. In spite of this, the extents to which financial decisions affect the profit margin of commercial banks remain uncertain and highly unpredictable. This study therefore generally intends to examine the effect of financial decisions on selected commercial banks' profit margin in Lagos, Nigeria and specifically examine (i) the effect of financial decisions on the profit margin of the selected banks, (ii) to determine the relationship between the quality of financial decisions and bank performance, (iii) to determine how financial decisions can improve the profitability of commercial banks and the effect of other variables on the profit margin.

II. Methodology

The study was carried out at the headquarters' of the purposively selected first, second and new generation banks in Lagos, Nigeria. The study area was chosen because of its precedence and its geographical location and because of the fact that most of the banks have their headquarters situated in the study area. Seven commercial banks were purposely chosen for the study.

The senior officials of the selected commercial banks constituted the population of the study. Data was purposively collected from the senior spectrum of selected banks as the source of primary data while the annual and financial reports of the selected commercial banks of the study were the sources of secondary data. The study covered ten (10) years preceding the first consolidation in 2005 of the Nigerian banking industry which is 1995-2004.

The banks included in the study were Union bank, Chartered bank, Intercontinental bank, First bank, Access bank, Inland bank and Guaranty Trust Bank. The first generation banks are First bank and Union bank. The second generation banks consist of the Intercontinental bank, Access bank and Inland bank. While the new generation banks are Chartered bank and Guaranty Trust bank.

A total of 375 questionnaires were purposively administered on the senior spectrum of the selected commercial banks of which 350, were only completed and analyzable.

The variables studied in this research include:

a) *The Dependent Variable*

i) Profit Margin of the selected banks. This is a measure of profitability. It is an indicator of a company pricing policy and its ability to control cost. Measured as Earnings/sales.

b) *The Independent Variables as*

i) Debt Ratio of the selected banks. This is a measure that tells us how much the company relies on debt to finance assets. Measured as Total Debt/ Total Assets.
ii) Return on Assets of the selected banks. This is a measure of how much profit a company generates on each Naira of asset. Measured as PAT/Total Assets.
iii) Liquidity Ratio of the selected banks. This measures the extent to which a firm can quickly liquidate assets and cover short term liabilities. Measured as Net loans/Total Deposit.
iv) Dividend Cover of the selected banks. This ratio tells us how easily a company can pay its dividend from profits. Measured as Dividend/ Net Income.
v) Earning per share of the selected banks. This is a portion of a company's profit allocated to each outstanding share of common stock. Measured as Net Income-Dividend on preferred stock/Market value of share.

III. Data Analysis

In estimating the relationship between financial decisions and the profit margin, inferential statistics such as the multiple regression analysis and Tobit logit regression was adopted. Descriptive statistics such as tables, graphs, ratios and percentages were used to analyze the data. The independent and dependent variables were measured using financial ratios.

These financial ratios are used by financial analyst to appraise/measure financial decisions of banks. Since all activities in the bank are measured in quantitative forms, the various decisions were analyzed thus as financial ratios. They are: Profit margin, Debt ratio, Return on investment, liquidity ratio, dividend cover and earnings per share.

Where Y- PM (PROFIT MARGIN) which interprets the profit margin is the dependent variable and X_1- DR (DEBT RATIO) which interprets the finance decision, X_2-ROI (RETURN ON INVESTMENT) which interprets the investment decision, X_3 - LIR (LIQUIDITY RATIO) which interprets the liquidity decision, X_4- DC (DIVIDEND COVER) which interprets the dividend decision, X_5- EPS (EARNING PER SHARE) which interprets the dividend decision are the independent variables.

For the Multiple regression analysis a model of the equation used was depicted as follows:

$$Y = b_o + B_1X_1 + B_2X_2 \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots .B_nX_n + e$$

Bi = (i= 1, 2, 3, 4.................. n) is the regression co-efficient to be estimated.

Where X_1, X_2, X_3 .... X_n are the independent variables (financial decisions).

DR - Total Debt/Total Assets (X_1)
RO - PAT/Total Assets (X_2)
LIR - Net loans/Total Deposit (X_3)
DC - Dividend/Net income (X_4)
EPS - Net Income-Dividend on preferred stock/ Market value of share (X_5)

The validity of the regression model was tested using the following statistics:

F - Ratio
R^2 - Estimated (Co-Efficient of the multiple determinant) and R
t - test

The tobit regression was also used in the study to determine the impact of certain variables on the profit margin

The model is in explicit form:

$$K\ it = f\ (\alpha_0 + \alpha_7 FD_{it} + \alpha_9 PER_{it} + \alpha_{10} MI_{it} + \alpha_{11} RPM_{it} + \alpha_{12} DP_{it} + \alpha_{13} DY_{it} + \alpha_{14} PG_{it} + \alpha_{16} CA_{it} + \mu_{it} \ldots\ldots)$$

$$Y = f\ (X_7\ X_9\ X_{10} - - - - X_n) + e \ldots\ldots\ldots\ldots\ldots\ldots \quad (xi)$$

Where,

Y = Profit Margin
X_7 = Quality of Financial Decisions (FD)
X_9 = Performance (PER)
X_{10} = Main Indicator (MI)
X_{11} = Range of Profit Margin (RPM)
X_{12} = Dividend Payment (DP)
X_{13} = Dividend Yield (DY)
X_{14} = Profit Growth (PG)
X_{16} = Capital Adequacy (CA)
Ui = Error Term

Ui is the residual error, which is normally distributed with the expected mean value of zero and variance (r^2x). This study will examine this model by the measurement of all the variables and estimation of their parameters.

IV. Results and Discussion

In the Table 1, 58.1% of the respondents agreed that the management team is the sole determinant of whether a bank makes adequate profits or not through the quality of financial decisions. This is supported by Ebhodagbe (1994), who emphasized that "bank management can make the difference between a healthy and distressed institution". Sound decisions can only be made by sound people. The negative effect of decisions taken by the management of many banks in previous years can be attributed to the poor quality of the decisions made resulting from the caliber of the people in position to make such decisions. This had resulted in the high level of failure and mismanagement experienced.

The banking industry has just undergone a reform vis-à-vis the amount of capital base that was increased to 25 billion; membership of the board of Directors and Management team; quality of performance in the banking industry, supporting Small Scale Enterprises and competing favorably in the International Market all aimed at improving the

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contribution of banking industry to overall economic development of Nigeria. In these aspects of reformation, qualitative decisions have to be not only on financial matters, but in all areas that have to do with the banking industry.

Table 1: Distribution of senior officials of selected commercial banks by the factors that affect the level of profit margin

*Factors that affect the profit margin	Frequency	Percentage
Quality of financial decisions	122	58.1%
Prudential guidelines	30	14.3%
Economic stability	24	11.4%
Others (loans disbursement, credit administration, fraud, unethical behaviors)	34	16.2%
Total	210	100%

*Note *= Multiple Responses*

Source: Field Survey 2017

In table 2, a greater number of the respondents, 65.2%, agreed that sound technical education and training and years of experience of an individual 26.7% are major factors necessary for sound management decisions. Expertise is borne out of years of experience. Previous era of government in Nigeria have shown that many management members where chosen to office on political grounds and did not have the relevant knowledge to make sound decisions in such offices (Ebhodaghe, 1994). This indicates that the importance of education cannot be over-emphasized especially in banking industry which has to do with a lot of quantitative data.

This had not only affected the banking industry but all sectors of the economy. Offor (2004) argued that the major indicator of banking crisis in Nigeria is poor management based on lack of expertise for prudent management decisions resulting in a decline in the profitability of banks. Thus justifying the need for experienced personnel's in the field of operation for maximum performance. What you do not have, you cannot give.

Table 2: Distribution of senior officials of selected commercial banks by the factors responsible for the quality of financial decisions

*Factors Responsible	Frequency	Percentage
Sound Technical Education	137	65.2%
Years of Experience	56	26.7%
Temperament	17	8.1%
Total	210	100%

*Note *= Multiple Responses*

Source: Field Survey 2017

A bank without adequate capital cannot stand the test of time as it serves as a media for loss absorption. According to Alashi (2002), Capital provides a cushion to withstand abnormal losses not covered by current earnings and enables banks to regain equilibrium. During the period of study it was discovered that most banks were grossly undercapitalized. Thus, the problem of inadequate capital was further worsened by large amounts of non-performing loans which had eroded the banks capital base. Table 3, shows the respondents judgment on the capital adequacy. Only 37% of the respondents agreed that the capital flows of the banks were impressive. This implies that the capital adequacy of the banks was not satisfactory and there is ample room for improvement.

This led the federal government to propose a mandatory N25 Billion capital base for commercial banks as 31st of December, 2005, to further strengthen the banks and enable them compete more effectively both in the global, local and international markets. It resulted in the emergence of only 25 banks out of about 70 banks formally. However, this has yielded great impact, as there has been more innovation, efficiency and diversification in the operations of commercial banks. In the year 2006, most banks had recorded between a (30%-50%) increase in their profits. (CBN Reports, 2006).

However in 2008, it was discovered by the central bank of nigeria(CBN), on resumption of the new CBN Governor then Sanusi Lamido Sanusi that a couple of the current banks were actually distressed. It was also compounded by the global meltdown, resulting in the loss of share price to ridiculous level. This also led to a series of mergers and acquistion. This was to further strengthen the banking sector, build a solidified banking environment that can compete in the international market and prevent them from further distress in the future. Currently there are only 19 commercial banks in nigeria.

Table 3: Adequacy of Capital

*Adequacy Level	Frequency	Percentage
Impressive	37	17.62%
Just Adequate	82	39.05%
Not Adequate	71	33.81%
Very	20	9.52%
Total	210	100%

*Note *= Multiple Responses*

Source: Field Survey, 2017

V. Result of the Multiple Linear Regression on the Profit Margin

The results of the regression analysis in Table 4 shows that in only three (3) banks, that is Union bank (first generation) Intercontinental bank (second generation) and Chartered bank (new generation), the profit margin was significantly affected by financial decisions collectively at 5% level with f-values of 6.797, 8.412 and 45.043, respectively. These banks had relatively good profit margin growth during the ten year period of study compared to other banks studied.

The independent variable X_1 (DR) and X_5 (EPS) representing the Finance and Dividend decisions respectively recorded much more significance on the profit margin of the selected banks than every other variable. It was significant in only Union bank and Chartered bank. However, this was not too impressive. X_2 (ROA) representing the Investment decisions did not fare any better, as it recorded significant impacts in only Union bank with a negative co-efficient. The performance of banks is measured through Return on Assets (ROA). It reflects the ability of the bank to generate profit from the bank's assets (Naceur, 2006). All decisions in the business environment have financial implications. It is well known that the management can make the difference between a healthy and a distressed institution. Thus when management make financial decisions irrespective of the functional area of the business in which it is made, the risk of the cash flow emanating from the decision, in addition to their size and timing, should be considered and implemented.

The independent variables X_3 (Liquidity decision) and X_4 (Dividend decisions) were only significant in Intercontinental bank and Union bank respectively. This is very poor and not impressive at all. Liquidity refers to a company's ability to pay its current bills and expenses. In relates to the availability of cash and other assets to cover accounts payable, short term debts, and other liabilities (Gryglewicz, 2011).

In all, the study showed that all the independent variables tested were in one bank or the other significant. This is consistent with the findings of Alslehat et al (2014). This shows that there is a great need for continuous improvement in the financial decisions taken in Nigerian commercial banks for generation of adequate profits for better performance and stability as been witness currently in the banking industry, as financial decisions play a major role in the sound performance of any bank.

Table 4: Result of multiple linear regression on the profit margin

First Generation Banks	X_1	X_2	X_3	X_4	X_5	R	R^2	F -Value	Remarks
Union Bank	0.025 (3.510)	0.047 (-2.842)	0.077 (-2.364)	0.721 (0.383)	0.031 (3.270)	.89	.95	6.797	SG
First Bank	0.539 (0.671)	0.800 (0.271)	0.599 (-0.570)	0.332 (1.103)	0.939 (-0.081)	.75	.86	2.354	NSG
Second Generation Banks									
Intercontinental Bank	0.359 (1.035)	0.082 (2.307)	0.018 (3.884	0.173 (1.658)	0.593 (1.585)	.91	.96	8.412	SG
Inland Bank	0.232 (1.409)	0.417 (0.905)	0.368 (-1.013)	0.675 (-0.452)	0.771 (-0.312)	.72	.85	2.027	NSG
Access Bank	0.349 (1.060)	0.533 (0.682)	0.870 (-0.175)	0.196 (1.552)	0.287 (-1.226)	.87	.93	5.477	NSG
Third Generation Banks									
Chartered Bank	0.010 (4.666)	0.315 (-1.148)	0.086 (-2.272)	0.249 (-1.346)	0.042 (2.951)	.98	.99	45.043	SG
Guaranty Trust Bank	0.248 (1.352)	0.731 (0.369)	0.338 (1.086)	0.040 (2.990)	0.577 (-0.607)	.82	.91	3.645	NSG

*** Significant at 5% Level*

Figures in parenthesis are the co-efficient (t-value)

Where 'SG' means significant at 5% and 'NSG' means not significant at 5%.

R shows the correlation coefficient

R^2 shows the correlation coefficient squared

F value shows the level of significance

VI. Result of the Logit Regression on the Profit Margin

Table 5 below showed logit regression and the result showed that variables were statiscally significant at 1% probability levels. The variables are profit margin indicator, dividend payment, range of profit and capital.

Profit margin indicator is negatively correlated to bank performance at 1% level of significance. This implies that profit margin is not the only indicator to determine the performance of the bank. Haron (2004) measured the impact of some of the determinants of profitability. The factors such as liquidity, deposit items, asset structure, inflation and money supply had a significant long term impact on profitability. It is always assumed that the higher the level of profit margin, the greater the performance of the sampled banks. Profit margin is an indicator of a company's pricing strategies and how well it controls costs. Differences in competitive strategy and product mix cause the profit margin to vary among different companies. But in this case, the higher the level of banks profit margin, the lesser the performance of the banks.

Range of profit margin is another variable and this is positively significant at 1%. This shows that the higher the profit margin of the sampled banks, the greater the performance of the banks. Van Horne (1993) supported this assertion by describing that profit acquistion is an additional asset to the bank and this shows how the resources of the banks were efficiently used.

Dividend yield, this is also negative at 1% level of significance. This reveals that the higher the amount of dividend paid to the customers, the lower the profit margin for the sampled banks. Pandey (2004) attributed that dividend allocation decision is a reflection of a firms's investment, financing and asset management decisions. It was also supported by Van Horne (1993), that the decisions by management are subject to the view that integral part of the banks dividend should be paid or all the dividend be paid along with the profit or retain all. Where the dividend are paid the profit margin of the banks will be reduced and this supports the result of the logit regression.

Capital, the sampled banks capital is purposively significant at 1%. This shows that an increase in the capital base of the banks will eventually leads to an increase in the profit margin of the banks and consequently increases the performance of the banks. Ghadome (2008), in his study aimed to analyse the determinants of capital structure through the role played by investment decisions and the financing and distribution of profits on a sample of companies listed in the Spain of 135 companies from 1990-1999. He adopted the financial reports of all the companies. A bank without adequate capital cannot stand the test of time as it serves as a media for loss absorption. Goddard (2004), investigated profitability of European banks using cross sectional data during 1990s. The results showed the relationship between the capital-asset ratio and profitability is positive.This also reveals that most of the sampled banks are viable, solvent and their performances were healthy and sound to face future challenges.

Table 5: Logit Regression on determining the effect of financial decisions on profit margin

Dependable Variable: Profit Margin

Explanatory Variable	Coefficient	Std. Err.	Z	p>/z/	(95% Conf.)	Interval
Quality of Fin Decision	-4.440000	0.01655368	-0.00	1.000	-0.1042937	0.1042937
Performance	-0.2307692	0.0801553	-2.88	0.004	-0.3884287	-0.0731097
Main Indicator	-0.7692308	0.0438914	-17.53	0.000	0.6828998	0.8555618
Range of Profit	1.3100000	0.0380376	0.00	1.000	-0.0748172	nil
Dividend Paid	-0.2307692	0.0623929	-3.70	0.000	-0.3534913	-0.1080472
Dividend Yield	7.44000	0.0165007	0.00	1.000	-0.0324556	0.0324556
Growth of Profit	0.7692308	0.0645007	11.88	0.000	0.6418394	0.8966222
Capital Adequacy	-0.0769231	0.1551758	-0.50	0.620	-0.3821422	0.228296
Number of Obs.	350					
Lrchi 2(7)	645.57					
Prob.> Chi 7	0.0000					
Pseudo R2	0.18368					

Source: Field Survey 2017

Significant at 1%

VII. Conclusion and Recommendations

Despite the high rate of distress experienced in the industry in the past years and the irregularity of profit margin growth in the sampled banks, the regression analysis has shown that there was a strong positive relationship and significant impact was observed between the financial decisions and the profit margin of three of the sampled banks that is Union bank, Intercontinental bank and chartered bank. These banks were also among the 25 banks, which made it through reconsolidation thus justifying the study. It thus implies that if more emphases are placed on better, qualitative, and productive financial decision making, there will be worthwhile improvements in the profit margin of commercial banks in general and, particularly more impact will be felt in the banking industry and the country at large.

Also, close to two thirds of the respondents agreed that qualitative financial decisions are a very important factor for adequate profits. A greater proportion of the respondents agreed that sound technical education was a major influencing factor on the quality of financial decisions. It is essential for banks to focus on how to increase profitability or in other words to create wealth that compensate their usage of capital resources. The latest developments that have taken place in the financial markets are proving that money in the future will only be available to those players who are able to create sizeable returns on capital. Low performances, weak attempts and even poor ways to interact with fund's suppliers will increasingly lead to higher cost of capital and funding shortage, hence distress. Also, it is therefore recommended that Management team members should be mandated and encouraged to obtain relevant professionalism with adequate qualifications in the banking industry. This will also enhance the quality of financial decisions and their performance. Managers should always have the interest of the shareholders in mind when taking decisions; this would propel them to always make qualitative decisions on how best they can generate adequate returns on their investments.

There should be more awareness and intense study on the subject of financial management in relation to decision-making especially in banks. This course helps to emphasize the role played by non-financial and financial managers in the financial process, and assist in linking together the various functional areas. Lastly, more mergers and acquisition should be mandated and proposed by the central bank and the federal government of Nigeria to establish greater mega banks. This would further strengthen the capital base of banks and bring together different field of professionals as a team; thus, encouraging advance diversification; keener competition among banks and better innovations to produce a healthier and more profitable banking environment.

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Human Resource Accounting: Issues, Beneficial Proponents and Constraints

By Abu Nayem Md. Rafi & Md. Tanjim Hossain
Shaikh Burhanuddin Post Graduate College

Abstract- Human resources are the important assets of every Organization. Organizational success also depends upon professional skill and Knowledge of the people working in it. Human resource accounting (HRA) is the process of identifying and measuring data about human resources and communicating this information to interested parties. Financial Experts also developed human resource cost accounting method or model considering the imperatives of human resources in the organizations. HRA valuation methods have certain disadvantages or limitations but accounting for human resources attributes to the organizational development. Human resource valuation provides the management with information about the change in the structure of its labor force.

Keywords: HRA, valuation model, proponents, opts, intangible assets, financial expert, etc.

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HUMANRESOURCEACCOUNTINGISSUESBENEFICIALPROPONENTSANDCONSTRAINTS

Strictly as per the compliance and regulations of:

Human Resource Accounting: Issues, Beneficial Proponents and Constraints

Abu Nayem Md. Rafi [α] & Md. Tanjim Hossain [σ]

Abstract- Human resources are the important assets of every Organization. Organizational success also depends upon professional skill and Knowledge of the people working in it. Human resource accounting (HRA) is the process of identifying and measuring data about human resources and communicating this information to interested parties. Financial Experts also developed human resource cost accounting method or model considering the imperatives of human resources in the organizations. HRA valuation methods have certain disadvantages or limitations but accounting for human resources attributes to the organizational development. Human resource valuation provides the management with information about the change in the structure of its labor force.

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I. Introduction

Human resource accounting is the process of identifying and measuring data about human resources and communicating this information to interested parties. valuation model/methods of human resources available in organizations are the critical issues as the economists consider human capital as a production factor. They explore different ways of measuring its investment in the business, education, health and other areas in business organizations. The professional Accountants, the Accounting Institutes, and other stakeholders have different views on the financial value of human resources working in the organizations. Financial experts and economists all over the world have now agreed on the issue that appropriate methodology and procedures should be developed for finding the cost and value of human resources in the organizations.

Research on human resource accounting began in 1960 by Rensis Likerts where he strongly advocated forlong-term human resource planning. During the last three decades, a number of experts have worked on it and produced certain models for evaluating human resources. They developed two approach - historical cost approach and value approach. Financial experts also developed a human resource cost accounting method or model considering the imperatives of human resources in the organizations. These models are: (i) Acquisition cost model/Historical cost model, (ii) Replacement cost model (iii) Opportunity cost approach, (iv) Standard cost approach. Since the human value in the organization is an important proponent contributing productivity, so, (i) Present value of future earnings method, (ii) Reward valuation model (iii) Net benefit model (iv) Certainty equivalent net benefit model. These models/methods are not generally acceptable standard practice and also are not free from limitations. In historical cost approach, the acquisition cost of employees are considered but does not consider the aggregate value of the potential services of human resources. Financial experts point out that it is impossible to ascertain the correct replacement cost of existing human resources. The total valuation of human resources based on replacement method may be misleading because it ignores the possibility that an individual may resign from a job which creates vacancies. This affects an employee's expected service life and his future earnings.

Human resources are the important assets of every organization. Organizational success also depends upon professional skill and knowledge of the people working in it. In spite of the use of technology, human resources make the most efficient use of all resources.

II. Key Conceptual Proponents of Human Resource Capital

According to the researchers and financial experts, the key conceptual proponents of human resource capital that need to account for in the accounting system are exhibited in the following paradigm:

Author α: Associate Professor, Department of Accounting, Shaikh Burhanuddin Post Graduate College, Dhaka, Bangladesh.
e-mail: helloresearch786@gmail.com
Author σ: Assistant Professor, DTE, Northern University Bangladesh, Dhaka, Bangladesh. e-mail: tanjimnub@gmail.com

Table 1

Sl. No.	Conceptual Proponents
01.	i. American Accounting Association opines that acquisition and learning costs of HR are considered as benefits that give fiscal incentives in future and hence are not seen as expenditures. ii. Learning costs comprise of direct costs concerned with official training and guidance and on-the-job instruction iii. The authors also suggested a different means for calculating intangibles termed "Intangible Assets Monitor." The 'intangible assets monitor' recommends a method for calculating intangible resources like the capability of a staff member, in-house composition like patents and patterns, and the exterior composition of the establishment like correlation with consumers and the like. This method incorporates pointers of development and restitution and pointers of competence and constancy.
02.	Flamholtz outlined that human resource outlay has two main classifications- acquisition costs and learning costs where acquisition costs comprise of direct expenses of staffing such as enrollment, choosing, appointment and assignment, and indirect expenses incurred in the process of promotion or hiring from inside the establishment.

However, utilizing Flamholtz method, Flamholtz, Bullen, and Hua (2003) developed a methodology for measuring return on investment (ROI) in human resources caused by management advancement and also pointed out that theincreased flow of funds will accrue to an establishment owing to investment in management development.

III. Research Objectives

The specific objective of this study is to focus on the beneficial proponents of Human Resources Accounting (HRA) in the organization.Other objectives:

- Issues of human resources (HR) in the organization
- Limitations/constraints of HRA.

Methodology

This article has been prepared after studying relevant articles, research papers, study reports, etc. Attributes of these documents/ papers havebeen focused in this paper.

IV. Literature Review

Human Resource Accounting (HRA) identifies, measures and communicates information about human resources with objectives to facilitate effective management of resources inthe organizations. The American Accounting Association defines HRA as:

i. The process of recognition of the contribution of human resources to the organization for the purpose of assisting the effective management.
ii. Analysis of data concerned with placement, training, and development of employees and also evaluates the financial condition of human resources.

The definition does not specify the items of expenditures concernedwith human resources and how these could be recognized. Different authors have different conceptual views on HRA.

a) Mapping of the Conceptual Views of Authors

The following paradigm maps the conceptual views of the authors:

Table 2

Sl. No.	Author	Conceptual View
01.	Lev, B.	Since human resources contribute to organizational development, it is imperative to incorporate the economic benefits attributable to the human resources in addition to recognizing their cost implication.
02.	Dr. M. Hossain, A. R. Khan, I Yasmin	HRA outlines the changes occurring in human resource position of the business. It attributes to accounting for investment in people and their replacement costs, and also the economic value of people in an organization. Hence, HRA provides a comprehensive look at one method of using human resource cost and value information in the decision-making process.
03.	American Accounting Association	HRA measures the abilities of all employees in a company - management, supervisory and ordinary employees-to ascertainthe value of their knowledge and capabilities. Newman considered the current growth in the service industry where the knowledge and intellectual capabilities of employees are the keysto success.
04.	S. A, Sackman, E.G. Flamholtz, Bullen	HRA accounts for costs incurred by business firms and other organizations to recruit, select, hire, train and develop human assets. The authors pointed out that expenditures on the human resources should be recognized for valuation and reporting purposes. In other words, HRA measures the economic value of people in the organizations. The authors conceptually articulate HRA as the process of recognition and the quantification of human resources for the purpose of assisting the effective management. This process involves analysis of data related to placement, training, and development of employees and evaluates the financial condition of people in an organization. The definition is incomplete as it does not specify as to what constitutes the human resource expenditures and how these should be recognized.
05.	Dobija	Value of human resources is determined bykeeping the natural and the societal circumstances of the surroundings. Applying multifaceted interest attitude, three features of valuing the human resources are considered. These are: – The capitalized value of living expenses; – Educational expenses to get professional qualifications and – The value attained with experience.
06.	L. Brumet, E G, Flamoltz, W.C. Pyle	Conceptual intrinsics of HRA: Value of human resource is calculated on the basis of pointers, such as -innovation; – Personnel attitudes and – The record of well-informed staff members.
07.	L. Basi, Benson, G. Van Buren, M.	The concept integrates both financial and nonfinancial performance measurement in a framework. Conceptual imperatives of the approach are: (i) The Financial Proponents: how do we measure financial performance? Possible performance measures include operating profits, return on capital employed, and unit costs. (ii) The Customer Perspective: how do we measure customer satisfaction? Possible performance measures include customer profitability, customer satisfaction, and market share. (iii)The Internal Business-Process Context: what must we excel at? Possible measures include time to develop new products, defect rates, and product returns. (iv) Learning and Growth Potents: how can we continue to improve and create value? Possible measures include employee satisfaction and employee productivity.

b) Flamholtz has a different approach of HRA in business policies. Intrinsic of this approach are

i. One can note six important features of institutional functioning, comprising of markets, goods, assets, functioning structure, management structure, and tradition;

ii. HRA would be a helpful instrument for assessing human capital that willhelp tocontrol and manage human capital efficiently.

c) International Financial Reporting System (IFRS) have a different view on HRA where human resources are reflected/appeared in organization's statement of financial position as an asset. It opts that the value of human resources does not depend upon the number of human beings employed. The propositions of IFRS

Value of human resources may be higher in spite of less number of human capitals because of the amount paid by the organizations to their employees. The higher amount of salary to humanresources attributes toa higher value and lower scale of pay attributes to lower value. That is why companies employing higher number of human resources are less valued than thecompanies employing less number of employees with high pay. Another major issue of

HRA is the recording and disclosure of the value of HR in the financial statement. Still, human resource valuation depends on discretion of the accounting bodies that are yet to develop a generally accepted basis for valuation, recording and disclosure of human resources accounting information in the financial statements of an organization. Dasgupta (1978) in his total cost approach opined that humanresources should be shown both in the "asset" as well as "liabilities" sides of the statement of financial position. On the assets side, it should be shown after the fixed assets as Human Assets classified into two parts: Value of individuals and Value of organization's investment on the "liability" side. He opted that human resources are considered as assets and should be taken out of profit and loss account/income statement and brought to the statement of financial position. HRA expert Wright proposes that:

- Top management must be willing to adopt the human resource philosophy;
- The organization must be willing to invest in money and time for human resources;
- There must be well knowledgeable people and they should have a positivemind set to learn.

The proposition of capitalizing investment in human resource will lead to a new way of thinking about managing man as capital. Thus, accounting treats of investment made in man as assets rather than as expenses.

V. Beneficial Proponents: Imperatives

It is agreed by all that human resources are the key players to the success of every organization. HRA valuation methods have certain disadvantages or limitations but accounting for human resources attributes to the organizational development. The following paradigm maps the beneficial proponents outlined by the financial experts:

Table 3

Sl. No.	Accounting and Financial Expert	Benefit Imperatives outlined by the Financial Experts
01.	American Accounting Association	i. Help proper integration of Return on Capital Employed (ROC E) in the disclosure of the value of human resources in the long-term perspective of the business performance.
		ii. The maintenance of a detailed record of internal human resources will improve the managerial decision-making process in Recruitment Vs Promotion, Transfer Vs Retention, Retrenchment Vs Retention.
		iii. Facilitate efficient use of Human resources and allocation of resources in the economy
		iv. Help proper understanding of the evil effects of avoidable labor unrest or disputes on the quality of internal human resources
02.	Tomassini, L. A	v. Point out the need for Human resources accounting that provides useful information to the management, financial analysts, and employees and also outlined that:
		vi. Human resources accounting helps the management in employment and utilization of human resources) It helps to identify the causes of high labor turnover at various levels and makes preventive measures to contain it.
		vii. It helps in deciding transfer, promotion, training, and retrenchment of human resources.
		viii. It provides a basis for the planning of physical assets vis-à-vis human resources.
		ix. It evaluates the expenditure incurred for imparting further education and training of employees in terms of the benefit derived after the capacitybuilding of human resources.
		x. It assesses the inner strength of an organization and supports management to steer the company well during the most averse and unfavorable circumstances.
		xi. It helps in locating the real cause of low returns on investment, like improper or underutilization of physical assets or human resources or both.
		xii. It provides valuable information for persons interested in making long-term investments in the organization.
		xiii. It supports the employees in improving their performance and bargaining power. It makes each employee understand his contribution towards the betterment of the organization vis-à-vis the expenditure incurred by the organization on him.

Human Resources accounting is intended primarily to be used as a management tool. It has significant uses for present and potential investors and other users of the financial statement. Human resource valuation provides the management with information about the change in the structure of its labor force. For the external purposes, the value of an organization's human resources is helpful to prospective investors and other users in making long-term investment decisions. It provides the organization with a more accurate accounting of its return on the total (financial, physical and human) resources employed. The rate of return calculated in this manner will be more realistic. Those interested in making a long-term investment decision in an organization will be interested in having an insight into its inner strength. It provides useful information for the management, financial analysts and employees as stated by experts that worked on human resources accounting (Oluwatoyin),

VI. Limitations

The following limitations affect Human Resource Accounting:

i. Organizations lack of clear - cut and specific procedure or guideline for finding cost and value of human resources. The systems that are being adopted have certain drawbacks;
ii. Tenure of human resources in organizations is uncertain and hence valuing them under uncertainty in the future seems to be unrealistic;
iii. Since human resources are incapable of being owned, retained, and utilized, unlike the physical assets, there is a problem for the management to treat them as assets in the strict sense;
iv. There is a concept that attributing value to employees would make them claim rewards and compensations based on such valuations;
v. In spite of the significance and necessity of HR, the tax laws don't recognize human beings as assets;
vi. There is no universally accepted method for the valuation of human resources. From another perspective, Jasrotia (2004) looked at the trends in the field of HRA and came up with some factors that deter the progress in the area and the application of the concept.

a) Other Problems

a. Level of awareness and acceptance of HRA is still low as many companies have little imitative to make the information available to the shareholders despite having the data;
b. Every industry lack standard. Most of them are still involved in improving their business;
c. Another aspect of working against the acceptance of HRA is the intricacies of finding the value of their human resources;
d. Certain industries, like the information technology, are very dynamic due to frequent discoveries and technological advancement. In these types of industries, it is very difficult to predict as to what is going to be future requirements and how technology is going to be shaped in the near future.

VII. Conclusion and Recommendations

Human resource valuation models, in most cases, lack articulation of the mode of recording and disclosure of the accounting information relating to human resources in the books of accounts or financial statements of the organization. Accounting bodies have discretion that are yet to develop a generally accepted basis for valuation, recording, and disclosure of human resources accounting information in the financial statements of an organization. In financial statement, human resource accounting information are given in the form of supplementary information. Accounting professionals and practitioners have serious concern on the issue. The paper has propositions that considerable research should be conducted givingmuch emphasison humancapital.There is a great need for evolving a system of accounting human resources where willbe acceptable to professional accountants, mangers and other decision makers – investors, creditors and other stakeholders. Standard of HRA valuation should be developed and used for human resource identification and measurement.

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The Effect Analysis Risk of Credit, Liquidity and Capital on Banking Profitability

By Didik Riyanto & Dwi Asih Surjandari
Mercu Buana University

Abstract- This study aims to examine the effect of credit risk, liquidity and capital on the profitability of commercial banks. Type of causal research (Causal Study) with sampling using the method of Purposive Sampling. Sampling is conducted at commercial banks (Private, corporate, foreign and non-foreign exchange) listed on the Jakarta Stock Exchange for the period 2012-2016. The research method used is panel data regression analysis with Eviews version 9.0 as a statistical test tool. The test results show credit risk, liquidity risk and capital effect on profitability collectively (simultaneously). Partially, credit risk and capital have an effect on profitability, while liquidity risk has no effect to profitability.

Keywords: non performance loan (NPL), loan to deposit ratio (LDR), capital adequacy ratio (CAR), return on assets (ROA).

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THEEFFECTANALYSISRISKOFCREDITLIQUIDITYANDCAPITALONBANKINGPROFITABILITY

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Didik Riyanto [α] & Dwi Asih Surjandari [σ]

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I. Introduction

Current banking conditions are much healthier because they can be anticipated quickly. Business players in the banking sector are optimistic that Indonesia can avoid the threat of a crisis, such as the severe banking crisis in 1998. "Our economy will not be in a crisis like 1998, because it requires a capital adequacy ratio of 9 percent, but more national bank reserves. We have a lot of capital. a lot of profit is okay, the important thing is safe liquidity, "said the Independent Commissioner of PT Bank Mandiri. Co, when discussing Media Training: Understanding the Banking Industry (www.liputan6. com, 2015).

The Financial Services Authority (OJK) said the profitability ratio of assets or Return on Assets (ROA) in the banking industry during 2016 decreased slightly because banks needed to inflate reserve costs due to the increase in the ratio of non-performing loans (NPL) (www.republika.co.id, 2017). Profitability in the banking world is very important both for owners, storage, government and society (Audhya, 2014). Therefore banks need to maintain profitability to remain stable or even increase. Return on Assets (ROA) is used as a proxy in measuring the profitability of a bank.

For the world of credit banking is the main element to gain profit (Kasmir, 2015: 125). This means that the profitability of a bank is strongly influenced by the amount of credit disbursed in a period. The more credit disbursed, the greater the profit from this field. Management must also pay attention to the quality of credit. This is important because credit quality is related to the risk of congestion (problem) of a loan that is channeled. This means that the higher the quality of credit provided, it will reduce the risk of the possibility of credit is stuck or problematic. As is known that the more bad loans will result in bank profits falling (Kasmir, 2015: 126).

Credit risk is the possibility that a borrower will fail a loan. In this context, failure is broadly defined when the borrower does not meet the terms of his contractual obligations with the lender (John Charnes, 2012: 221). Another understanding of credit risk is the risk of loss due to failure of the counterparty to fulfill its obligations. Credit risk includes risks due to debtor failure, credit risk due to counterparty credit risk and credit risk due to failure of settlement risk (Banker Association for Risk Management, 2013: I-4).

In Bank Indonesia Regulation Number 17/11 / PBI / 2015, Credit Risk is a risk due to failure of debtors and / or other parties to fulfill obligations to the Bank. Credit risk ratio is peroxided by NPL (Non-Performing Loan). The Total Loan Non-Performing Loan Ratio, hereinafter referred to as the NPL Ratio, Total Credit is the ratio between the total amount of loans with substandard, doubtful and loss quality, to total loans (Bank Indonesia Regulation Number 19/6 / PBI / 2017).

The bank's ability to manage its liquidity will have an impact on the public's trust in the bank itself so that it will assist the operational continuity and the existence of the bank. Liquidity management is very important for every organization to fulfill its short-term (debt) obligations in its operations (Saleem & Rehman, 2011). Liquidity risk is a ratio to measure a bank's ability to meet its short-term obligations when billed. In other words, it can repay the depositor funds disbursement when billed and can meet the credit requests that have been submitted. The greater the ratio, the more liquid (Kasmir, 2016: 315).

Based on Bank Indonesia Circular No. 13 / 24DPNP On October 25, 2011 defining liquidity risk is a risk due to the inability of the Bank to meet maturing obligations from cash flow funding sources, and / or from high quality liquid assets that can be pledged as collateral, without disrupting the Bank's activities and financial conditions. This risk is also called funding liquidity risk. Liquidity risk can also be caused by the

Author α: Master of Accounting, Student, Mercu Buana University - Indonesia. e-mail: didik.riyanto@gmail.com
Author σ: Lecturer, Mercu Buana University - Indonesia. e-mail: dwiasihsurjandari@mercubuana.ac.id

inability of the Bank to liquidate assets without being subjected to material discounts due to the absence of an active market or severe market disruption.

In addition to credit risk and liquidity risk. Capital is an important factor as a source of bank operational funds. Without sufficient capital the bank's operational activities will be disrupted. According to Yuanjuan (2012) CAR in addition to reflecting bank risks also becomes a benchmark for asset-liability management with other banks. This opinion is supported by Wibowo (2013) which states that CAR reflects the company's own capital to generate profits. The greater the CAR, the greater the opportunity for banks to generate profits because with large capital, bank management is very free to place funds into profitable investment activities.

Like other companies, banks also have capital that can be used for various things. It's just that in various ways (such as supplementary capital), the capital owned by banks is slightly different from that of other companies. In practice, capital consists of two types, namely core capital and supplementary capital. Core capital is its own capital stated in the equity position, while supplementary capital is loan capital and asset revaluation reserves and allowance for possible losses on earning assets / allowance for impairment losses.

Credit risk and capital have a significant effect and are positively correlated with bank profitability (Alindra Yanuardi, et al. 2014). In another study, it was found that credit risk had a significant negative effect on profitability, liquidity had a significant positive effect on profitability, capital adequacy had no significant negative effect on profitability (Dwi Agung Prasetyo, et al. 2015). The results of other studies say, credit risk variables affect profitability, while liquidity and capital variables have no effect on profitability (Pramitha Kusuma Dewi, et al. 2015). The research gap in this study is that there are still inconsistencies in the results of previous studies. So that this research needs to be repeated and developed to re-examine the role of fundamental internal variables of banking profitability with different conditions, times and places of research. This study will examine the factors that are thought to affect Profitability, some of these factors include Credit Risk, Liquidity Risk, and Capital.

II. Methods

Sampling in this study is based on certain considerations (judgment sampling), where the criteria of the bank sampled in this study are:

a. National public and private bank companies.
b. Banking companies listed on the Indonesia Stock Exchange (IDX).
c. Banking companies that have complete financial data regarding the research variables during the 2012-2016 period.
d. Banking companies that do not merge or go bankrupt during the 2012-2016 period.

Table I: Sample Selection

No.	Sample Qualification	Number of Companies
1	Commercial Bank Company	69
2	Banking companies listed on the Indonesia Stock Exchange	42
3	Companies that have complete financial data regarding the research variables during the period 2012 - 2016	23
4	The company did not merge or bankrupt during the period 2012-2016	23

Source: Indonesia Capital Market Directory

The number of general banking companies is 69 companies, and those listed on the Indonesia Stock Exchange are 42 companies. Companies that have complete financial data related to research variables during the period 2012-2016, and the company did not merge or bankrupt during the 2012-2016 period totaling 23 companies. So the number of companies that are the object of research is 23 companies, as shown in the following table:

Table II: Object of Research

No.	Stock Code	Bank
1	INPC	Bank Artha Graha International
2	BBKP	Bank Bukopin
3	BNBA	Bank Bumi Arta
4	BACA	Bank Capital Indonesia
5	BBCA	Bank Central Asia
6	BNGA	Bank Cimb Niaga
7	BDMN	Bank Danamon
8	BJBR	Bank Jabar Banten
9	BMRI	Bank Mandiri
10	MAYA	Bank Mayapada International
11	MEGA	Bank Mega
12	BBNI	Bank Negara Indonesia
13	BBNP	Bank Nusantara Parahyangan
14	NISP	Bank Ocbc Nisp
15	BSWD	Bank of India Indonesia
16	PNBN	Bank Pan Indonesia
17	BNLI	Bank Permata
18	BBRI	Bank Rakyat Indonesia
19	BSIM	Bank Sinar Mas
20	BBTN	Bank Tabungan Negara
21	BTPN	Bank Tabungan Pensiunan Nasional
22	BVIC	Bank Victoria
23	AGRO	Bri Agro Niaga

The data used are financial reports of banking companies listed on the Indonesia Stock Exchange in 2012-2016 which are publicly published and listed in the Indonesian Banking Directory issued by Bank Indonesia, Indonesian Capital Market Directory (ICMD), Indonesia Stock Exchange (www.idx.co.id), and the website of each company.

To achieve the objectives in this study used descriptive statistical analysis and panel data regression analysis. Panel data regression analysis is used to examine the effect of credit risk (NPL), liquidity (LDR), and capital structure (CAR) on profitability (ROA) of banking companies listed on the Stock Exchange in 2012-2016.

Credit risk or often referred to as default risk is a risk due to the failure or inability of the customer to return the amount of the loan obtained from the bank and its interest in accordance with a predetermined time period or scheduled (Siamat, 2004: 280). Credit risk is calculated using the formula (Bank Indonesia Circular Letter No.6 / 23 / DPNP dated May 31, 2004), as follows:

$$\mathrm{NPL} = \frac{\text{Bad Debts}}{\text{Total Loans}} \text{ x } 100\% \qquad (1)$$

Aspects of bank liquidity are measured by the Loan to Deposit Ratio (LDR). LDR is the ratio between the total amount of credit given by the bank and the funds received by the bank. In accordance with Bank Indonesia Circular Letter No.6 / 23 / DPNP dated May 31, 2004, the calculation of the liquidity ratio is as follows:

$$\mathrm{LDR} = \frac{\text{Total Loans}}{\text{Total Deposits}} \text{ x } 100\% \qquad (2)$$

Capital adequacy is a measure that determines if a bank has sufficient capital that offers protection against risks associated with offering bank credit and other financial businesses. Capital adequacy is also known as capital for the risk of weighted asset ratios. In this study capital adequacy uses the Capital Adequacy Ratio (CAR). Calculation of CAR in accordance with Attachment 1a Bank Indonesia Circular No. 6/23 / DPNP May 31, 2004 are as follows:

$$\mathrm{CAR} = \frac{\text{Equity}}{\text{ATMR (Risk Weighted Assets)}} \text{ x } 100\% \qquad (3)$$

Profitability is measured using Return on Assets (ROA). ROA is the ratio used to measure the ability of a bank's management to gain profit (profit) as a whole. In Attachment 1d Circular Letter of Bank Indonesia No.6 / 23. / DPNP dated May 31, 2004 the calculation of ROA is as follows:

$$\mathrm{ROA} = \frac{\text{Net Income Available to Common Stockholders}}{\text{Total Assets}} \text{ x } 100\% \qquad (4)$$

In carrying out the analysis, the tools used are using the EViews version 9.0 application. Before panel data regression analysis, panel data regression estimation method was carried out. According to Widarjono (2007: 251), to estimate the model parameters with panel data, there are three techniques (models) that are often offered, namely: with Chow Test (Fixed Effect Test), Hausman Test (Random Test Effect) and the Lagrange Multiplier Test. From the test results, it can be determined which Data Panel Regression Model will be used, and then Hypothesis testing is carried out.

III. Results and Discussion

Descriptive data, showing minimum, maximum, mean (mean) values, median and standard deviations (δ) of each research variable can be seen in the following table:

Table III: Descriptive Analysis

Sample: 2012 2016				
	Y	X1	X2	X3
Mean	1.914261	1.336522	84.43330	17.99835
Median	1.790000	1.090000	86.34000	17.31000
Maximum	5.150000	4.960000	108.8600	34.50000
Minimum	-11.15000	0.000000	52.39000	10.44000
Std. Dev.	1.787059	1.068872	11.23586	3.521906
Skewness	-3.667851	1.118663	-0.764781	1.184686
Kurtosis	27.71823	3.943440	3.831911	6.189018
Jarque-Bera	3185.516	28.25024	14.52660	75.63050
Probability	0.000000	0.000001	0.000701	0.000000
Sum	220.1400	153.7000	9709.830	2069.810
Sum Sq. Dev.	364.0680	130.2436	14391.87	1414.036
Observations	115	115	115	115

Source: Output Eviews Verse 9.0

The results of the descriptive analysis above the average credit risk (NPL) value is 1.336522%, then based on the average credit risk (X1) if correlated with regulations (Indonesian Bank regulations) that banks in the study population fall into bank criteria by level of risk rating 2 or "Healthy" (1%≤ NPL <2%). In addition, the difference between the minimum value and the maximum value of credit risk, shows that each bank has different capabilities in managing credit risk. In table 3, it can be seen that the standard deviation is below the mean (mean). This shows that data variations or data deviations are small.

The average value for variable X2, namely Liquidity Risk (LDR) is 84.43330%, this value if categorized as a risk profile according to regulations, is categorized into "Healthy" banking or rating 2 (75% <LDR ≤ 85%). The maximum and minimum value of liquidity has a significant difference, this shows that even though the sample company is conducted in a group of banking companies, each bank has different capabilities in terms of maintaining liquidity. Liquidity risk is measured by comparing funds disbursed (credit) with funds received (third party funds). In addition, in table 3 can also be seen the standard deviation of liquidity risk, has a small value of the average value of the risk of liquidities. This shows that data deviations are small.

Capital variable (X3) obtained an average value of 17,99835%, this value can be categorized into banking criteria "Very Healthy" or rank 1 (CAR> 12%) according to Bank Indonesia regulations. The minimum value is 10.44% and the maximum value of capital risk is 34.5%. From this value, it can be said that banking companies in this research sample have a good risk of capital adequacy. Bank Indonesia asked the banking company to have a minimum capital adequacy ratio of 9%, but the company in this sample had a ratio of above 10.44%.

Variable Y as the dependent variable, has an average value of 1.914261%. This value, if included in the risk profile category according to the Bank Indonesia Regulation shows that the profitability (ROA) of banks in the study is ranked 1 or in the criteria category of "very healthy" banks (ROA> 1.5%). But if we see the minimum and maximum values, there are companies that have a loss of 11.15%.

There are three tests to choose panel data estimation technique, first Chow Test is used to choose between common effect or fixed effect models. Second, Hausman Test is used to choose between the best fixed effect model or random effect in estimating panel data regression. Third, the Lagrange Multiplier Test is used to ascertain which model to use, the basis for this test is if the results of fixed and random tests are not consistent.

Chow test is a test by comparing between Pooled Least Square (Common Effect) and Fixed Effect Models. In this test the hypothesis is as follows:

H0: Common Effect Model

H1: Fixed Effect Model

H0 is rejected if P-value is smaller than the value α. Conversely, H0 is accepted if the P-value is greater than the value of α. The value of α used is 5% (0.05). This test uses tools (applications) Eviews version 9.0, the results of the data processing are as follows:

Table IV: Fixed Effect Test Results (Chow Test)

Redundant Fixed Effects Tests				
Equation: Untitled				
Test Cross-Section Fixed Effects				
Effects Test		Statistic	d.f.	Prob.
Cross-Section F		3.949009	(22,89)	0.0000
Cross-Section Chi-Square		78.332859	22	0.0000
Cross-Section Fixed Effects Test Equation:				
Dependent Variable: Y				
Method: Panel Least Squares				
Sample: 2012 2016				
Periods Included: 5				
Cross-Sections Included: 23				
Total Panel (Balanced) Observations: 115				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	-0.885266	0.131420	-6.736172	0.0000
X2	-0.001341	0.012366	-0.108453	0.9138
X3	-0.087462	0.039740	-2.200862	0.0298
C	4.784839	1.312137	3.646600	0.0004
R-Squared	0.338355	Mean Dependent Var		1.914261
Adjusted R-Squared	0.320472	S.D. Dependent Var		1.787059
S.E. of Regression	1.473134	Akaike Info Criterion		3.646825
Sum Squared Resid	240.8839	Schwarz Criterion		3.742301
Log Likelihood	-205.6924	Hannan-Quinn Criter.		3.685578
F-Statistic	18.92121	Durbin-Watson Stat		0.828139
Prob (F-Statistic)	0.000000			

Source: Output Eviews Version 9.0

Based on the results of the Chow Test showed the p-value F test was 0.0000 with a significance level of 5% ($\alpha = 0.05$), then the p-value (0.0000) $<\alpha$ (0.05). Thus H0 (Common Effect Model) is rejected, meaning, the accepted model is Fixed Effect Model.

The Hausman test is a statistical test to choose between the Fixed Effect or Random Effect models that are most appropriate to use. Testing of the Hausman test is done with the following hypothesis:

H0: Random Effect Model

H1: Fixed Effect Model

P value <0.05 then H0 is rejected, the method chosen is fixed effect. If p value> 0.05, the method we choose is random effect. The results of the test can be seen in the table below:

Table V: Random Effect Test Results (Hausman Test)

Correlated Random Effects - Hausman Test					
Equation: Untitled					
Test Cross-Section Random Effects					
Test Summary		**Chi-Sq. Statistic**		**Chi-Sq. d.f.**	**Prob.**
Cross-Section Random		4.680916		3	0.1967
Cross-Section Random Effects Test Comparisons:					
Variable	Fixed	Random		Var(Diff.)	Prob.
X1	-0.713725	-0.835689		0.010181	0.2268
X2	0.039529	0.007405		0.000595	0.1878
X3	-0.184707	-0.138154		0.000626	0.0628
Cross-Section Random Effects Test Equation:					
Dependent Variable: Y					
Method: Panel Least Squares					
Sample: 2012 2016					
Periods Included: 5					
Cross-Sections Included: 23					
Total Panel (Balanced) Observations: 115					
Variable	Coefficient	Std. Error		t-Statistic	Prob.
C	2.854991	2.571391		1.110290	0.2699
X1	-0.713725	0.174525		-4.089541	0.0001
X2	0.039529	0.029781		1.327337	0.1878
X3	-0.184707	0.047773		-3.866390	0.0002
Effects Specification					
Cross-Section Fixed (Dummy Variables)					
R-Squared		0.665186	Mean dependent var		1.914261
Adjusted R-Squared		0.571138	S.D. dependent var		1.787059
S.E. of Regression		1.170302	Akaike info criterion		3.348278
Sum Squared Resid		121.8950	Schwarz criterion		3.968872
Log Likelihood		-166.5260	Hannan-Quinn criter.		3.600174
F-Statistic		7.072779	Durbin-Watson stat		1.556068
Prob (F-Statistic)		0.000000			

Source: Output Eviews version 9.0

Hausman test results, showed a p-value value of random cross-section of 0.1967> 0.05. So it is stated that the Random Effect Model is better than the Fixed Effect Model. Based on the tests that have been conducted (Chow Test and Hausman Test), inconsistent results were found, the correct Chow Test model was Fixed Effect, while the Hausman model used was the Random Effect. Thus, further testing is needed, namely the Lagrange Multiplier Test (LM-Test).

The Lagrange Multiplier Test is an analysis conducted with the aim to determine the best method in panel data regression, using common effects or random effects. The hypothesis used is:

H0: Common Effect Model

H1: Random Effect Model

H0 is rejected if the Prob. value. Breusch-Pagan (BP-value) is smaller than the value of α. Conversely, H0 is accepted if the Prob. value. Breusch - Pagan (BP-value) is greater than the value of α, the value of α used is 5%.

Table VI: Lagrange Multiplier Test Results

Lagrange Multiplier Tests for Random Effects			
Null Hypotheses: No Effects			
Alternative Hypotheses: Two-Sided (Breusch-Pagan) and One-Sided (All Others) Alternatives			
	Test Hypothesis		
	Cross-Section	Time	Both
Breusch-Pagan	24.88818	1.220993	26.10918
	(0.0000)	(0.2692)	(0.0000)
Honda	4.988806	-1.104985	2.746276
	(0.0000)	--	(0.0030)
King-Wu	4.988806	-1.104985	0.940332
	(0.0000)	--	(0.1735)
Standardized Honda	5.597717	-0.841443	-0.631496
	(0.0000)	--	--
Standardized King-Wu	5.597717	-0.841443	-1.820410
	(0.0000)	--	--
Gourierioux, et al.*	--	--	24.88818
			(< 0.01)
*Mixed Chi-Square Asymptotic Critical Values:			
1%	7.289		
5%	4.321		
10%	2.952		

Source: Output Eviews Version 9.0

From the test results the Lagrange Multiplier Test shows that the Prob. value is Breusch-Pagan (BP-value) is 0.0000 with a significance level of 5% ($\alpha = 0.05$), Prob. BP - value (0.0000) $<\alpha$ (0.05). Thus H0 (Common Effect Model) is rejected, meaning that the model accepted is the Model Random Effect.

The panel data regression test results using Random Effect Model are presented in the following table:

Table VII: Panel Data Regression Test Results

Dependent Variable: Y				
Method: Panel EGLS (Cross-Section Random Effects)				
Periods Included: 5				
Cross-Sections Included: 23				
Total Panel (Balanced) Observations: 115				
Swamy and Arora Estimator of Component Variances				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
X1	-0.835689	0.142399	-5.868628	0.0000
X2	0.007405	0.017090	0.433304	0.6656
X3	-0.138154	0.040698	-3.394596	0.0010
C	4.892474	1.620008	3.020031	0.0031
Effects Specification				
			S.D.	Rho
Cross-Section Random			0.915267	0.3795
Idiosyncratic Random			1.170302	0.6205
	Weighted Statistics			
R-Squared	0.386049	Mean Dependent Var.		0.950239
Adjusted R-Squared	0.369456	S.D. Dependent Var.		1.484923
S.E. of Regression	1.179130	Sum Squared Resid.		154.3285
F-Statistic	23.26540	Durbin-Watson Stat.		1.249775
Prob (F-Statistic)	0.000000			
Un-Weighted Statistics				
R-Squared	0.325055	Mean Dependent Var.		1.914261
Sum Squared Resid	245.7259	Durbin-Watson Stat		0.784923

Source: Output Eviews Version 9.0

From the results of the Fixed Effect Model above, it is known the value of the coefficient constant so that the following equation can be formed:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e(1)$$

$$ROA = 4.898474 - 0.835689NPL + 0.007405LDR - 0.138154\ CAR$$

a) Determination Coefficient and F - Test (Simultaneous)

Based on the results of the random effect model method, R2 (R-squared) is 0.386049. Thus, it can be seen that the variable NPL, LDR, and CAR ratio can explain the profitability of conventional commercial banks in 2012-2016 which is proxied through ROA of 38.60%, while the remaining 61.40% is influenced by other variables outside the variable.

The results of the random effect model test results showed that the F count value was 23.26540 and the F table value was 2.69, so that F count> F table value and had a prob. (F Statistic) value of 0.000000 <0.05 (α).

b) Effect of Credit Risk on Profitability

T test (partial test) basically shows how far the influence of an explanatory / independent variable individually in explaining the variation of the dependent variable. In testing the X1 variable is known t count> t table, namely -5.868628> 1.983 and has a prob value. (p-value) 0.0000 <0.05, then H0 is rejected which means that NPL has a significant negative effect on ROA. Credit Risk Variables (NPL) have an effect on Profitability. The influence value is -5,868628, where the negative value shows a negative influence. This means that if the NPL value increases, then Profitability (ROA) will decrease and vice versa. This study confirms Kasmir's statement, (2015: 126) that the more bad loans will result in bank profits falling. The results of this study also support Anton's research (2016) which states that credit risk negatively affects profitability.

c) Effect of Liquidity Risk on Profitability

The result of t count <t table is 0.433304 < 1.983 and has a prob. value. (p-value) 0.6656> 0.05, then H0 is accepted which means that the LDR has no effect on ROA. This study supports what Pramitha did (2015) that the LDR does not affect ROA. Other research that is in line with the results of this study is the research by Sari Ayu (2015) which states that LDR does not affect ROA. Liquidity risk is only to measure the ability of the bank whether the bank is able to pay its debts and pay back to the depositor, and can meet the credit request submitted. But it does not determine the higher credit distribution and the quality of the loans disbursed.

In an effort to achieve optimal profit (by providing loans) must maintain a healthy level of liquidity which is expected to meet withdrawal of deposits by customers, in addition to fulfilling the obligation to maintain the minimum liquidity set by the regulator. So it can be concluded that when the bank expects maximum profit will risk at a low level of liquidity or when high liquidity means the level of profit is not optimal. So there is a conflict of interest between maintaining high liquidity and seeking high profits. Liquidity management is very important for banks, especially to overcome liquidity risk caused by the above. To prevent this liquidity risk from occurring, liquidity management policies that can be implemented include maintaining short-term assets, such as cash.

In this study using the LDR ratio, which only shows the amount of lending to third party funds (savings). The amount of deposit funds owned by the bank does not necessarily contribute to profitability because it still must be managed as well as possible by management. This ratio also depends on the policies and strategies that are used by bank management to utilize the savings funds they have in order to get a profit. Therefore, liquidity risk does not have an influence or impact on bank profitability in Indonesia.

Relatively large financing with the distribution of funds to the public must be balanced by the bank's ability to fulfill its obligations to depositors who wish to withdraw their funds from the bank, and the concerned bank must pay attention to the maximum limit of credit or financing stipulated by Bank Indobesia (BI). Thus, the bank is able to carry out its intermediary function well, namely by paying attention to the balance between activities in channeling funds to the community with its fund raising activities.

d) Capital Influence on Profitability

The partial test results of the X3 variable are known, t count> t table which is -3.394596> 1,983 and has a prob. value. (p-value) 0.0010 <0.05, then H0 is rejected which means that CAR has an influence on ROA. The results of this study support the research of Sari Ayu (2015) that partially the CAR variable has a negative effect on profitability (ROA). In addition, the results of this study also concur with the results of Dwi's (2015) study, the results of which state that capital adequacy has no significant negative effect on profitability. Capital risk is a risk that arises due to a decrease in asset quality, due to bad credit. Allowance for impairment losses, hereinafter referred to as CKPN, is an allowance that is provided if the carrying amount of the financial asset after impairment is less than the initial carrying value. This reserve is included in bank capital, which is supplementary capital in the form of CKPN.

IV. Conclusion

a) Conclusion

Based on the analysis and testing of hypotheses, as well as the discussion that has been raised, it can be concluded that the following:

1. The results of this study, state that credit risk (NPL), liquidity risk (LDR), and capital risk (CAR) together (simultaneously) affect profitability (ROA).
2. The result of testing the variable X1 is that H0 is rejected, thus credit risk (NPL) affects profitability (ROA).
3. The result of testing the variable X2 is that H0 is accepted, then the liquidity risk (LDR) has no effect on profitability (ROA).
4. While the result of X3 testing is H0 is rejected, which means capital risk (CAR) affects profitability (ROA).

b) Suggestion

For the next researcher, it can expand the independent variables that are used as factors that can influence the dependent variable outside of the independent variables that the researcher has used so that the results obtained later can largely explain the variation of the dependent variable.

In addition to this for the population and sample, it can also be done on non-bank financing companies, such as multi - finance, leasing, cooperatives, pawnshops and others. So that the results achieved can enrich studies in other financing companies.

The sample selection in this study uses purposive sampling method so that the companies that are sampled are limited to predetermined criteria. This becomes a limitation because it minimizes the sample used so that the results obtained cannot represent the existing company.

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Determinants of Taxpayers' Voluntary Compliance with Taxation: The Case of Wolaita Sodo and Tercha Town in Dawuro Zone

By Mesele Kebede Manaye
Wolaita Sodo University

Abstract- While tax compliance has been an academic research topic in Ethiopia, there has not been detailed consideration of the major determinants of tax compliance in relation to taxpayers. The primary objective of this study was to identify the major determinants which affects the voluntary compliance behavior of tax payer's in wolaita sodo town and Tercha Town in Dawuro zone. The study used an explanatory method of research design. Given the scaled ranking information of the dependent variable (tax compliance), a multiple linear regression model was applied to examine determinants of tax compliance in Wolaita Sodo and Tercha Town, Ethiopia. The study results from the survey conducted in study area using 290 respondents, indicate that tax compliance was influenced by the probability of being audited, financial constraints, and changes in government policy among thirteen potential determinants of tax non-compliance were examined in this study. The tax payers should always be treated equally, involve taxpayers (which are conclusive stakeholders in this tax system) on each of the tax issue and should work jointly, the tax authority needs to be strong enough as well as should be perceived as powerful by the taxpayers and voluntary compliance is enhanced when the tax authority administers the law fairly and the authority needs to strengthen itself by educating and training its employees both at home and abroad were few of the recommendations and implications forwarded to the tax authority in the study area in particular and the country in general based the findings and discussions.

Keywords: tax compliance, tax payers, wolaita sodo town, tercha town, tax revenue authorities.

GJMBR-D Classification: JEL Code: H20

DETERMINANTSOFTAXPAYERSVOLUNTARYCOMPLIANCEWITHTAXATIONTHECASEOFWOLAITASODOANDTERCHATOWNINDAWUROZONE

Strictly as per the compliance and regulations of:

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Chapter One

I. Introduction

Today the role of the government has increased and government has to collect more tax than ever to finance its operation. But governments are facing difficulty in collecting the tax they need for many reason. One of the main reasons is tax noncompliance. Tax compliance is the willingness of taxpayers to obey tax laws in order to obtain the economy equilibrium of a country (Andreoni, et al 1998). Compliance with the tax law typically means true reporting of tax bases, correct computation of the tax liability, timely filing of returns and timely payment of the amount due. Tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations. In the contrary, tax noncompliance is individual failure to comply with their tax obligation. It can be: not reporting the tax bases, not timely filing and payment, and incorrect calculation of liability.

Taxation is one of the important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago (Lymer and Oats, 2009: 1).

For voluntary system to work successfully, the people must be confident that the taxes are levied fairly and that everyone pays his share. If the feeling becomes widespread that the tax system is a collection of loopholes and evasions, if people see their equally prosperous neighbors paying substantially less or enjoying tax- free expense account living, taxpayer morale declines. Once this attitude prevailed in the public it is difficult to rectify it and costs the authorities a huge compliance and collection costs.

Hence, this study aims at identifying factors that affect the tax payer's voluntary compliance i.e. what factors motivate taxpayers to comply with the tax system or what factors influence tax payers not to comply with tax system. The output of this study helps the tax authority to incorporate measures that address these pitfalls while designing a tax system or policy.

a) Statements of the Problem

Tax non-compliance is a serious challenge slackening income tax administration and tax revenue performance in Ethiopia, as it does in some other developing countries.

Like other developing countries, Ethiopia faces hurdles in raising revenue to the required level in order to scale up the development endeavors. Ethiopia has experienced an unswerving surplus expenditure over revenue for a sufficiently long period of time. To address this problem, the government introduced direct and indirect taxes to improve public revenue although prior statistical evidence proves that the contribution of income taxes to the government's total revenue remained consistently low.

Author: *Assistant Professor, Department of Accounting and Finance, Wolaita Sodo University, Ethiopia. e-mails: mesiyek2002@yahoo.com, 1781107@ksom.ac.in*

The tax compliance literature has provided evidence suggesting that compliance is influenced by numerous factors (Brook, 2001). Scholars identified these factors as economic, social and psychological (Brook, 2001; Devos, 2008; Kirchler, 2007). To mitigate the challenge of tax non-compliance, it is necessary to understand factors influencing an individual's decision to comply with tax laws.

As stated by Scholz (1998; 137) in Fjeldstad (2004), without trust there is little basis for social co-operation and voluntary compliance with laws and regulations that could potentially benefit everyone. The temptation not to comply even if others do comply defines the free riding problem that is endemic in collective action situations in private as well as public institutions.

According to Kirchler (2007) and Loo (2006), tax compliance determinants are classified in four categories based on an interdisciplinary perspective representing a wider perspective of tax compliance determinants compared to other researchers. The four categories are 1) economic factors (tax rates, tax audits and perceptions of government spending); 2) institutional factors (the role of the tax authority, simplicity of the tax returns and administration and probability of detection); 3) social factors (ethics and attitude, perceptions of equity and fairness, political affiliation and changes on current government policy, referent groups); and 4) individual factors (personal financial constraints, awareness of offences and of penalties).

Even though Ethiopian modern tax administration is not older than half a century, it has undergone several legal amendments during this time. But the improvement is not as big as its age as far as citizen's voluntary compliance is concerned. The tax system in the country mainly stresses on legal enforcement as a remedy to ensure its proper functioning. For example, the current income tax proclamation (no. 286/2002) has increased the amount of penalties and strengthened the means of enforcement while it states nothing about how to create and increase the awareness of the taxpayers. It gave the tax authorities the right to sell the property of evaders without going to courts in order to collect the outstanding tax liability.

Most of the reform efforts basically targeted institutional capacity building and putting enforcing legal frameworks in place while only insignificant effort, if any was deployed to make the public aware of the benefits of paying tax to the nation. The taxpayers education program that is being carried on very occasionally, stresses more about teaching the contents of the tax laws and penalties rather than promoting citizens' sense of responsibility toward taxation and devising ways to reward compliant behavior.

The extent of the effect of the factors influencing tax compliance is not well understood and studies have not been carried out in wolaita soddo city, Ethiopia to the best of the authors' knowledge. Therefore, examining economic, institutional, social, individual and selected demographic factors that influence tax compliance behavior in wolaita soddo city and Tercha town in Dawuro zone, Ethiopia was the primary purpose of this study.

b) Objectives of the Study

The main objective of this study is to investigate determinants of taxpayers' voluntary compliance with taxation in wolaita soddo and Tercha town in Dawuro Zones.

c) Specific Objectives

In order to accomplish the above major objective, the specific research objectives of this study are as follows:-

1. To determine what are the factors that affect compliance of taxpayers in wolaita soddo and Tercha town in Dawuro Zones.
2. To examine what is relationship between/among these factor and tax compliance.

d) Significance of the Study

This study is significant in that it may help the policy makers of the town administration each zone and at national level to make use of the outputs of the study in addressing the voluntary compliance problems. Moreover,

- ✓ It may provide significant knowledge (awareness) about the benefit of tax in economic development of the country.
- ✓ It may serve as additional sources of information for further investigation in the area of taxation.
- ✓ It will help to create responsible citizens in the country.
- ✓ It provides information about the drawback of the system to the concerned government body and forwards some possible solution.

Chapter Two

II. Review of Literature

The exact meaning of tax compliance has been defined in various ways. Andreoni, Erard, and Feinstein (1998) defined as taxpayers' willingness to obey tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) is defined as taxpayers' willingness to pay their taxes. In 1978 by Song and Yarbrough be defined as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place.

a) Economic Factors

Economic factors in relation to tax compliance refer to actions which are associated with the costs and benefits of performing the actions (Loo, 2006). Hasseldine (1993), and Song and Yarbrough (1978) assumed that taxpayers are rational economic evaders who likely would assess the costs and/or benefits of evasion. The tax compliance determinants associated with economic factors such as tax rates, tax audits and perceptions of government spending are explored in more detail.

i Tax Audits

Some studies claimed that audits have a positive impact on tax evasions (Jackson and Jaouen, 1989; Shanmugam, 2003; Dubin, 2004). These findings suggest that in self assessment systems, tax audits can play an indispensable role and their essential role is to increase voluntary compliance. Frequencies and meticulousness of audits could encourage taxpayers to be more prudent in completing their tax returns, reporting all income and claiming the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.

ii Perceptions of government spending

Taxpayers, and especially those who pay high amounts of tax, will be sensitive to what the government spends their money on. If the government is wisely spending the national revenue, for example, for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them, then taxpayers will feel betrayed and attempt to evade.

b) Institutional Factors

While taxpayers are influenced by their pure economic concerns either to evade or not to evade taxes, evidence suggests that institutional factors also play vital role in their compliance decisions.

c) Role (efficiency) of the tax authority/government

For many aspects of tax compliance, there is a debate in literature as to how the effective operation of the tax system by the tax authorities influences taxpayers' compliance behavior. The role of the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important. Hasseldine and Li (1999) illustrated tax compliance is placing the government and the tax authority as the main party that need to be continuously efficient in administering the tax system in order to curtail tax evasion. Besides, the study of Richardson (2008) also suggested that the role of a government has a significant positive impact on determining attitudes toward tax.

d) Social Factors

Tax compliance determinants from a social perspective relates to taxpayers' willingness to comply with tax laws in response to other people's behavior and their social environment (i.e. the government, friends and family members) (Torgler, 2007). On the other hand, Kirchler (2007) suggested that social factors should be viewed in a broader sense than Torgler's perspective; this includes the psychology of the taxpayers. The factors discussed in this section are therefore perceptions of equity and fairness, changes to current government policy and referent groups.

e) Perceptions of equity or fairness

One of the main principles of the taxation system design is equity or fairness, which can be perceived via three dimensional views - horizontal equity (people with the same income or wealth brackets should pay the same amount of taxes), vertical equity (taxes paid increase with the amount of the tax base) and Exchange Equity (Wallschultzky 1984; Richardson, 2006). The perceived fairness of the tax system also has an influence on the inclination towards tax evasion (Jackson and Milliron, 1986; Richardson, 2008).

f) Changes to current government policies

Political stability and the ruling party in a country might play a significant role in determining tax evasion behavior. For instance, if an individual favors the ruling party, he might choose to be compliant because he believes that the government is trusted, efficient and equitable. Conversely, a taxpayer from the opposition party might be more non-compliant because he perceives that the government is not on his side. Studies have disclosed that the government decisions and changes to policies in accordance with the economic and political situation have a significant impact on compliance. For example, a positive move made by the government such as an increase in tax rebate (Hasseldine and Hite, 2003) is likely to increase taxpayers' compliance.

g) Referent groups (family and friends)

Research in ascertaining the importance of referent groups such as family members and friends in tax compliance is limited although Ajzen and Fishbein (1980) (in their Theory of Reasoned Action (TRA) and Theory of Planned Behavior (TPB) theorized that referent groups play a significant role in determining people's intentions and behavior. Decisions either to evade or not to evade tax sometimes are influenced by family members or friends (for (1972) although the extent of the influence was not clearly stated in this research. Therefore, the influence of referent groups is seemingly important in making a decision, particularly involving monetary aspects and the obedience to laws (tax compliance).

h) Individual Factors

Decisions either to evade or not to evade taxes are heavily reliant on taxpayers' personal judgment (Mohani, 2001). Personal circumstantial factors like personal financial constraints and awareness of penalties and offences are therefore likely to have a significant impact on taxpayer compliance behavior.

i *Personal financial constraints*

Personal financial constraints are believed to have an impact on tax evasion as financial distress faced by an individual and may encourage him to priorities what has to be paid first as basic survival needs (foods, clothing, housing etc.) or where immediate demand on limited income is enforced (for example, perceived threat of action from money lenders etc.) rather than tax liabilities.

People who face personal financial problems are likely to be more prone to evade tax when compared to people in less financial distress (Mohani and Sheehan, 2004; Mohani, 2001).

ii *Awareness of offences and penalties*

A theoretical economic model introduced by Allingham and Sandmo (1972) has clearly indicated that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater the discouragement for potential tax evasion. If the taxpayers are aware of the offences they are committing when evading tax and the consequences of being non compliant taxpayers, they might reduce their tendency to evade tax.

i) Tax Knowledge

The influence of tax knowledge on compliance behavior has been described in various researches. The level of education received by taxpayers is an important factor that contributes to the understanding about taxation especially regarding the laws and regulations of taxation (Eriksen and Fallan, 1996).

Previous studies have evidenced that tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply (Singh and Bhupalan, 2001).

j) Demographics and other control variables

i *Gender*

Some studies found that males are more compliant though other studies revealed contradictory results or no significant difference at all. As agreements on the findings still maintain, the need to explore current results is relevant. Hasseldine and Hite (2003) found that female taxpayers were more compliant than males. However, the study reported that males were more compliant compared to females when a negatively framed message was used, and females were more compliant than males when a positively framed message was used.

In contrast, Richardson (2006) suggested that gender has no significant impact on compliance across a study of 45 countries.

ii *Income*

Jackson and Milliron (1986) found that income level has a mixed and unclear impact on compliance, and some later research agrees with that statement (see Christian and Gupta, 1993: Hite, 1997). Although Jackson and Milliron (1986) did not clearly mention the reason, it is presumed that endogenous tax regulations among countries might contribute to inconsistent findings. For example, progressive tax rates might encourage the higher income group to evade rather than the lower income group because their (higher income group) tax rates and taxable income are high, thus, making the tax liabilities much higher than lower income group. In a country where income redistribution is not satisfying, the higher income group tends to evade more (Mohani, 2001) because the high income earner might feel betrayed and unfairly treated. Loo (2006) found that high income earners in Malaysia are prone to evading tax while Torgler (2007) reported that lower income earners in Western Germany were less compliant.

iii *Age*

Demographic factors like age have long been researched by many researchers and findings are different along the way. For example Tittle (1980), Warneryd and Walerud (1982) and Wahlund (1992) posit negative association - older people are less compliant.

In contrast, Dubin, Graetz and Wilde (1987), Chung and Trivedi (2003) and Beron, Tuachen and Witte (1992) argued that age was positively related with compliance. However, there have been a significant number of studies which found no relationship between age and compliance (Spicer and Becker 1980 and Porcano, 1988). Mohani 2001 also found that older people are more compliant.

iv *Education*

Previous literature supports the direct, positive relationship between educational level and taxpayer compliance (Jackson and Miliron 1986). Chan, Troutman, and O'Bryan (2000) also postulate that education level is directly linked to a likelihood of compliance. Educated taxpayers may be aware of noncompliance opportunities, but their potentially better understanding of the tax system and higher level of moral development promote a more favorable taxpayer attitude and greater compliance.

k) Research Gap

Why do some people pay taxes levied upon them while others do not? This is the broad question which this study seeks to answer. In more specific terms, this paper aims at providing a review of the factors that determine taxpayer compliance and conceptualization of those factors into a meaningful whole. There is already a considerable literature on the subject of tax compliance; however, it appears that so far no study has assessed the collective adequacy of the factors employed in the studies and in the particular study area.

And as to the best of researchers' knowledge, factors that determine tax compliance behavior is not well understood and studies have not been carried out in particular study area, Ethiopia and some of related studies also did not incorporate different determinants of tax compliance. In addition, while reviewing the above related literatures, they found inconclusive results on tax compliance determinants. Hence, the above research gap motivated researchers to examine the factors that influence voluntary compliance behavior of tax payers by taking evidence from wolaita sodo town and tercha in Dawuro zone, Ethiopia.

l) Hypothesis of the Study

H1: Probability of being audited is positively correlated with tax compliance

H2: Positive perception of government spending is positively correlated with tax compliance.

H3: The role (efficiency) of the tax authority is positively correlated with tax compliance.

H4: Positive perception of equity in the tax system is positively correlated with tax compliance.

H5: Unfavorably perceived changes to current government policies are negatively correlated with tax compliance.

H6: The influence of referent group is positively correlated with tax compliance.

H7: Personal financial constraint is negatively correlated with tax compliance.

H8: Awareness of penalty is positively correlated with tax compliance.

H9: Tax knowledge is positively correlated with tax compliance.

H10: Male tax payers are more tax compliant

H11: Higher income level is positively associated with better tax compliance.

H12: Older tax payers are tax compliant.

H13: Educational level has direct relationship with tax compliance.

Chapter Three

III. Materials and Methods

a) Description of the Study Area

Sodo or Wolaita Sodo is a town and separate woreda in south - central Ethiopia. The administrative center of the Wolaita Zone of the Southern Nations, Nationalities, and Peoples Region, it has a latitude and longitude of 6°54′N 37°45′E with an elevation between Template: Convert above sea level. It was part of the former Sodo woreda which included Sodo Zuria which completely surrounds it.

Located in the tropics at high altitude, Sodo possesses well - moderated Subtropical highland climate (Koppen *Cwb*), with a pronounced pattern of wet summers and dry winters. Despite being located in the Northern Hemisphere, Sodo is actually cooler in the "summer" than the "winter" due to much higher rainfall in the high-sun season, a phenomenon common to Sodo's region.

Based on the 2007 Census conducted by the CSA, this town has a total population of 76,050, of whom 40,140 are men and 35,910 women. The majority of the inhabitants were Protestants, with 54.61% of the population reporting that belief, 38.43% practiced Ethiopian Orthodox Christianity, 4.76% were Muslim, and 1.28% were Catholic.

Terch is a town and an administrative seat of Dawro zone in southern Ethiopia. The town is located in Marika woreda (district) about 530km (329 miles) south of the capital, Addis Ababa.

b) Research Design

(Saundra, Lewis and Thornhill 2007) Suggest an explanatory study type of research design for researches that study "…a situation or a problem in order to explain the relationships between variables." So, since this study has the objective to investigate determinants of taxpayers' voluntary compliance with taxation in wolaita soddo and Tercha town in Dawuro Zones, by evaluating the relationship among different variables, (which will be explained latter in this part,) the researchers would have choose to use an explanatory study as suggested by the above scholars.

c) Data Source and Type

To attain the stated research objectives, the researchers used both primary and secondary sources of data. Secondary sources include published and unpublished materials. These materials were collected from the federal Inland Revenue, as well as regional and local branches. To gather relevant primary data a survey method with self-structured questionnaire was used. The questionnaires were adopted and developed with some modification from previous similar studies. Close ended questionnaires were prepared in the form of five Likeret-Scale, Where; Strongly Agree (SA) = 5; Agree (A) = 4; Neutral (N) =3, Disagree (D) = 2; and Strongly Disagree (SD) = 1; the use of Likert scale is to make it easier for respondents to answer question in a simple way. And also Primary data was obtained by direct interview with the respondents. The respondents were tax payers and tax officials of revenue authorities. The questionnaire would have include both closed and open ended questions. The closed-ended questions were used to collect background information about the respondents. The questionnaire would pre-tested before conducting interview for the whole sample. Besides, discussions was made with selected tax officers in each zones and general manger and relevant documents were reviewed.

i *Sampling Techniques*

Tax payers were sampled from stratified sectors and market places which included exporters; importers; Construction, Garage and Taylor's associations; and small traders operating in the wolaita soddo and Tercha town of Dawuro zones. For methodological simplicity, tax payers were first re-grouped/stratified into two groups: Group 1 (Category "C" tax payers) and Group 2 (Category 'A' and 'B' Tax payers). Then, a proportional random sampling method was employed to select the sample tax payers from each stratum. According to 2007 E.C record of wolaita zone revenue authority office, there are a total of 6072 tax payers in soddo town out of which 785 under category of tax payer A, 610 under category taxpayer B and 4677 under category taxpayers C.

The sample size was determined based on precision rate and confidence level for all categories of tax payers as follows:

$$n = \frac{Z^2 pqN}{e^2(N-1) + Z^2 pq}$$

Where: n=sample size, p= the maximum population proportion, q=p-1, N= number of population size, Z= standardized normal variable and its value that corresponds to 95 % confidence interval equals 1.96p = 0.5 and e = allowable error (0.05).

Therefore, n = 340 of which 785/6072x340=44 was taken as a sample from tax payer A, 610/6072x340=34 was taken as a sample from tax payer B and 4677/6072x340=262 was taken as a sample from tax payer C.

Even if the actual sample size was three hundred and forty (340), the researchers were urged to reduce the number of respondents to 300 by taking in to consideration the budget constraint by the funding institution i.e the university has allowed budget only for three hundred respondents and total number of three hundred (300) questionnaires were administered to individual taxpayers. The distribution per town i,e Wolaita sodo and Tercha was linked to the number of tax payers in each zone. Since the Tercha town in Dawuro zone had fewer tax payers in terms of Wolaita sodo, sixty (60) questionnaires were administered there. Two hundred and fourty (240) questionnaires were administered in the wolaita sodo since it had the highest number of tax payers. In addition to these, heads of various sections in each town tax authority officials were interviewed on the strategies that the units were using to enhance voluntary compliance among the tax payers.

Simple Random Sampling Technique was used to select the respondents from each town and Purposive Sampling Technique was used to select the heads of the various tax officials responsible in the tax authorities of both towns.

A total of 300 questionnaires were administered randomly to these respondents. At the end of the fieldwork, total of 290 of usable questionnaires were retrieved representing approximately 97% response rate and all were used in the analysis.

d) *Methods of Data Analysis*

The data analysis were based on both descriptive and econometrics approaches. The empirical model is described below.

i *Model Specification*

A statistical tool that allows you to examine how multiple independent variables are related to a dependent variable. Once you have identified how these multiple variables relate to your dependent variable, you can take information about all of the independent variables and use it to make much more powerful and accurate predictions about why things are the way they are.

A multiple linear regression model is a probabilistic model that includes more than one independent variable. The general multiple linear regression model is of the form,

$$y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \ldots\ldots \beta_k x_{ik} + \varepsilon_i;\ \varepsilon_i \sim N(0, \sigma^2) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

Where, β_0, β_1, β_2,.....β_k are the regression coefficients of predictors x_{i1}, x_{i2},..x_{ik}; i = 1, 2,…n and i is the error term.

Thus, we have n observations on y and the associated x variables in equation (1).

The regression coefficient of a predictor quantifies the amount of linear trend in y. It gives the amount of change in y corresponding to one unit change in a predictor while all other predictors are held fixed at some specified levels.

The multiple linear regression model as given in equation 1 has got two components: the deterministic component and the probabilistic component.

$y_i = \beta_0 + \beta_1 x_{i1} + \beta_2 x_{i2} + \ldots\ldots \beta_k x_{ik}$ is the deterministic component of the model, and, ε_i is the probabilistic component.

In the multiple linear regression model, the predictors are strictly assumed to be fixed i.e. $x_1, x_2, \ldots x_k$ are fixed variables (either discrete or continuous) that are controlled by the experimenter while y is a continuous random variable.

Writing equation 1 for each of the n observations, we have

$$y_1 = \beta_0 + \beta_1 x_{11} + \beta_2 x_{12} + \ldots\ldots \beta_k x_{1k} + \varepsilon_1$$

$$y_2 = \beta_0 + \beta_1 x_{21} + \beta_2 x_{22} + \ldots\ldots \beta_k x_{2k} + \varepsilon_2$$

$$y_n = \beta_0 + \beta_1 x_{n1} + \beta_2 x_{n2} + \ldots\ldots.\beta_k x_{nk} + \varepsilon_n$$

The n equations can be written in matrix notation as;

$$\begin{pmatrix} y_1 \\ y_2 \\ . \\ . \\ . \\ y_n \end{pmatrix} = \begin{pmatrix} 1 & x_{11} & x_{12}\ldots\ldots & x_{1k} \\ 1 & x_{21} & x_{22}\ldots\ldots & x_{2k} \\ . & . & \ldots\ldots. & . \\ . & . & \ldots\ldots.. & . \\ . & . & . & . \\ 1 & x_{n1} & x_{n2}\ldots\ldots\ldots & x_{nk} \end{pmatrix} \begin{pmatrix} \beta_0 \\ \beta_1 \\ . \\ . \\ . \\ \beta_k \end{pmatrix} + \begin{pmatrix} \varepsilon_1 \\ \varepsilon_2 \\ . \\ . \\ . \\ \varepsilon_3 \end{pmatrix}$$

Or

$$y = X\beta + \varepsilon \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

i = 1, 2,……n where for each i, yi is the ith observation of the response, xij is the ith observation of the jth explanatory variable (j =1, 2,…,k) and ε is the unobservable error corresponding to this observation.

$$y' = [y_1, y_2\ldots.y_n];\ \beta' = [\beta_0, \beta_1, \beta_2\ldots\ldots \beta_k;\ \varepsilon' = [\varepsilon_1, \varepsilon_2, \varepsilon_3 \ldots.\varepsilon_k]$$

The *i*th row of *X* is defined by the symbol *xi,* which is a *(k* + 1*)* × 1 vector for mean functions that include an intercept. Even though *xi* is a row of *X*, the convention that all vectors are column vectors is used and therefore need to write *xi* to represent a row. An equation for the mean function evaluated at *xi* is

$$E\,(Y|X = x_i) = x'_i\beta = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \ldots\ldots\ldots\beta_k x_k \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$

$$\boxed{\begin{array}{c} TCOMP_i = \alpha + \beta_1 PROBAUDIT_i + \beta_2 GOVSPEND\ i + \beta_3 EQUITY\ i + \beta_4 PENALTY\ i + \beta_5 FINCONS\ i + \beta_6 CHANGES\ i + \\ \beta_7 GROUP\ i + \beta_8\ ROLE_i + + \beta_9\ GENDER\ i + \beta_{10} AGE\ i + \beta_{11} EDUC\ i + \ \beta_{12} AUDITED\ \beta_{13} SIMPLE_i + +\varepsilon\ i \end{array}}$$

Where,

TCOMPi	-	Tax payer's compliance
PROBAUDITi	-	Probability of being audited
SIMPLEi	-	Simplicity of tax procedures
GOVSPEND i	-	Perception of government spending
EQUITYi	-	Perception of equity and fairness
PENALTYi	-	Penalty rates and enforcement
FINCONS i	-	Personal financial constraint
CHANGES i	-	Changes on current government policy
GROUP i	-	Referent group
ROLE i	-	The role of the tax authority
TAXKi	-	Tax knowledge
GENDER i	-	Gender
AGE i	-	Age
EDUCi	-	Education level

Chapter Four

IV. Data Analysis, Presentation and Discussion

a) Introduction

This chapter presents results of the study based on the formulated objectives and hypotheses as presented in chapter one. The chapter analyzes the variables involved in the study and estimate the conceptual model described in chapter two. In the first two sections data description and analysis is presented. The model estimation and the analysis of the results are then discussed. Finally concluding remarks are made. Data description involves a discussion on the sources of data and definitions of the dependent and the independent variables. Data collected was quantitatively analyzed and presented in tables. Hypotheses are also tested with the study accepting or failing to accept them depending on the p values and t test value.

b) Respondents Profile

This section presents information about the demographic characteristics of the respondents in line to their gender, age, formal education, respondents working experience, business type, size of business, business length of operation. Some descriptive statistics are also illustrated in this section. A total of 300 questionnaires were administered to these taxpayers and at the end of the field work, a total of 300 usable questionnaires were retrieved representing 100% response rate. This shows that the response rate considered as excellent. (Dillman, 2007).

i *Demographic Information*

Demographic information shows the characteristics of the elements in the sample size: As such the researchers sought to establish the general information of the respondents, which forms the basis under which the interpretations are made. Demographic factor one analyzed the gender of the respondents. This information was necessary to enable the researchers to obtain information on whether the respondents were either male or female. Seventy two (72%) of the respondents were male whereas twenty eight percent (28%) were female.

Demographic factor 2 shows the age brackets of respondents, the age distribution of the respondent who participated in the study is provided in table 4.1 below. The sample age categories were divided with a range of 10 years except age category above 60. (5.2%) of the respondents are between 20-30 years of age, (7.4%) are between 30-40 years, (24.7%) are in the 40-50 age bracket. Respondents between 50-60 years are (47.6%) and those above 60 years of age are fifteen point one percent (15.1%). This result illustrates that most of the tax payer's in wolaita sodo town and Tercha are generally above 40 years. This is an indication that most taxpayers in the sample are at their matured ages and information given to this study is free from emotional (Table 4.1). Demographic factor 3 examines the academic qualifications of the respondents. It is believed to be that the ability to read and write influences one's ability to understand and interpret the tax laws. The information is necessary to enable the researchers to know whether the respondents are educated or illiterate. Information on the academic qualifications of the respondents is statistically shown in table 4.1 below. It reflects the academic qualifications of the respondents. Sixteen point six percent (16.6%) have a high school certificate; Thirty two point eight percent (32.8%) have a Degree/Professional, forty two point four percent (42.4%) hold a Certificate/diploma and eight point two percent (8.2%) have a post graduate /masters and above degree qualification. Cumulatively, all of the respondents were in possession of at least reading and writing and none of the respondents had no schooling. Therefore, the implication to these findings indicates that the majority of business taxpayers were well educated to know the need for taxation and they can understand and interpret the tax law as well (table 4.1).

Table 4.1: Demographic Information

Gender	Frequency	Percentage
Male	209	72
Female	81	28
Total	290	100
Age		
20-30 years	16	5.2
31-40 years	21	7.4
41-50 years	72	24.7
50-60 years	138	47.6
Above 60 years	44	15.1
	290	100
Level of Education		
Below 12 grade	0	0
12 grade complete	48	16.6
Diploma	123	42.4
1st degree	95	32.8
Masters and above	24	8.2
Others	0	0
	290	100

Source: Field Survey, 2015/2016

c) Information about Age of the Business and the Annual Turnover

Research findings on information about the age of the business in the study area revealed that majority of the businesses have been in operation for between 1-5 years (47.6%) followed by those that have been in operation for 6-10years (24.7%), and business who have been in operation for less than a year (15.1%) and business that have been in operation for over 10years (12.5%). Findings on the annual turnover affirmed that the turnover below birr 100,000.00 was sixty one point six percent 61.6% whereas turnover between 100,000-500,000.00 birr was twenty four point four percent 24.4% .Annual turnover above 500,000 birr was one point fourteen percent 14% .The results reveal that most of the business owners in the study area have their annual turnover below 100,000 birr.

Table 4.2: Information about age of the business and annual turnover of the business

Years of Operation	Frequency	Percentage
Less than a year	44	15.1
1-5 years	138	47.6
6-10 years	72	24.7
Above 10 years	36	12.5
Total	290	100
Annual turnover		
Less Than BIRR 100,000	179	61.6
BIRR 100,000 to BIRR 500,000	71	24.4
BIRR 500,000 and Above	41	14
Total	290	100

Source: Field Survey, 2015/2016

The number of years one has been in business has an influence on his/her taxpayers' experience and level of paying taxes. For those who have done business for long implies they are used with the routine practices of paying taxes to tax authority. Accordingly, the respondents were required to indicate their working experience related tax issue and findings of the survey shows that more than half of the respondents (56.1%) indicated that they had 6 to 10 years of experiences in business, 22.4 % of the survey respondents indicated that they had 1 to 5 years of work experience, while 11.5 % had 5 to 10 years of experience, the rest had less than 1 year of experience in the business. Therefore, it can be said that the business taxpayers had relatively average experience on tax related issue which indicates that almost half of them are well experienced which can able them measure the old tax system and the new one. In other words, it can be conclude that the information provided in this study was given by experienced respondent and informants (Table 4.3).

Table 4.3

Respondents working experience as tax related issues	Frequency	Parentage
Less than 1 year	29	10.1
1-5 years	65	22.3
6-10 years	163	56.1
More than 10 years	33.35	11.5
Total	290	100

Source: Field Survey, 2015/2016

According to Income Tax Regulation No. 78/2002, there are 69 categories of business sectors and for the purpose of this study only the major ones were surveyed and their distribution is presented in the table below.

Table 4.4: Distribution of Business Sectors Included In the Sample

Respondents working experience as tax related issues	Frequency	Parentage
Manufacturing	54	18.6
General Trade/Whole Sale	68	23.6
Service	167	57.6
Others	1	0.2
Total	290	100

Source: Field Survey, 2015/2016

i *Position in the Sector*

Respondents were asked to state who would lead their sector and whether they belong to as owner, employer and manager of the sector. Of the three categories owner of the sector had contributed 70.2% followed by 24.8% and 4.8% who had worked as an employer and manager in the sector correspondingly. Here we can conclude that, most of the business in the study area managed by owners instead by professional managers.

Table 4.5: Frequency distribution of position in the sector characteristics of respondents

	Frequency	Parentage
Owner	203	69.9
Employer	72	24.8
Manager	14	4.8
Total	290	100

Source: Field Survey, 2015/2016

ii *Taxpayers' knowledge about taxation*

Regarding this aspect 99% of the respondents responded that they knew why they pay taxes. On the other hand the following table shows the response of the respondents regarding their reason of paying taxes

Table 4.6

Reason of Paying Taxes	Frequency	Percentage
1. To avoid disturbances	15	5
2. In the anticipation of public services	90	31
3. There is no opportunity to evade	17.4	6
4. It is an obligation towards the government	168	58
Total	290	100

Source: Field Survey, 2015/2016

From the above table when tax payers asked why they pay taxes, 58% of the respondents said that they pay taxes because it is an obligation to the government or state and in the anticipation of public services from the government (31%). This indicates there is a positive understanding as to why people pay taxes and if successive works are done probably better results can be achieved. On the other hand, some of them (6%) said that they have no opportunity to evade, and the remaining 5% of the respondents said that they pay taxes to avoid disturbances. Particularly with respect to those 5% who said they pay taxes to avoid disturbances, the response indicates that the revenue collection regime is not considered by majority of taxpayers (at least 95%) to be harsh and unpleasant. In other words, only 5% of the respondents think that way. The response of the other 6% who said there is no opportunity to evade indicates they have the intention not to pay if they have the opportunity to do so or their compliance behavior is questionable.

iii *Tax Equity or Fairness*

When people asked whether the tax they are paying is based on their ability-to pay or not, 71% of them responded that the tax is not fair and not based on their ability-to pay.

Table 4.7: Table that depicts overstatement/understatement of tax

Questions	Frequency	Percentage
Is your tax liability overstated or understated?		
Overstated	206	71
Understated	23	8
Normal	61	21
Total	290	100

Source: Field Survey, 2015/2016

According to the above table, from those respondents who have said the tax they are paying is not based on their ability- to pay, only 29% said that the tax they paid is fair and equitable Or even understated whereas the majority (71%) of those who said the tax they pay is not fair Responded that it is overstated. On other question in support of this issue, the respondents were asked to rank the major problems in the tax system and they responded accordingly.

From the list of five most probable options the majority of the respondents (60%) felt that the tax rates are too high, 17% said tax revenues are not spent on public services, and also 15% said taxpayers are not willing to pay. From this response it is clear that the tax rate is not based on the ability-to-pay principle or it is perceived to be unfair by taxpayers. This can be either really true or human beings are benefit maximizers so that it may be difficult to Please taxpayers. Even though the principle says the tax should be based on the ability-to pay, the problem here is in determining this 'ability' for each taxpayer. Actually the tax rate May not be as such high but the communication gap between the tax authority and taxpayers Might have created this perception and it continues to be the issue as far as the Understanding of the taxpayers regarding tax rates, assessment, calculation etc is low.

On the other hand, significant number of respondents (17%) said that tax revenues are not spent on public services. Theoretically tax revenue is used to finance services provided by the government. This might be practically true, but the public must be made aware of these Social services which are being financed by the taxpayers' money. As long there is a gap in communicating these facts to the public the above attitude problem will not be changed. The Other issue which was raised as a problem thirdly is that taxpayers are not willing to pay Taxes (15%). This problem is the central problem as far as tax compliance is concerned and it is related with variety of factors.

d) *Organizational Effectiveness of the Tax Authority*

The respondents evaluated the Tax Authority with respect to certain parameters. The Following table shows their response to these questions in percentages.

Table 6: Evaluation of the tax authority by respondents

Parameters	Excellent	Good	Fair	Poor
Service delivery	15%	25%	38%	23%
Tax collection efficiency	9%	26%	35%	29%
Law enforcement	12%	17%	43%	28%
Awareness creation	6%	14%	23%	59%

Source: Field Survey, 2015/2016

From the table it is observed that the respondents rated service delivery by the tax authority as excellent (15%), good (25%), fair (38%), and poor (23%). Regarding tax collection Efficiency, they responded excellent (9%), good (26%), fair (35%), and poor (29%).

Similarly, they rated the authority with respect to law enforcement activity as an excellent (12%), good (17%), fair (43%) and poor (28%). On the other hand, concerning awareness Creation, they said excellent (6%), good (14%), fair (23%) and poor (59%).

From the table it is tangible that the majority of the respondents rated the tax authority from Excellent to fair except for awareness creation where 59% of them said poor. In all the Parameters most of the respondents rated the authority's effort as fair and below that. This clearly shows the tax authority is not effective and not providing satisfying service for Taxpayers. On the other hand, the effort of the authority in creating awareness was rated poor (59%). This can be cited as the root cause for all the problems as far as voluntary Compliance is concerned. On other question 83% of the respondents said that the tax authority and the zonal Administration are jointly responsible for poor tax compliance and only 6% of the Respondents said taxpayers are responsible. This can be directly related to the authority's Strength and effectiveness in providing services, information, and creating awareness. The respondents additionally commented on this issue and they reasoned out that both the tax Authority and the city government didn't play their role well in improving the tax Administration, creating awareness, providing social services, and other information Regarding taxes and other activities of the city government.

Hence the poor effort of both the tax authority and the city government in these area can be Cited as the major factor that has contributed to the underlying problem and so that both are Responsible for poor tax compliance. On the other hand, even though the above comment Given by the respondents cannot be undermined, the fact that people always externalize Certain problems and make others responsible for the problem, might be taken into Consideration while analyzing this response.

e) Factors that Influence Tax Compliance among Sample Tax Payers

Table 8: Spearman correlation matrix for dependent, independent variables and control variables

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.TCOMP	1													
2.TAXK	0.38(***)	0.07	1											
3.SIMPL	0.03	-0.19(*)	-0.15	1										
4.PROBAU	0.30(***)	-0.13	.5314(***)	-0.16	1									
5.GOVSPE	-0.19(*)	0.10	0.20(**)	-0.16	0.03	1								
6. EQUITY	-0.21(**)	0.01	0.16	0.01	0.15	0.23(**)	1							
7.RATES	-0.20(**)	0.03	0.15	0	-	0.14	0.22(**)	1						
8.ROLE	-0.23(**)	0.14	0.36(***)	0.20(**)	0.33(***)	0.04	0.1	0.16	1					
9.PEN	0.31(***)	0.15	0.48(***)	-0.15	0.32(***)	0.30(***)	0.04	0.13	1					
10.FINCON	-0.14	0.03	0.11	0.02	0.03	0.31(***)	0.24(**)	-0.13	0.24(**)	1				
11. REFGP	-0.25(**)	--0.18(*)	0.05	-0.06	0.16	0.08	0	-0.01	0.05	0.03	1			
12.SEX	-0.23(***)	-0.13	-0.03	0	0.13	0.08	0.21(**)	0.03	-0.07	0.17(**)	0.16	1		
13.AGE	-0.25(**)	-0.01	0.04	0.03	0.07	-0.08	0.15	0.08	-0.14	0.09	0.05	0.20(**)	1	
14.EDU	-0.01	-0.08	-0.08	-0.1	-0.04	0.18(**)	-0.04	-0.12	0.11	0.04	0.18(*)	0.05	0.26(**)	1

*Notes: ***p<0.01, **p<0.05, *p<0.1*

Note: The diagonal elements represents the square root of average variance extracted (AVE) between the constructs and their measures. The off-diagonal elements highlighted above are correlations between constructs. For discriminant validity, diagonal elements should be larger than off-diagonal elements in the corresponding row and column.

Table 8 illustrates the Spearman correlation matrix for dependent and independent variables. Based on Table 8, all independent variables Tax knowledge, PROB AUD, PEN and SEX were significantly correlated with Compliance Stat. The highest correlation occurred between compliance stat and SEX (rs = -.23) followed Equity Fair, Ref Gro. Govspen FinaCons and Age. According to univariate results in Table 4, it was suggested that Tax knowledge, PROB AUD, PEN and SEX were the most significant determinants.

f) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.383[a]	.147	0128	.73962

a. *Predictors: (Constant), tax knowledge, simplicity of tax procedures, probability of audit, perception of government spending, equity and fairness, tax rates, role played by tax authorities, penalties and fines, personal financial constraints reference group sex, age and education.*

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g) *Model Summary*

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42.349	12	4.235	7.742	.000[b]
	Residual	139.492	278	.547		
	Total	181.841	290			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant), tax knowledge, simplicity of tax procedures, probability of audit, perception of government spending, equity and fairness, tax rates, role played by tax authorities, penalties and fines, personal financial constraints, reference group sex, age and education.

The study found that the model only explains 15 percent of the variation in tax compliance thus the model is not well fit since $R2$ is less than 50 percent. The Anova results presented indicated that the variables jointly had a statistically significance with p-value of 0.00 and an F statistic of 7.74.

The main objective of the study was to identify the determinants of tax payer's voluntary compliance with taxation the case of Wolaita Sodo and Tercha Town in Dawuro Zone. Thirteen possible factors of tax compliance were examined in this research namely, tax knowledge, simplicity of tax procedures, probability of audit, perception of government spending, equity and fairness, tax rates, role played by tax authorities, penalties and fines, personal financial constraints reference group sex, age and education.

Table 9: Determinants of tax compliance - multiple linear logistic regression result with control variables

Variables	Coeff.	SE	Z
TaxK	0.50(***)	0.49	1.01
PrORBAUD	0.32 (***)	0.18	-1.80
SIMPL	-0.09	0.16	-0.60
EQUITY	0.01	0.18	0.04
PEN	-0.14(***)	0.18	-0.78
FINCON	-0.24(*)	0.15	-1.56
RATES	-0.25(**)	0.16	-1.59
RefFRROUP	-0.38	0.18	-2.11
ROLE	-0.04	0.14	-0.26
Sex	-1.08 (***)	0.52	-2.07
GOV SPE	-0.09	0.12	-0.78
Age	-0.51	0.18	-2.82
Educ	-0.13	0.16	-0.77
Log likelihood	-67.138657		
LR chi2(23)	42.71		
Number of obs	290		

*Notes: ***p <0.01, **p <0.05, *p <0.1*

Table 9 summarizes the results of the supplementary regression model which incorporated several control variables. The Multiple linear regression model analysis indicates probability of auditing, tax knowledge, penalty, amount of tax and sex are determinants of tax compliance. This supplementary regression model also suggested that Probability of Auditing, and tax knowledge, remain the most important determinants of tax compliance. In relation to the significance of the control variables, results show that Gender is also appear to be significantly correlated with tax compliance behavior. Specifically, the association between gender (male=1) and compliance status was negative and significant ($p<0.01$), rejecting the hypothesis that male taxpayers are significantly less compliant. The association between age and compliance status was negative and significant ($p<0.01$), consequently, the hypothesis that older people are significantly more compliant is not accepted. Finally, other control variables like income and education had no significant association with compliance status. Again, analogous to results in Table 5, these results verified that control variables had a significant impact on increasing tax compliance behavior. Furthermore, results demonstrated that the supplementary regression model remains robust.

With regard to the probability of being audited, previous studies (for example, Allingham and Sandmo (1972); Jackson and Jaouen (1989); Wickerson (1994); Shanmugam (2003); Dubin (2004); Riahi-Belkaoui (2004); Richardson (2006).; Andreoni, Erard and Feinstein (1998); Verboon, and van Dijke (2007); Eisenhauer (2008)) have found that a high probability of being audited or detected would encourage taxpayers to be more compliant (positive relationship) but some other studies found contradicting results, such as a high probability of being audited would potentially decrease compliance creating a negative association (for example Slemrod, Blumenthal, and Christian, (2001): Braithwaite, Reinhart, and Smart, (2009). As far as high probability of audit could encourage tax compliance, it is advocated that the tax authority should increase their number of audit samples with the aim of increasing tax compliance, decreasing the tax gap and achieving the missions of RCA.

The influence of knowledge on compliance behaviors has been assessed in various researches. Regarding the tax knowledge various researchers found that knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Kasipillai, Norhani, and Noor, 2003). Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010). Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Eriksen & Fallan, 1996). Self-assessment system (SAS) requires taxpayers to understand all the laws and regulations that govern taxation. This is necessary because taxpayers will have to calculate themselves the amount of tax they need to pay and make the payment (Kasipillai, 2003). Taxpayers will readily accept any new system introduced, like the SAS, if they have ample knowledge to understand the system. Thus, education programs organized by the tax authority or other public education institutions are needed to enhance taxpayers' ability to understand Self - assessment system and to increase their confidence in fulfilling their responsibilities as taxpayers (Mohani, 2001).

Greater education is directly linked to a likelihood of compliance. Educated taxpayers may be aware of noncompliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance (Chan et. al. 2000). Chan *et. al*. also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2001). Taxpayers who have attended a tax course would be expected to have better tax knowledge and tax compliance attitude in comparison with taxpayers who have never attended a tax course (Mohd, 2010). Hite and Hasseldine (2001) highlighted that tax authority need to emphasize teaching tax courses because of impact of education on compliance.

h) Content Analysis of Open-Ended Questions

Besides to the above close ended questions, respondents were also given opportunities to indicate their comments on some open ended question and state whatever they think is important and what were not incorporated by the researcher. Accordingly they issued several comments and mainly regarding problems and measures that has to be undertaken. These important points were categorized and listed as below:

- Even if the regression analysis result insignificant relationship of complexity and non-compliance decision, a number of respondents expressed that inconvenient location, complex tax return procedure and bureaucratic tax operation canon affect their tax compliance decision negatively. This finding of course, is perhaps to be logically expected by tax authorities. If many errors are detected in tax returns and the same errors happen every year by different taxpayers, it means that the wordings or the sentences of the format in tax return may be, at least, partly to blame. Previous studies have also evidenced that complexity of reporting requirements has a high association with errors detected by audits (Long, 1987).

Likewise simplicity in filing returns will encourage taxpayers to complete the tax return on their own rather than employing a tax agent and thus reducing compliance costs. (Silvani, 1997)

- Similarly, even if the regression analysis show the significant relationship between noncompliance behavior and tax deterrence sanctions such as the likelihood of penalty severity and probability of audit most of tax payers admitted and stressed that low probability of being detected by the tax authority, serious enforcement, for example sever penalty/ interest makes evasion more difficult and impel to bring about voluntary compliance. This indicates, in self-assessment systems, tax audits can play an important role in increase voluntary compliance. Audits rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions where necessary to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.
- Respondents state that dilatory refund system, negative attitude and weak performance of the staff adversely affect their compliance decision. On the other hand, employees who work in accordance with the law, well qualified and friendly approach motivate them to comply. This implies that weaker level of tax administration and rent seeker employees inside the tax office plays a major role in non-compliant decision.
- Respondents were put the branch's information system as underprivileged and hence affect willingness to comply. In addition respondents locate factors which robust tax compliance. Specifically, devote significant time in promoting a tax issue, and educating tax payers, discloses all necessary information and update them for each new happenings.
- Respondents locate that they are getting equivalent benefit from government for their tax payments. This tends to positively affect their willingness to comply. Therefore, improving living condition of citizens, avoiding meaningless expenditure and

provides enough information about how government utilizes the taxpayer's money enhance voluntary payment.

- Most of respondents believed that equally penalize all tax payers who do not obey the law give a lesson for those who wish to evade tax and refrain them from such activity. This was supported by the study by (Wenzel, 2005) which claimed that if a specific group perceived their tax liability was higher than other groups, then tax evasion might occur among the group members.

Most respondents expressed that lack of working capital (cash on hand) moderate their tax compliance decision. This argument lends support to the study of (Mohani A , 2001), which reported that taxpayers who faced financial problems were more prone to evading tax in comparison with those in less financial distress.

- Lack of tax knowledge was cited as the chief reason for tax evasion (noncompliance) and the respondents strongly commented that great effort has to be employed in this area. Several respondents firmly commented that tax authority does not provide sufficient education which focus on awareness creation and enhance the smooth relationships with tax payers.
- Respondents also suggested that resistance from other tax payers or obligated to pay tax make compliance decision difficult. A number of traders refuse to supply legal receipt and sometimes refuse to accept withholding agents. In addition to the above points, Finally A number of respondents expressed that publication of non-compliant companies in daily gazettes, can make light of tax evasion (indemnify compliance).

Chapter Five

V. Conclusion and Recommendations

a) Conclusion

While tax compliance has been an academic research topic in Ethiopia, there has not been detailed consideration of the major determinants of tax compliance in relation to taxpayers. The primary objective of this study was to the major determinants which affects the voluntary compliance behavior of tax payer's in wolaita sodo town and Tercha Town in Dawuro zone. Based on an objective analysis of data and discussion of findings, the following are the summary of major findings and conclusions of this study.

Thirteen potential determinants of tax non-compliance were examined in this study, namely tax knowledge, simplicity of tax procedures, probability of audit, perception of government spending, equity and fairness, tax rates, role played by tax authorities, penalties and fines, personal financial constraints reference group sex, age and education. The results revealed that Tax knowledge, probability of audit, Penalty and Sex were the most significant determinants consistently influence the likelihood of tax non-compliance behavior in the areas of under-reporting income, over-claiming expenses and overall non-compliance. Nonetheless, simplicity of tax procedures, perception of government spending, equity and fairness, tax rates, role played by tax authorities, personal financial constraints, reference group, age and education have an insignificant relationship with the non-compliance behavior of taxpayers. Therefore, it is advisable to capitalize on the above factors to boost taxpayers' voluntary compliance.

b) Recommendations

Ethiopian tax policy is based on tax payers' voluntary compliance. As expected from self-assessed tax system, the authority's allotment is to cause taxpayers voluntarily discharge their tax obligations. However, tax non-compliance become a serious challenge and court issue and slackening tax revenue performance in Ethiopia. Thus, based on the study conducted determinants of taxpayers' voluntary compliance were identified and possible recommendations will be forwarded so that it may help the tax authority and other policy makers to approach the issue accordingly.

- The tax payers always expect fair answers to their queries. This does not only mean simply giving an answer to their questions but also this need to be done without discrimination and bias. Similarly tax payers who engage in tax evasion need to be penalized equally so as to fairly implement the tax system. Therefore the branch office should treat/serve equal tax payers in equal circumstances in an equal way.
- In order to attain developmental goal and to boost voluntary compliance, the authority must involve taxpayers (which are conclusive stakeholders in this tax system) on each of the tax issue and should work jointly. The current preliminary application of customer charter can be considered as a good start.
- In order to implement the tax law effectively and efficiently, the tax authority needs to be strong enough as well as should be perceived as powerful by the taxpayers. Taxpayers tend to evade to the extent they feel that the authority is weak and unable to enforce the law. Capability to detect fraud or evasion is crucial to tax compliance for instance as it would not be practical to audit all cases, the fear of being caught would be sufficient to act as a deterrent. Therefore the branch office should perform its operation effectively and efficiently. In addition to the above the authority should undertake

criminal prosecution in respect of cases involving fraud or evasion, and where appropriate publish the names of tax evaders.

- Complexity of reporting requirements has a high association with errors detected by tax officials. Voluntary compliance is enhanced when the tax authority administers the law fairly. There for the authority should make the tax law and procedures clear, simple, understandable, transparent and user friendly administrative system.
- Training in any area is important. The authority needs to strengthen itself by educating and training its employees both at home and abroad. Better understanding of the recent domestic and international tax issues facilitate successful formulation of tax compliance strategies. The working conditions of tax officials also need to be improved in order to motivate them to carry out their duties in a more efficient and professional manner.
- If taxpayers do not understand what their obligations are, any intervention to enforce compliance will be perceived as unfair. Taxpayers' attitude toward taxation is changed only through sustainable awareness creation programs. Awareness creation should go beyond simply giving tax education to taxpayers. The tax authority should maintain close relationship with the elderly, religious leaders, prominent personalities in the society and explore such relationship to bring more people into the tax net and also increase the level of taxpayer's compliance. Timely meeting should be encouraged and through this, the general public can more fully understand taxation issues, changes in the law, filing obligations and so on. It is also very important to educate the young citizens/students early on the significance and role of taxes.
- Tax resistance is likely to continue if service provision does not improve. Improvement in service delivery for the majority of citizens is therefore a necessary condition to improve tax compliance. Thus, ERCA should provide strong taxpayer's services particularly during the tax filing stage. The taxpayer's service can be improved by: providing proper guidance on how the tax return forms are to be completed correctly,

Improving living condition of citizens, avoiding meaningless expenditure and provides enough information about how government utilizes the taxpayer's money enhance voluntary compliance. Therefore, the government should spend taxpayers' money wisely so that tax compliance will increase, thus the tax collection will also increase. In addition government has to inform the taxpayers that those public services are provided by their money. Inability by government to communicate this most important area, will lead to possible speculation and resistance.

- Tax compliance will be developed only with the voluntary participation of the society. Merely relying on stick approach has no far reaching outcome. Hence, the tax authority have to cause taxpayers voluntarily discharge their tax obligations as much as possible. Tax evasion and non-compliance is inevitable in every society or nation. Therefore, it is worthwhile to recommend that the above approach has to be backed by legal enforcement and the efforts must complement each other.

Finally such programme may portray tax evaders as saboteurs of the national economic, social and cultural development who deserve to be ridicule by society and punished.

The paper concludes by recommending that the recommendations stated above can be applied to address the age old problem of low compliance. The findings could be an important input, particularly to the ERCA in designing various policies in order to enhance compliance and achieve the missions of self-assessed tax system. It also serve as a stepping stone for future research that might be conducted on related areas.

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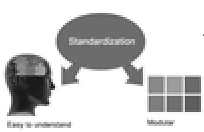

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We shall provide you intimation regarding launching of e-version of journal of your stream time to time.This may be utilized in your library for the enrichment of knowledge of your students as well as it can also be helpful for the concerned faculty members.

The MARSBA member can apply for approval, grading and certification of standards of their educational and Institutional Degrees to Open Association of Research, Society U.S.A.

Once you are designated as MARSBA, you may send us a scanned copy of all of your credentials. OARS will verify, grade and certify them. This will be based on your academic records, quality of research papers published by you, and some more criteria.

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The IFOARS institution is entitled to form a Board comprised of one Chairperson and three to five board members preferably from different streams. The Board will be recognized as “Institutional Board of Open Association of Research Society”-(IBOARS).

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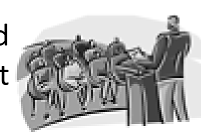
The author fees of such paper may be waived off up to 40%.



The Global Journals Incorporation (USA) at its discretion can also refer double blind peer reviewed paper at their end to the board for the verification and to get recommendation for final stage of acceptance of publication.

The IBOARS can organize symposium/seminar/conference in their country on behalf of Global Journals Incorporation (USA)-OARS (USA). The terms and conditions can be discussed separately.

The Board can also play vital role by exploring and giving valuable suggestions regarding the Standards of “Open Association of Research Society, U.S.A (OARS)” so that proper amendment can take place for the benefit of entire research community. We shall provide details of particular standard only on receipt of request from the Board.

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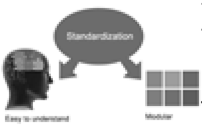

After nomination of your institution as "Institutional Fellow" and constantly functioning successfully for one year, we can consider giving recognition to your institute to function as Regional/Zonal office on our behalf.
The board can also take up the additional allied activities for betterment after our consultation.

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Open Association of Research Society (US)/ Global Journals Incorporation (USA), as described in Corporate Statements, are educational, research publishing and professional membership organizations. Achieving our individual Fellow or Associate status is based mainly on meeting stated educational research requirements.

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- • This individual has learned the basic methods of applying those concepts and techniques to common challenging situations. This individual has further demonstrated an in–depth understanding of the application of suitable techniques to a particular area of research practice.

Note :

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- In future, if the board feels the necessity to change any board member, the same can be done with the consent of the chairperson along with anyone board member without our approval.
- In case, the chairperson needs to be replaced then consent of 2/3rd board members are required and they are also required to jointly pass the resolution copy of which should be sent to us. In such case, it will be compulsory to obtain our approval before replacement.
- In case of “Difference of Opinion [if any]” among the Board members, our decision will be final and binding to everyone.

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- Author name in font size of 11 in one column.
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- Main text: font size 10 with two justified columns.
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- First character must be three lines drop-capped.
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- Line spacing of 1 pt.
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- The names of first main headings (Heading 1) must be in Roman font, capital letters, and font size of 10.
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Structure and Format of Manuscript

The recommended size of an original research paper is under 15,000 words and review papers under 7,000 words. Research articles should be less than 10,000 words. Research papers are usually longer than review papers. Review papers are reports of significant research (typically less than 7,000 words, including tables, figures, and references)

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b) A summary, known as an abstract (less than 150 words), containing the major results and conclusions.
c) Up to 10 keywords that precisely identify the paper's subject, purpose, and focus.
d) An introduction, giving fundamental background objectives.
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f) Results which should be presented concisely by well-designed tables and figures.
g) Suitable statistical data should also be given.
h) All data must have been gathered with attention to numerical detail in the planning stage.

Design has been recognized to be essential to experiments for a considerable time, and the editor has decided that any paper that appears not to have adequate numerical treatments of the data will be returned unrefereed.

i) Discussion should cover implications and consequences and not just recapitulate the results; conclusions should also be summarized.
j) There should be brief acknowledgments.
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1. Choosing the topic: In most cases, the topic is selected by the interests of the author, but it can also be suggested by the guides. You can have several topics, and then judge which you are most comfortable with. This may be done by asking several questions of yourself, like "Will I be able to carry out a search in this area? Will I find all necessary resources to accomplish the search? Will I be able to find all information in this field area?" If the answer to this type of question is "yes," then you ought to choose that topic. In most cases, you may have to conduct surveys and visit several places. Also, you might have to do a lot of work to find all the rises and falls of the various data on that subject. Sometimes, detailed information plays a vital role, instead of short information. Evaluators are human: The first thing to remember is that evaluators are also human beings. They are not only meant for rejecting a paper. They are here to evaluate your paper. So present your best aspect.

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3. Ask your guides: If you are having any difficulty with your research, then do not hesitate to share your difficulty with your guide (if you have one). They will surely help you out and resolve your doubts. If you can't clarify what exactly you require for your work, then ask your supervisor to help you with an alternative. He or she might also provide you with a list of essential readings.

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7. Revise what you wrote: When you write anything, always read it, summarize it, and then finalize it.

8. Make every effort: Make every effort to mention what you are going to write in your paper. That means always have a good start. Try to mention everything in the introduction—what is the need for a particular research paper. Polish your work with good writing skills and always give an evaluator what he wants. Make backups: When you are going to do any important thing like making a research paper, you should always have backup copies of it either on your computer or on paper. This protects you from losing any portion of your important data.

9. Produce good diagrams of your own: Always try to include good charts or diagrams in your paper to improve quality. Using several unnecessary diagrams will degrade the quality of your paper by creating a hodgepodge. So always try to include diagrams which were made by you to improve the readability of your paper. Use of direct quotes: When you do research relevant to literature, history, or current affairs, then use of quotes becomes essential, but if the study is relevant to science, use of quotes is not preferable.

10. Use proper verb tense: Use proper verb tenses in your paper. Use past tense to present those events that have happened. Use present tense to indicate events that are going on. Use future tense to indicate events that will happen in the future. Use of wrong tenses will confuse the evaluator. Avoid sentences that are incomplete.

11. Pick a good study spot: Always try to pick a spot for your research which is quiet. Not every spot is good for studying.

12. Know what you know: Always try to know what you know by making objectives, otherwise you will be confused and unable to achieve your target.

13. Use good grammar: Always use good grammar and words that will have a positive impact on the evaluator; use of good vocabulary does not mean using tough words which the evaluator has to find in a dictionary. Do not fragment sentences. Eliminate one-word sentences. Do not ever use a big word when a smaller one would suffice.
Verbs have to be in agreement with their subjects. In a research paper, do not start sentences with conjunctions or finish them with prepositions. When writing formally, it is advisable to never split an infinitive because someone will (wrongly) complain. Avoid clichés like a disease. Always shun irritating alliteration. Use language which is simple and straightforward. Put together a neat summary.

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

15. Never start at the last minute: Always allow enough time for research work. Leaving everything to the last minute will degrade your paper and spoil your work.

16. Multitasking in research is not good: Doing several things at the same time is a bad habit in the case of research activity. Research is an area where everything has a particular time slot. Divide your research work into parts, and do a particular part in a particular time slot.

17. Never copy others' work: Never copy others' work and give it your name because if the evaluator has seen it anywhere, you will be in trouble. Take proper rest and food: No matter how many hours you spend on your research activity, if you are not taking care of your health, then all your efforts will have been in vain. For quality research, take proper rest and food.

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

19. Refresh your mind after intervals: Try to give your mind a rest by listening to soft music or sleeping in intervals. This will also improve your memory. Acquire colleagues: Always try to acquire colleagues. No matter how sharp you are, if you acquire colleagues, they can give you ideas which will be helpful to your research.

20. Think technically: Always think technically. If anything happens, search for its reasons, benefits, and demerits. Think and then print: When you go to print your paper, check that tables are not split, headings are not detached from their descriptions, and page sequence is maintained.

21. Adding unnecessary information: Do not add unnecessary information like "I have used MS Excel to draw graphs." Irrelevant and inappropriate material is superfluous. Foreign terminology and phrases are not apropos. One should never take a broad view. Analogy is like feathers on a snake. Use words properly, regardless of how others use them. Remove quotations. Puns are for kids, not grunt readers. Never oversimplify: When adding material to your research paper, never go for oversimplification; this will definitely irritate the evaluator. Be specific. Never use rhythmic redundancies. Contractions shouldn't be used in a research paper. Comparisons are as terrible as clichés. Give up ampersands, abbreviations, and so on. Remove commas that are not necessary. Parenthetical words should be between brackets or commas. Understatement is always the best way to put forward earth-shaking thoughts. Give a detailed literary review.

22. Report concluded results: Use concluded results. From raw data, filter the results, and then conclude your studies based on measurements and observations taken. An appropriate number of decimal places should be used. Parenthetical remarks are prohibited here. Proofread carefully at the final stage. At the end, give an outline to your arguments. Spot perspectives of further study of the subject. Justify your conclusion at the bottom sufficiently, which will probably include examples.

23. Upon 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 though which your research is going to be in print for 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 of 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 criteria peer reviewers will use for grading the final paper.

Final points:

One purpose of organizing a research paper is to let people interpret your efforts selectively. The journal requires the following sections, submitted in the order listed, with each section starting on a new page:

The introduction: This will be compiled from reference matter and reflect the design processes or outline of basis that directed you to make a study. As you carry out the process of study, the method and process section will be constructed like that. The results segment will show related statistics in nearly sequential order and direct reviewers to similar intellectual paths throughout the data that you gathered to carry out your study.

The discussion section:

This will provide understanding of the data and projections as to the implications of the results. The use of good quality references throughout the paper will give the effort trustworthiness by representing an alertness to 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 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 avoid:

- Insertion of a title at the foot of a page with subsequent text on the next page.
- Separating a table, chart, or figure—confine each to a single page.
- Submitting a manuscript with pages out of sequence.
- In every section of your document, use standard writing style, including articles ("a" and "the").
- Keep paying attention to the topic of the paper.

- Use paragraphs to split each significant point (excluding the abstract).
- Align the primary line of each section.
- Present your points in sound order.
- Use present tense to report well-accepted matters.
- Use past tense to describe specific results.
- Do not use familiar wording; don't address the reviewer directly. Don't use slang or superlatives.
- Avoid use of extra pictures—include only those figures essential to presenting results.

Title page:

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

Abstract: This summary should be two hundred words or less. It should clearly and briefly explain the key findings reported in the manuscript and must have precise statistics. It should not have acronyms or abbreviations. It should be logical in itself. Do not cite 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 approaches 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. Use comprehensive sentences, and do not sacrifice readability for brevity; you can maintain it succinctly by phrasing sentences so that they provide more than a 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 limit the initial two items to no more than one line each.

Reason for writing the article—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 for this; results of any numerical analysis should be reported. Significant conclusions or questions that emerge from the research.

Approach:

- o Single section and succinct.
- o An outline of the job done is always written in past tense.
- o Concentrate on shortening results—limit background information to a verdict or two.
- o Exact spelling, clarity of sentences and phrases, and appropriate reporting of quantities (proper units, important statistics) are just as significant in an abstract as they are anywhere else.

Introduction:

The introduction should "introduce" the manuscript. The reviewer should be presented with sufficient background information to be capable of comprehending and calculating the purpose of your study without having to refer to other works. The basis for the study should be offered. Give the most important references, but avoid making a comprehensive appraisal of the topic. Describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will give no attention to your results. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here.

The following approach can create a valuable beginning:

- o Explain the value (significance) of the study.
- o Defend the model—why did you employ this particular system or method? What is its compensation? Remark upon its appropriateness from an abstract point of view as well as pointing out sensible reasons for using it.
- o Present a justification. State your particular theory(-ies) or aim(s), and describe the logic that led you to choose them.
- o Briefly explain the study's tentative purpose and how it meets 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 for every section. If you make the four points listed above, you will need at least four paragraphs. Present surrounding information only when it is necessary to support a situation. The reviewer does not desire to read everything you know about a topic. Shape the theory specifically—do not take a broad view.

As always, give awareness to spelling, simplicity, and correctness of sentences and phrases.

Procedures (methods and materials):

This part is supposed to be the easiest to carve if you have good skills. A soundly written procedures segment allows a capable scientist to replicate 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 to give the least amount of information that would permit another capable scientist to replicate 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 section, mention the specific item describing the way, but draw the basic principle while stating the situation. The purpose is to show 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:

Materials may be reported in part of a section or else they may be recognized along with your measures.

Methods:

- Report the method and not the 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—detail how procedures were completed, not how they were performed on a particular day.
- If well-known procedures were used, account for the procedure by name, possibly with a reference, and that's all.

Approach:

It is embarrassing to use vigorous voice when documenting methods without using first person, which would focus the reviewer's interest on the researcher rather than the job. As a result, when writing up the methods, most authors use third person passive voice.

Use standard style in this and 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 as 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. Use statistics and tables, if suitable, to present consequences most efficiently.

You must clearly differentiate material which would usually be incorporated in a study editorial from any unprocessed data or additional appendix matter that would not be available. In fact, such matters should not be submitted at all except if requested by the instructor.

Content:

- Sum up your conclusions in text and demonstrate them, if suitable, with figures and tables.
- In the manuscript, explain each of your consequences, and point the reader to remarks that are most appropriate.
- Present a background, such as by describing the question that was addressed by creation of an exacting study.
- Explain results of control experiments and give 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 manuscript.

What to stay away from:

- Do not discuss or infer your outcome, report surrounding information, or try to explain anything.
- Do not include raw data or intermediate calculations in a research manuscript.
- Do not present similar data more than once.
- A manuscript should complement any figures or tables, not duplicate information.
- Never confuse figures with tables—there is a difference.

Approach:

As always, use past tense when you submit 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 section.

Figures and tables:

If you put figures and tables at the end of some details, make certain that they are visibly distinguished from any attached appendix materials, such as raw facts. Whatever the position, each table must be titled, numbered one after the other, and include a heading. All figures and tables must be divided from the text.

Discussion:

The discussion is expected to be the trickiest segment to write. A lot of papers submitted to the journal are discarded based on problems with the discussion. There is no rule for how long an 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 implications of the study. The purpose here is to offer an understanding of your results and support all of your conclusions, using facts from your research and generally accepted information, if suitable. The implication of results should be fully 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 the prospect, and let it drop at that. Make a decision as to whether each premise is supported or 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 an experiment might be personalized to accomplish a new idea.
- Give details of all of your remarks as much as possible, focusing on mechanisms.
- Make a decision as to whether the tentative design sufficiently addressed the theory and whether or not it was correctly restricted. Try to present substitute explanations if they are sensible alternatives.
- One piece of 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 other available information. Present work done by specific persons (including you) in past tense.

Describe generally acknowledged facts and main beliefs in present tense.

The Administration Rules

Administration Rules to Be Strictly Followed before Submitting Your Research Paper to Global Journals Inc.

Please read the following rules and regulations carefully before submitting your research paper to Global Journals Inc. to avoid rejection.

Segment draft and final research paper: You have to strictly follow the template of a research paper, failing which your paper may get rejected. You are expected to write each part of the paper wholly on your own. The peer reviewers need to identify your own perspective of the concepts in your own terms. Please do not extract straight from any other source, and do not rephrase someone else's analysis. Do not allow anyone else to proofread your manuscript.

Written material: You may discuss this with your guides and key sources. Do not copy anyone else's paper, even if this is only imitation, otherwise it will be rejected on the grounds of plagiarism, which is illegal. Various methods to avoid plagiarism are strictly applied by us to every paper, and, if found guilty, you may be blacklisted, which could affect your career adversely. To guard yourself and others from possible illegal use, please do not permit anyone to use or even read your paper and file.

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Please note that following table is only a Grading of "Paper Compilation" and not on "Performed/Stated Research" whose grading solely depends on Individual Assigned Peer Reviewer and Editorial Board Member. These can be available only on request and after decision of Paper. This report will be the property of Global Journals.

Topics	Grades		
	A-B	**C-D**	**E-F**
Abstract	Clear and concise with appropriate content, Correct format. 200 words or below	Unclear summary and no specific data, Incorrect form Above 200 words	No specific data with ambiguous information Above 250 words
Introduction	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
Methods and Procedures	Clear and to the point with well arranged paragraph, precision and accuracy of facts and figures, well organized subheads	Difficult to comprehend with embarrassed text, too much explanation but completed	Incorrect and unorganized structure with hazy meaning
Result	Well organized, Clear and specific, Correct units with precision, correct data, well structuring of paragraph, no grammar and spelling mistake	Complete and embarrassed text, difficult to comprehend	Irregular format with wrong facts and figures
Discussion	Well organized, meaningful specification, sound conclusion, logical and concise explanation, highly structured paragraph reference cited	Wordy, unclear conclusion, spurious	Conclusion is not cited, unorganized, difficult to comprehend
References	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring

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