## Editorial Board

**Global Journal of Management and Business Research**

<table>
<thead>
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</tr>
</thead>
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<table>
<thead>
<tr>
<th>Name</th>
<th>Position/Institution</th>
</tr>
</thead>
<tbody>
<tr>
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<tr>
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</tr>
</tbody>
</table>
CONTENTS OF THE ISSUE

i. Copyright Notice
ii. Editorial Board Members
iii. Chief Author and Dean
iv. Contents of the Issue

2. Crowdfunding Prospects in Nepal. 15-28
3. The Effect of Corporate Governance Practice on Firms’ Profitability. 29-39
4. Effect of Internal Controls on the Financial Performance of County Referral Hospitals in Kenya. 41-59
5. Effect of Microfinance Loan on Poverty Reduction in Rwanda. 61-66
6. Rastin Partnership Accounting Part II: Mudarabah Financial Sharing (MFS). 67-76

v. Fellows
vi. Auxiliary Memberships
vii. Preferred Author Guidelines
viii. Index
Effect of Post Covid-19 on Firm’s Specific Attributes and Financial Performance of Quoted Conglomerates Companies in Nigeria

By Musa Ahmed Mohammed & Mbatuegwu, David Christopher

Nigerian College of Accountancy

Abstract- The development concern Application issues in post-COVID-19 Africa and the planet are wounding through a litany of scholarship scholarships. Many scholars in Africa and the world, in general, are genuinely interested, and indeed sometimes brain-storm, on what needs to be done by a wide variety of scholars, including but not limited to, scientists, economists, sociologists, psychologists, theologians, experts, and finance studies. This examined the characteristics and financial performance of the listed conglomerate companies in Nigeria. The research work has adopted a descriptive design to determine the reciprocal relationship between variables. Data were collected mainly from secondary sources via the published annual reports of the sampled companies for the period 2010-2018 they were analyzed using multiple regression techniques after carrying out a series of robustness tests to determine their validity. The results of the study showed that the size of the business had a positive and significant impact on financial performance. On the other hand, leverage negatively, but insignificantly, on financial results. The study indicates that management should maximize the total amount of assets as much as possible, as this is a guarantor of future economic benefits.

Keywords: firms attribute, performance.

GJMBR-C Classification: JEL Code: E60

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Effect of Post Covid-19 on Firm’s Specific Attributes and Financial Performance of Quoted Conglomerates Companies in Nigeria

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Abstract: The development concern Application issues in post-COVID-19 Africa and the planet are wounding through a litany of scholarship scholarships. Many scholars in Africa and the world, in general, are genuinely interested, and indeed sometimes brain-storm, on what needs to be done by a wide variety of scholars, including but not limited to scientists, economists, sociologists, psychologists, theologians, experts, and finance studies. This examined the characteristics and financial performance of the listed conglomerate companies in Nigeria. The research work has adopted a descriptive design to determine the reciprocal relationship between variables. Data were collected mainly from secondary sources via the published annual reports of the sampled companies for the period 2010-2018 they were analyzed using multiple regression techniques after carrying out a series of robustness tests to determine their validity. The results of the study showed that the size of the business had a positive and significant impact on financial performance. On the other hand, leverage negatively, but insignificantly, on financial results. The study indicates that management should maximize the total amount of assets as much as possible, as this is a guarantor of future economic benefits.

Keywords: firms attributes, performance.

I. Introduction

The intellectual point of convergence between numerous scholars and contemporary writers in post-COVID-19 Africa is that the continent appears to be evolving under impossible conditions. Previously, companies in Nigeria were formed entirely on a sole proprietorship basis, in collaboration with a few limited liability companies. The establishment of Nigeria’s Central Bank (CBN) in 1958 and the Securities and Exchange Commission (SEC) in 1979 opened a new dawn in Nigeria’s business sector. Businesses are regulated and the Securities and Exchange Commission has set up an atmosphere in which foreign investors can enter and have their shares quoted in Nigeria’s stock exchange. They also provided the facility for easy growth of both short-and long-term investment decision capital. This growth was the driving force behind Nigeria’s modern business expansion.

The volatility of the modern market situation, marked by the extremely dynamic and competitive economic factors brought on by the globalization of the world economy, has radically changed Nigeria’s business sphere from a national to a global economy. Globalization has changed the world economy, and the business world is at the forefront of this global chain movement. In an attempt to meet global demands and a highly competitive business climate, companies are forced to diversify operations to create values that can compete globally so as not to lose out on the market and maximize shareholders’ wealth maximization target.

Diversification is a growth technique used by companies to dive into new markets and expand their spectrum of operations.

The Tiffany Conglomerate (2007) is a diversification strategy whereby a corporation joins one or more unrelated industries to extend its field of activity and explore other viable market areas. Companies also want to develop as a conglomerate because they feel that other markets provide more opportunities for development than their current industries. They also prefer a conglomerate approach to stabilize revenues and earnings. One of the key characteristics of the Conglomerate Business is the lack of an established partnership with the new company or industry. The vertical or horizontally integrated company has a value or supply chain relationship which the conglomerate does not necessarily have a conglomerate that does not have a common strategic theme and does not gain a strategic profit. Companies that they buy instead are conglomerates of companies that participate in a host of activities involving different management skills. The conglomerate will emerge through organic internal growth and development, as well as through mergers and acquisitions Businesses in Nigeria are not isolated from this global chain curve.

This study places greater emphasis on the specific attributes and performance of conglomerates quoted in the Nigeria stock exchange. The internal characteristics of a conglomerate business plays a key role especially in the area of decision making, exercising control, and exciting expertise strengthening operations perfecting sales and marketing campaign also in ensuring actualization of shareholders wealth maximization objective (men that conglomerate is mostly seen as a large corporation or companies in nature that is composed of several small independently...
run companies which occur partly because of the need to diversify the business. The overriding benefit of conglomerate is often the diversification of business risk. Participating in different markets, which are achieved through the ownership of controlling stakes in several smaller companies that conduct business separately, offers protection from sector-specific risks, and sometimes geographical shocks to the group as more often than not, only a section of the revenue-generating channel is affected. The conglomerate structure also offers the group substantial economies of scale especially about administrative cost through a centralized management and distribution system. And in the process, at least theoretically, the parent company does maximize the per-subsidiary profit for any given subsector level operational cost.

In line with those above aforementioned, the specific attributes are among the major determinants of financial performance and profitability of conglomerates. Financial performance is a measure of efficient utilization of a firm’s resources towards attaining stated goals using a return on asset, return on investment, return on equity and sales growth amongst others as parameters. Specific attributes can be seen in the perspectives of the firm's size, leverage, liquidity level, the board size, institutional shareholding/ownership, and board compositions among others. The conglomerate strategy has removed the narrow divide of sole proprietorship and expanded the scope of businesses by creating more business opportunities for investors to dive into. Globalization which made it easy for capital to move across borders with ease turning the world into a global village created more business opportunities. The competition became more intense and the need to diversify operations rose. To meet up with the global demands and to remain in business, companies in Nigeria searched for a suitable strategy that conforms with the global trend. That's what brought about the prevalent Conglomerates strategy in the Nigeria business landscape.

The base of the conglomerate is deeply rooted in Nigeria’s history. The historic development of conglomerate companies in Nigeria dates back to the early colonial period. At the heart of that history is the 80th anniversary of AG-Leventis Plc, which started as a trading and chain store company and later became the assembly and distribution of various consumer and producer goods. Currently, Nigeria's top ten conglomerate investments are estimated to have a combined annual turnover of more than N15 trillion and employ a large number of low middle-level workers.

In this context, we are concerned with the study of the basic characteristics and financial performance of the listed conglomerates in Nigeria.

To achieve this objective, it is thus hypothesized in a null form that:

\[ H_0: \text{Firm size has no significant effect on the financial performance of quoted conglomerate companies in Nigeria.} \]

\[ H_0: \text{Leverage has no significant effect on the financial performance of quoted conglomerate companies.} \]

II. Literature Review

a) Concept of Firm Attributes

Businesses shall be founded to make profits (Abiodun, 2013). To increase shareholder capital through value development, a variety of factors combine to catalyze to improve efficiency and ensure that the ultimate goal is achieved. The firm attribute is one of the key factors and drivers that improve the success or failure of any business. Businesses are set up to ensure a company with a strong and sound specific attribute has a higher chance of performing than a company with a haphazard specific attribute. In other words, basic characteristics play a major role in ensuring the success or failure of business activities in any organization. For this analysis, the firm attribute is: firm size, leverage, the board size, liquidity, and institutional investors will be properly planned.

b) Concept of Firm Size

According to Velnampy (2013), firm size is the amount and variety of production capability and capabilities that a firm possesses or the amount and variety of services that a firm can offer to its customers at the same time. The firm size represents how it grows and adapts to its climate. Changes in size are therefore extremely significant in the field of firm demography (Wissen, 2002).

Classical economist clarified that shifts in the size of firms depend on economies of scale. These economies of scale are due to reduced prices as the business expands. Therefore, the higher the scale economy, the larger the optimum firm size. The size of the company is considered to be an important issue in deciding the essence of the partnership with the company inside and outside its operating environment. And the rising presence of a multinational company worldwide is a direct indication of the importance of the scale and role it can play in the business environment (Abiodun, 2013, Wissen, 2002).

Fajaria and Isnalita, (2018) The size of the business show the size of the company's properties. A large business would have three advantages: it's easy to get venture capital, good at negotiating, and it also has a big advantage. Firm Size can be calculated using the natural logarithm of total assets and acts as a control variable, a variable that is neutral and can be managed in such a way that the relationship of independent variables to the dependent variable is not affected by factors outside the analysis. The natural logarithm of total assets is used while other variables are calculated by the scale ratio that can be interpreted as regression.
c) **Concept of Leverage**

Mbaturewu, Musa, Ugoh, and Komolafe (2021) leverage means that the business can borrow money to finance the purchase of an asset, which also intend to have higher bankruptcy risk, went ahead saying that leverage is all about keeping your pride to borrow to grow your business. Leverage refers to the effective utilization of borrowed funds (debt financing) to increase profitability. It is measured by total liabilities to equity (Alkhatif, 2012).

Kasmir (2008) indicates that leverage is the ratio used to calculate the size of the company's assets funded by debt. That is to say how much of the debt burden the organization bears on its properties. Typically, the use of leverage is tailored to the goals of the organization. Based on the outcome of the leverage calculations, the company would find a way to use its capital and borrowed capital, as well as assess the ratio of a company's ability to fulfill its obligations.

Financial leverage is caused due to fixed financial interest in every organization. Businesses use fixed financial charges to increase the effect of changes in earnings before interest and tax on the earnings per share and profits. It includes the use of those funds that are obtained at a fixed cost in the expectation of increasing the return to the shareholders in the future. The financial leverage used by every company is anticipated to earn more return to the fixed-charge fund than their costs. The surplus (or deficit) will increase (or decrease) the return on the owners' equity and return on investment (Hallajian, and Tilehnouei (2016).

Linawaty and Ekadjava (2017) The impact of financial leverage is unfavorable when the earnings capacity of the firm is less than what is expected by the lender i.e., the cost of debt. The return on investment comes from leverage appreciation of assets are purchased with only a portion of the purchase price coming from the buyer and the balance coming from the lender. Any increases in the value of the entire asset represent a real return on the original amount invested and the investor will make profits in long run).

They discussed that sometimes increase in debt causes bankruptcy. They said that the increase in the debt level reduces the agency cost but increases the bankruptcy cost.

d) **Measurement of Firm Performance**

Kouser (2012), profitability can be defined as the earning of the firm or consistency of cash inflow of the firm. It is influenced by several factors such as firm size, the export of the firm, reliance on debt, age, fixed asset, growth, and sales growth. There are many methods to measure performance such as return on asset (ROA), return on equity (ROE) and return on sales (ROS). Return on asset (ROA) is the measure of how well a company uses its assets to generate profit. Return on sales (ROS) is earning of the firm from every amount of the sales and shows a short-term performance of the company. Return on equity (ROE) is the measure of a firm's profit distributed to the shareholder. ROA and ROE give a long-term view of the performance of the firm (Kouser et al. 2012). An increase in profitability is the most desire and ultimate reward for all the handiwork and planning of firm management and they are constantly on a look to find ways to increase.

For this study, ROA is adopted to measure financial performance based on the premise that it is the most preferable measure of financial performance as it considers the use of profit of the organization over the value of its assets.

e) **Empirical Studies on Firm Attributes**

Agrawal, Sehgal, and Vasishth (2020) looked at corporate characteristics and fundamental factors for the creation of various investment strategies, using data from 200 companies listed on the National Stock Exchange (NSE) from 2005 to 2018. The results show the presence of anomalies in the stock market based on size, volume, earnings, cash flow fluctuations, asset growth, price momentum, price-to-book ratio, and profitability. The performance of trading strategies is subject to the construction of portfolios, i.e. 5/10/20 portfolios. In general, bivariate strategies perform better than univariate approaches in the Indian context. Overall, the size-based approach works better with a mean over-return of 3.63 percent per month. This experiment has been carried out in a foreign country, and the result cannot be openly generalized in Nigeria.

Ogoun and Ayaundu (2020) investigated whether or not the attribute count of a firm (FAC) affects the management accounting practices (MAPs) adopted. This initiative is related to the manufacturing sector, using primary data obtained via the issuance of standardized questionnaires. The number of firm attributes was discriminated against based on; the size, the strength of market competition, the rank of accounting staff, and the technology used. A sample size of 80 firms was adopted using the Spearman correlation coefficient method used to analyze the results. The analytical outcome of this initiative shows that all the firm attributes deployed in this study have a substantial effect on MAPs. The study concludes, therefore, that the type of accounting management tool used in any firm is firm in size, the strength of market competition, the quality of the accounting staff and the degree and scope of the tech-based, and that the difference in domains is related to the nature of the impact of these variables. It makes use of primary data, but we are making use of secondary data.

Hassan and Farouk (2014) investigated the firm attributes and earnings efficiency of the listed oil and gas companies in Nigeria for the period 2007-2011. The Oil and Gas companies mentioned are Nine (9) in the numbers from which a sample of Seven (7) was used for
the analysis. Firm attributes as an independent variable were proxy with firm size, leverage, Institutional ownership, profitability, liquidity, and firm growth), while the residuals from Dechow et al (1995) modified Jones model was used as a proxy for quality earnings. The research adopts multiple panel regression techniques and data were collected from secondary sources via annual reports and business accounts. The findings show that leverage, liquidity, and firm growth have a major positive impact on earnings quality, while firm scale, institutional ownership, and profitability have a significant but negative impact on the earnings quality of listed oil and gas companies in Nigeria. This has been done for oil and gas firms, but this will be done for a conglomerate firm.

f) Firm Size and Financial Performance

The relationship between firm size and profitability occupies a substantial portion of economic literature. However, previous empirical investigations of the issue have yield conflicting results. Some studies have obtained a weak or negative relationship or none at all others have reported a positive association (Vijayakumar and Tamizhselvan, 2010).

Fajaria and Isnalita (2018) analyzed the impact of profitability, liquidity, leverage, and business growth on firm size, with dividend policy as a moderating variable, and firm size as a control variable. This study was performed using a documentation approach as well as a sampling methodology for sampling. This analysis was processed using the SPSS software, with a total of 396 data observations. Where there are 146 manufacturers listed on the Stock Exchange during the period from 2013 to 2016 and the number of samples was 108, 106, 94, and 112 firms, respectively. Profitability and fast growth are shown to increase Firm Value, but liquidity and high debt are shown to decrease Firm Value. It may be difficult to function in Nigerian material due to externalities and economic variations.

Akinyomi (2016) explored the effects of firm size on the profitability of the Nigerian manufacturing sector. The panel data set for the period 2005-2012 is collected from the audited annual reports of the selected manufacturing firms listed on the stock exchange. Return on assets (ROA) was used as a proxy for profitability, while log of total assets and log of turnover was used as a proxy for firm scale. Also, liquidity, debt, and the ratio of inventories to total assets were used as control variables. The results of the study showed that the size of the group, both in terms of total assets and in terms of total revenue, had a positive impact on the profitability of the Nigerian manufacturing company. In the meantime, the control variables have a negative relationship with the inventory, while others have a positive relationship. Research has been done on manufacturing firms, but this will concentrate on conglomerates in Nigeria.

However, profitability can affect the firm size and vice versa. It is contended in the literature that the profit rates of the firms can persist over time and increasing levels of profits can help the firm grow faster and at the same time the size of a firm plays an important role in determining the kind of relationship the firm enjoys within and outside its operating environment investigated the relationship between firm size and performance of small and medium-sized Portuguese companies for the period 1999 to 2003. Their results indicate that there is a positive and statistically significant relationship between the size and profitability of SMEs. On the other hand, for the large Portuguese companies, they found a statistically insignificant relationship between size and profitability (Serrasqueiro et al, 2008).

g) Leverage and Financial Performance

Fajaria and Isnalita (2018) analyze the impact of profitability, liquidity, leverage, and business growth on firm valuation, with dividend policy as a moderating variable, and firm size as a control variable. This study was performed using a documentation approach as well as a sampling methodology for sampling. This analysis was processed using the SPSS software, with a total of 396 data observations. Where there are 146 manufacturing companies listed on the Indonesian Stock Exchange between 2013 and 2016 and the number of samples was 108, 106, 94, and 112 companies, respectively. Profitability and fast growth are shown to increase Firm Value, but liquidity and high debt are shown to decrease Firm Value. Due to demographic, inflation, and sectoral peculiarities, the finding cannot be consistent with Nigeria at the time of post-covid-19.

Ibhagui and Olokoyo (2018), use the Hansen (1999) threshold regression model to analyze the empirical relation between leverage and firm performance through a new threshold variable, firm size. We question if there is an ideal firm size for which the leverage is not negatively linked to the firm’s results. The panel data from 101 listed companies in Nigeria between 2003 and 2007, were explored to the ultimate effect of leverage on firm performance depends on firm size; that is, whether the type of impact that leverage has on the firm’s performance depends on the size of the firm. The findings indicate that the negative impact of leverage on firm output is most important and significant for small firms, and that evidence of negative impact decreases as the firm expands, ultimately disappearing as firm size approaches its estimated threshold. We find that this finding continues to hold, regardless of the debt ratios used. In line with previous research, findings show that the leverage impact on Tobin’s Q is positive for
Nigeria’s listed firms. However, our recent result is proof that the frequency of the positive relationship depends on the size of the business and is often higher for small firms. The current work will make use of multiple regression analysis techniques also the data analysis will make use of the ordinary least square regression technique.

Alkhatib (2012) Analyzed the Leverage Determinants of Listed Companies sampled by 121 listed companies on the Jordanian Stock Exchange, extended from 2007 to 2010. The survey represented the manufacturing and utility industries, while the financial sector was excluded from the report. For the data analysis, the regression model was used; the explanatory variables included firm liquidity, scale, growth rate, benefit, and tangibility, while the independent variable was the leverage ratio. The findings indicate that there was no statistically important association for both the manufacturing and service sectors. When the two sectors were divided, the results for the manufacturing sector revealed that liquidity and tangible linkages with leverage were important, while the results for the services sector revealed that the rate of growth, liquidity, and tangibility had a significant relationship with leverage. Due to demographic, inflation, and sectoral peculiarities, work is now almost decayed, but the finding cannot be compatible with Nigeria at the moment.

### Theoretical Framework

#### i. Agency Costs Theory

According to Agency cost theory, a higher level of debt increases shareholders’ value because of its disciplinary effect on manager behavior. There are two types of inherent conflicts of interest in this theory: (a) Manager -to- shareholder conflicts, and (b) creditors-to-shareholders conflict. In the first case, when debt increases, shareholders can bind managers to service the debt obligation. Thus, when the debt level is increased, a large portion of the free cash flow should be used to pay the debt obligation. In this case, shareholders or boards of directors effectively reduced the free cash flow in the company and prevent managers from investing in sub-optimal or excessive investments (Berle and Means (1932) the firm size and leverage structure helped to prevent conflict by making information conformity and balance.

### Methodology

The work employs multiple regression analysis techniques for data analysis using the ordinary least square regression technique. The population comprises all 25 quoted conglomerates on the Nigerian stock exchange (NSE) as of 31st December 2018.

#### a) Model Specification and variables measurement

\[
Y_{it} = \alpha_i + B_1x_{1it} + B_2x_{2it} + \ldots \ldots \ldots B_nx_{nit} + \mu_{it} - - - - I
\]

\[
ROA_{it} = \alpha_i + B_1FS_{it} + B_2LEV_{it} + \varepsilon_{it} - - - - - - - - - II
\]

Where

- \( a \) = Intercept
- \( B_1-B_3 \) = Coefficient of the independent variables
- \( ROA \) = Return on asset = Ratio of net income after tax to total asset value
- \( FS \) = Firm size = Natural logarithm of total asset.
- \( LEV \) = Leverage = Measured as the ratio of long-term debts plus (+) short term debts to total value of assets
- \( \varepsilon_{it} \) = Residual or error term of firm ‘i’ in period ‘t’
- \( QR \) = Total Current Assets - Stock /Total +Current Liabilities.

The choice of the year and variables is considered appropriate given that the objectives of the study. The variables were preferred given their importance in the determination of quoted conglomerates companies in Nigeria.

### Result and Discussion

#### a) Descriptive Statistics

The sample descriptive was first presented in the table below where the minimum, maximum, mean, standard deviation, skewness, and kurtosis of the data for the variables used in the study were described.
Table 1: Descriptive Statistics of the Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std.Dev.</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>N</th>
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<tr>
<td>ROA</td>
<td>-3.97</td>
<td>24.68</td>
<td>6.7296</td>
<td>11.224</td>
<td>-0.388</td>
<td>3.551</td>
<td>25</td>
</tr>
<tr>
<td>LEV</td>
<td>0.33</td>
<td>4.95</td>
<td>1.992</td>
<td>1.2201</td>
<td>1.4372</td>
<td>4.284</td>
<td>25</td>
</tr>
<tr>
<td>FS</td>
<td>5.74</td>
<td>7.33</td>
<td>6.3758</td>
<td>0.5906</td>
<td>2.2874</td>
<td>2.284</td>
<td>25</td>
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Source: Annual Report (2010-2018)

As can be inferred from the above presented descriptive result, ROA topped the chart with an average return of 6.72% approximately ranging from a minimum of -3.97% to a maximum value of 24.68% implying that the industrial ROA average rises marginally over the period. As for the predictors used; firm size had the highest industrial average of 6.3758 implying that at par level, the asset of the firms in this industry increase by approximately N6.38 per every cost Ni cost incurred ranging from a minimum of N5.74 to a maximum of N7.33.

In the industry potentially can convert its current assets into liquid cash easily while leverage was averaged at 1.592% ranging between 0.33% to 4.94% implying that the firms in this industry are averagely leveraged across the period.

The most prominent among the result in the descriptive statistics was the higher standard deviations of performance (0.049) relative to the standard deviation of other independent variables used in the study model when compared with their mean value. The high standard deviation of performance indicates that our sample firms were of varying performances.

Finally, the skewness and kurtosis statistics revealed that the data obtained for all the variables including dependent and independents were not abnormal. Then, the study is considered valid when it is based on valid data or information, and this information is considered valid if obtained from the data quality. Therefore, the result from the normality test signified the normality of the data and further substantiated the validity of the regression result.

b) Correlation Matrix

The table displays the correlation values between the dependent and the independent variables and also the relationship between the independent variables themselves. The values were gotten from the Pearson correlation of two-tailed significance. It shows the correlation the top values displaying the Pearson correlation coefficient between all pairs of variables and the asterisk beside the Pearson correlation coefficient showing the two-tail significance of these coefficients.

Correlation Matrix

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<tr>
<th></th>
<th>ROA</th>
<th>FS</th>
<th>LIQ</th>
<th>LEV</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1</td>
<td>0.3779</td>
<td>-0.2813</td>
<td>-0.401**</td>
</tr>
<tr>
<td>FS</td>
<td>0.3779</td>
<td>1</td>
<td>0.0177</td>
<td>0.461**</td>
</tr>
<tr>
<td>LIQ</td>
<td>-0.2813</td>
<td>1</td>
<td>0.461**</td>
<td></td>
</tr>
<tr>
<td>LEV</td>
<td>-0.401**</td>
<td>0.461**</td>
<td>1</td>
<td></td>
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</table>

Source: Correlation Matrix Results Using STATA

Summary of Regression Result

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>Z-Statist</th>
<th>Source: Result output from STATA 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-37.47668</td>
<td>-1.47</td>
<td>0.035</td>
</tr>
<tr>
<td>FS</td>
<td>7.629132</td>
<td>2.11</td>
<td>0.065</td>
</tr>
<tr>
<td>LEV</td>
<td>-3.498806</td>
<td>-1.87</td>
<td></td>
</tr>
<tr>
<td>R² Within</td>
<td>0.3773</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R² Between</td>
<td>0.0157</td>
<td></td>
<td></td>
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<tr>
<td>R² Overall</td>
<td>0.3115</td>
<td></td>
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<tr>
<td>Wald Chi²</td>
<td>9.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wald-Significance</td>
<td>0.0233</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The accumulated $R^2$ total value of (0.3115) which is the multiple coefficients of determination gave the proportion of the total variance of the dependent variable explained jointly by the independent variable. It, therefore, meant that 31.15 percent of the overall shift in output of listed conglomerate firms in Nigeria was attributed to company unique attributes of firm size, liquidity, and leverage, assuming all other factors remain constant.

The Wald chi2 of 9.50, which is important at a significance level of 0.05, suggests that the model of success and firm attributes are acceptable. This means that the independent variables are chosen, combined, and used correctly. It implies that any improvement in firm unique attributes will have a direct effect on results. The value of Wald Chi2 which is statistically significant at a level of 0.0233 implies that there is a 99.08 percent likelihood that the relationship between the variables was not due to mere chance.

From Table 4.3, it was observed that the z-value for firm size (FS) was 2.11 with a coefficient value of 7.629132 is significant at of 0.05 significance level. This signifies that firm size positively and significantly influences the performance of firms in this industry meaning that for every unit change in firm size performance will increase by 7.62% is that all other factors are held constant.

As for leverage as one of the determinants of firm-specific attributes, a negative relationship can be inferred as depicted by the negative coefficient and z-value of -3.498806 and -1.87 respectively and at the same time not statistically significant at a 5% significance level. This means that how levered the firms are cannot significantly influence performance in the short-run assuming all other factors are held constant.

V. Discussion of Findings

This section presents the analysis carried out to test the hypotheses stated in chapter one. The regression result used for the hypotheses test is presented in Table below:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Z-Values</th>
<th>P. Values</th>
<th>Tolerance/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>FS</td>
<td>2.11</td>
<td>0.035</td>
<td>0.712813/1.40</td>
</tr>
<tr>
<td>LIQ</td>
<td>0.28</td>
<td>0.780</td>
<td>0.773810/1.29</td>
</tr>
<tr>
<td>LEV</td>
<td>-1.85</td>
<td>0.065</td>
<td>0.904965/1.11</td>
</tr>
</tbody>
</table>

Table 4.4 shows that majority of the variables are positive, while one of the predictors (leverage) is negative. Only one predictor is significantly impactful at 1% and 5% levels. This revealed that all firm attributes explain the attitude of performance of conglomerate firms in Nigeria to a large extent.

The results for each hypothesis are presented below:

As can be inferred from the above-presented result under hypotheses testing, drawing inference from the result shows that firm size significantly influences financial performance for the reason being that computed p-value of 0.035 is less than 5% significance level. Therefore, the first null hypothesis is rejected.

The hypothesis is rejected.

Also, from the table above, while leverage has shown a negative effect on financial results but not statistically significant at a 5 percent significance level because the p-value of 0.065 is higher than 0.05. Therefore, we conclude here by failing to dismiss the second null hypothesis. This means that the leverage does not have a significant influence on performance.

In summary, from the study carried out, it can be seen that, overall, firm-specific attributes have a major effect on results. Specifically, it was noted that, among the three specific attributes used in our analysis, only firm size significantly influences financial performance positively, as well as liquidity positively, but not significantly, while leverage negatively affects the financial performance of conglomerate firms in Nigeria. Which was also in line with the finding of Mahendra et al. (2012) and Sisca (2018) Martini (2015) and Lestari (2017) found that the positive effect of debt policy on corporate value, and can be moderated dividend policy. A firm with a high leverage level tends to be negatively affected for the reason being that finance cost is involved here. A high leverage level is a potential to the existence of a corporation; therefore, it should be kept at bay and an internal source of finance should be opted for through retained earnings to finance the cost of operation as they retain earnings connotes a reservoir of firm’s existence. This further goes in line with Zhang and Li, (2008), who discussed that increase in leverage decreases the agency cost. In their study, they also stated that if the leverage is increased from the optimal level then those results in the opposite put an effect on the agency cost of free cash flow. They discussed that sometimes increase in debt causes bankruptcy. They said that the increase in the debt level reduces the agency cost but increases the bankruptcy cost. A firm with a large asset base tends to perform better-off than those with less capacity in terms of assets. Assets are often time referred to as economic resources of which are expected to flow economic
benefits to the owners for the foreseeable future. By so doing, a firm with a large asset base would receive a higher economic benefit in both the short-run and the long-run. This reason accounts for the significant effect of firm size on performance. Findings from this study correlate with the findings of (Dogan, 2013).

VI. CONCLUSION AND RECOMMENDATIONS

The study found that the size of the company has a positive and important effect on financial performance at this point of post-COVID-19, and therefore management should try to increase its total asset level as much as possible because assets have been described in accounting as business capital in which long-term economic benefits are expected to flow for a long period. The higher the number of assets, the higher the valuation of the businesses, and the more likely it is to produce more returns.

Accordingly, this study concludes that firm size and firm leverage are determinants of the financial performance of listed conglomerate firms in Nigeria. Also, this study advises that the management track its leverage level to maintain it at an optimum stage. High debt adversely affects the output of conglomerate companies. Therefore, the amount of leverage (debt-to-equity ratio) should be 3.5:65 to avoid high capital costs that guarantee performance in the post-COVID-19 Era.

Finally, a high level of liquidity is toxic to conglomerate companies because cash is tied down in the production process. Low liquidity leads to an inability to meet current obligations as they are due. An optimum liquidity level of 50% is therefore recommended for optimum performance.

The study, therefore, suggests that constructive steps be taken in addition to traditional practices and transparency criteria for companies in conglomerates in Nigeria:

* Financing of the economy and diversification with transparent management.

The economy must be funded to develop, first of all, for businesses like conglomerates to fall in line with growth.

* Financing and planning for the health care system is a very important factor.

* Reducing much of the pressure on the revenue and financial structure of conglomerates by the owners and their family members.

* Collaborating, organizing, and helping each other first to solve this lethal pandemic to save the global economic system by the IMF findings (2020).

We suggest that in this post-COVID-19 period and the subsequent economic crisis should not lead to a recession in the economy, some of the imperatives addressed in this work. Yet effective supervision, probity, fairness, integrity, prudence, accountability and the best values of conglomerate business practice are important to the post-COVID-19 Nigerian economy in terms of world best practice and practice.

Be wise, and the truthful Covid-19 is real.

Suggestion for Studies

i. Since this study focused on the conglomerate's companies, other future researches can focus on other sectors of the economy especially, the ones with governance and reporting failures.

ii. Also, the study did not capture all variables as such other studies may consider variables that were not used in this study.

iii. The new code of corporate governance addresses so many issues bothering conglomerates companies and governance hence, new endeavors can make massive use of the new code.

References Références Referencias


6. Berle and Means (1932) the modern corporation, and private property.new York; Macmillan.


### Appendix I

#### liq

<table>
<thead>
<tr>
<th>Percentiles</th>
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<td>.41</td>
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<tr>
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<td>.51</td>
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<td>50%</td>
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#### lev

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#### roa

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<td>99%</td>
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#### fs

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</tr>
<tr>
<td>99%</td>
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### Notes
- : sum roa fs liq lev, detail
Effect of Post Covid-19 on Firm’s Specific Attributes and Financial Performance of Quoted Conglomerates Companies in Nigeria

```
. sum roa fs liq lev

<table>
<thead>
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<th>Variable</th>
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<th>Std. Dev.</th>
<th>Min</th>
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<td>25</td>
<td>1.592</td>
<td>1.220174</td>
<td>.33</td>
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. pwcorr roa fs liq lev, sig

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<th>fs</th>
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</tr>
<tr>
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. reg roa fs liq lev

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<th>MS</th>
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<tr>
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<td>99.1253015</td>
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<tr>
<td>Total</td>
<td>3023.47992</td>
<td>24</td>
<td>125.97833</td>
<td>Adj R-squared = 0.2132</td>
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<tr>
<td></td>
<td></td>
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<td></td>
<td>Root MSE = 9.5962</td>
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| roa | Coef. | Std. Err. | t     | P>|t|   | [95% Conf. Interval] |
|-----|-------|-----------|-------|------|-----------------|
|     |       |           |       |      |                 |
| fs  | 7.629132| 3.616968 | 2.11  | 0.047 | 15.15103       |
| liq | .6505058| 2.328105 | 0.28  | 0.783 | 5.42065        |
| lev | -3.498806| 1.893424| -1.85 | 0.075 | -7.436398      |
|_cons| -37.47668| 25.47298| -1.47 | 0.156 | -90.45064      |

. vif

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<tr>
<td>fs</td>
<td>1.11</td>
<td>0.904965</td>
</tr>
</tbody>
</table>

Mean VIF| 1.27|

. hettest

Areusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of roa
chi2(1) = 1.99
Prob > chi2 = 0.1591
```
Effect of Post Covid-19 on Firm's Specific Attributes and Financial Performance of Quoted Conglomerates Companies in Nigeria

\[
x_{t} = \beta_{0} + \beta_{1}x_{t-1} + \epsilon_{t}
\]

\[\begin{array}{cccccc}
\text{Coeff.} & \text{Std. Err.} & z & P>|z| & [95\% \text{ Conf. Interval}] \\
\hline
fs & 8.815284 & 3.472624 & 2.54 & 0.012 & 1.488667 & 16.14188 \\
liq & -3.295496 & 2.448959 & -1.36 & 0.175 & -15.38432 & 9.87332 \\
lev & -3.430238 & 1.844048 & -1.81 & 0.070 & -31.29734 & 27.03637 \\
\hline
\end{array}
\]

\[\begin{array}{cccccc}
\text{Coeff.} & \text{Std. Err.} & z & P>|z| & [95\% \text{ Conf. Interval}] \\
\hline
\sigma_u & 5.546637 & & & \\
\sigma_e & 9.4278554 & & & \\
\rho & 0.2570621 & & (fraction of variance due to \( u_1 \)) \\
\hline
\end{array}
\]

\[F(4, 17) = 1.60, \text{ Prob } > \text{ F} = 0.2187\]

\[x_{t} = \beta_{0} + \beta_{1}x_{t-1} + \epsilon_{t}\]

\[\begin{array}{cccccc}
\text{Coeff.} & \text{Std. Err.} & z & P>|z| & [95\% \text{ Conf. Interval}] \\
\hline
fs & 7.629132 & 3.616968 & 2.11 & 0.035 & 1.5400058 & 14.71826 \\
liq & 2.6505058 & 2.328105 & 1.08 & 0.279 & -3.912496 & 5.213567 \\
lev & -3.498806 & 1.893424 & -1.85 & 0.065 & -7.20985 & 1.212374 \\
\hline
\end{array}
\]

\[\begin{array}{cccccc}
\text{Coeff.} & \text{Std. Err.} & z & P>|z| & [95\% \text{ Conf. Interval}] \\
\hline
\sigma_u & 0 & & & \\
\sigma_e & 0 & & (fraction of variance due to \( u_1 \)) \\
\rho & 9.4278554 & & & \\
\hline
\end{array}
\]

Test: \[H_0: \text{difference in coefficients not systematic}\]

\[\text{chi}^2(3) = (b-B)'\text{diag}(V_b-V_B)(b-B) \approx 0.52\]

\[\text{Prob} > \text{chi}^2 = 0.9155\]

\(V_b-V_B\) is not positive definite
APPENDIX II

Table 3.1: Lists of Sampled Conglomerate Firms in Nigeria

<table>
<thead>
<tr>
<th>S/N</th>
<th>Quoted Firms</th>
<th>Year of Listing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>A.G Leventis (Nigeria) Plc.</td>
<td>1978</td>
</tr>
<tr>
<td>2.</td>
<td>Chellarams Plc.</td>
<td>1977</td>
</tr>
<tr>
<td>4.</td>
<td>PZ Cussons Nig. Plc.</td>
<td>1974</td>
</tr>
<tr>
<td>5.</td>
<td>SCOA (Nigeria) Plc.</td>
<td>1977</td>
</tr>
<tr>
<td>6.</td>
<td>Unilever Nig. Plc.</td>
<td>1973</td>
</tr>
<tr>
<td>7.</td>
<td>UACN Plc.</td>
<td>1974</td>
</tr>
<tr>
<td>8.</td>
<td>Transnational Corporation of Nig.</td>
<td>2006</td>
</tr>
</tbody>
</table>

Source: Stock Exchange Fact Book.

.xtreg roa fs liq lev, re

Random-effects GLS regression
Group variable: year
Number of obs = 25
Number of groups = 5

R-sq: within = 0.3773
between = 0.0157
overall = 0.3115

Obs per group: min = 5
avg = 5.0
max = 5

Random effects u_i ~ Gaussian
corr(u_i, X) = 0 (assumed)
Wald chi2(3) = 9.50
Prob > chi2 = 0.0233

| roa | Coef. | Std. Err. | z    | P>|z|  | [95% Conf. Interval] |
|-----|-------|-----------|------|------|---------------------|
| fs  | 7.629132 | 3.616968 | 2.11 | 0.035 | 5.400508 to 9.852526 |
| liq | 0.6505058 | 0.2328105 | 0.28 | 0.778 | -0.863196 to 2.164206 |
| lev | -3.498806 | 1.893424 | -1.85 | 0.065 | -6.20985 to 7.212074 |
| _cons | -37.47668 | 25.47298 | -1.47 | 0.141 | -87.4028 to 12.44944 |
| sigma_u | 0 | 0 | 0 | 0 | |
| sigma_e | 9.4278554 | 0 | (fraction of variance due to u_i) |

Source: Stock Exchange Fact Book.
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Crowdfunding Prospects in Nepal

By Som Raj Nepali

Abstract- Graduation of Nepal from Least Developed Country (LDC) by achieving remaining criteria of Gross National Income (GNI) per capita threshold of US $1230 from the status of US $1,196 is urging for huge investments in Nepal. The study helps to analyze the potentiality of crowd funding in Nepal with the due consideration of its financial development, technological advancement and regulatory requirements & legislations. Government of Nepal and Nepal Rastra Bank are contributing towards Digital Nepal under the Digital Nepal Framework-2019. The conglomeration of Financial Technology (FIN-Tech), and Information and Communication Technology (ICT) in Nepalese financial system is facilitating the implementation of crowdfunding. Similarly, the study reveals that crowdfunding has potentiality of becoming the pillar of alternative finance source in Nepal. However, lack of regulatory guidances is the major barrier for the establishment, operation and growth of crowdfunding, which requires a rigorous study on its scope, viability and regulation.

Keywords: equity, donation, reward, financial technology and regulation.

GJMBR-C Classification: JEL Classification: G10, G18, G21, G23, G28

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Crowdfunding Prospects in Nepal

Som Raj Nepali

Abstract Graduation of Nepal from Least Developed Country (LDC) by achieving remaining criteria of Gross National Income (GNI) per capita threshold of US $1230 from the status of US $1,196 is urging for huge investments in Nepal. The study helps to analyze the potentiality of crowd funding in Nepal with the due consideration of its financial development, technological advancement and regulatory requirements & legislations. Government of Nepal and Nepal Rastra Bank are contributing towards Digital Nepal under the Digital Nepal Framework-2019. The conglomeration of Financial Technology (FIN-Tech), and Information and Communication Technology (ICT) in Nepalese financial system is facilitating the implementation of crowdfunding. Similarly, the study reveals that crowdfunding has potentiality of becoming the pillar of alternative finance source in Nepal. However, lack of regulatory guidances is the major barrier for the establishment, operation and growth of crowdfunding, which requires a rigorous study on its scope, viability and regulation.

Keywords: equity, donation, reward, financial technology and regulation.

JEL Classification: G10, G18, G21, G23, G28.

I. Introduction

The concept of crowdfunding is believed to be grown in developed countries in a response to the credit crunch and financing difficulties faced by early stage Small and Middle-scale Enterprises (SMEs) resulting from the financial crisis of 2008. The traditional banking system and its difficulties in response to the financial crisis have triggered a search for new alternative financing sources; crowd funding. Crowdfunding is a form of fund-raising usually over the network of the internet. Individuals with ideas of startups and in need of funds and financial support can present their ideas over the internet or forum, for example, Kickstarter, Seedrs and so on. Then, the users of the forum or the crowd decide if they are willing to invest in some ideas presented there.

Literally, crowd refers to a large group or conglomeration of individuals contributing via the internet, by financially supporting a project or cause (Lastrado and Lugmayr, 2013). Funding mechanism are the principles or rules the intermediaries set under which funding takes place (Schulz et al., 2015).

 Especially, crowd funding is considered as a part of Fin Tech’s sub-category, which is called Alternative Finance. It is a technology-enabled market based funding which comes outside the financial system (Jenik, Lyman and Nava, 2017). According to Haddad and Hornuf (2019), it is one of the parts of FinTech developments, which addresses needs in capital raising through innovative and digital solutions.

Crowd funding platforms adopt diversified business models under the different local and national regulatory requirements.

![System of crowdfunding](image)

**Figure 1:** System of crowdfunding

Source: Author’s creation

Author: Assistant Director, MBA (Finance)/MA Economics, Nepal Rastra Bank, Baluwatar, Kathmandu, Nepal. e-mail: bepositivesom@gmail.com

DISCLAIMER: The views expressed here are those of the author and do not necessarily reflect those of the Nepal Rastra Bank and any other institutions.
international rules, regulations, legal regimes and structures. According to IOSCO (2015), the benefits of crowd funding can be listed out as below:

a. Facilitate funding for small and medium sized enterprises;
b. Seed capital to start-up companies;
c. Lower cost of capital/high returns;
d. Portfolio diversification;
e. Cost efficiency of relatively simple infrastructure;
f. Convenience of online platform; and
g. Increased competition in a space traditionally dominated by a few providers.

II. Types of Crowdfunding

The crowdfunding projects types can be presented in figure as below:

![Figure 2: Types of crowdfunding](source)

The detail characteristics and nature of the crowdfunding can be explained as below:

a) Lending based crowdfunding

Under it, crowd funder lends money to companies or startups or individuals in return of a fixed interest rate for a specified schedule. The interest rate is generally lower than that of banks and financial institutions and is based on the risk factor. It is also called as peer to peer lending, whereby peers lend to other peers via internet or online platforms. It comes under the regulation of monetary authority.

b) Equity based crowdfunding

Under it, crowd funding buys equity or profit sharing arrangements in a company. In other words, investor becomes the owner of the company and is supposed to get dividend as well. This has more potentiality to attract relatively large numbers of investors. It also comes under the regulation of the central banks or monetary authority.

c) Donation based crowdfunding

By the name itself, under it crowd funder donates funds to a dedicated cause or project without expecting any monetary or non-monetary returns. It is more like philanthropic in nature. This type of funding occurs in the area like; school constructions, hospital establishments and operation, disaster reliefs and so on. Here, investors get nothing but Thank you as a reward, in other words, investors are appreciated and recognized in return of his/her investment. NGO’s have been using this model of crowdfunding for years.

d) Reward based crowdfunding

Under it, there is reward for the crowd funders. However, the reward may take the form of products or gifts or membership or invitation for the events instead of interest or profit share in return of funds. Here, investors also receive a token gift of pre-purchase of service or product. Therefore, it has been used as a tool of pre-selling products, which also generates revenue for the start-ups.
III. Crowdfunding Models and Platforms

The major crowd funding models can be shown as below:

Table 1: Types of crowdfunding models

<table>
<thead>
<tr>
<th>S/N</th>
<th>Types of model</th>
<th>Raison d'etre (Reason)</th>
<th>Substitutes Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Threshold model</td>
<td>Support creative ideas</td>
<td>Direct financing</td>
</tr>
<tr>
<td>2</td>
<td>Microfinance model</td>
<td>Poverty alleviation</td>
<td>Donations</td>
</tr>
<tr>
<td>3</td>
<td>Microloan model</td>
<td>Alternative to banks</td>
<td>Bank loans</td>
</tr>
<tr>
<td>4</td>
<td>Equity model</td>
<td>Emerging enterprises</td>
<td>Business angels</td>
</tr>
</tbody>
</table>

Source: Silver, Berggren and Fili (2016).

The following table shows the instances of major crowd funding platforms:

Table 2: Differentiating crowdfunding platforms

<table>
<thead>
<tr>
<th>Platforms (Country)</th>
<th>Funding Mechanisms</th>
<th>Project type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indiegogo (USA)</td>
<td>All or Nothing, Keep it All</td>
<td>Reward Donation</td>
</tr>
<tr>
<td>Kickstarter (USA)</td>
<td>All or Nothing, Only Reward</td>
<td></td>
</tr>
<tr>
<td>Innovestment (Germany)</td>
<td>All or Nothing, Only Equity</td>
<td></td>
</tr>
<tr>
<td>Invesdor (Finland)</td>
<td>All or Nothing, Only Equity</td>
<td></td>
</tr>
</tbody>
</table>

Source: Huhtamaki et al. (2015)

Following pictures show the crowdfunding platforms from their respective websites viz., https://innovestment.eu/ and https://www.invesdor.com/.

Figure 3: Example of crowdfunding platforms
IV. **Global Scenario of Crowdfunding**

Crowdfunding has been occupying a significant place in the discussion of economic forum, political, social and cultural discourses after the global recession of 2008. There has been a search for the better source of funds and investment alternatives thereof. Across the world, developments in financial technology (Fin-Tech) are revolutionizing the way people interact with financial services—allowing faster payments, more secure transactions, user-friendly interfaces, and reducing costs.

According to UNDP (2017), crowdfunding is an innovative approach for projects, organizations, entrepreneurs, and startups to raise money for their causes from multiple individual donors or investors. The industry is expected to reach an annual volume of US$100 billion by 2025 and becoming the leading financial channel for SMEs.

The figure (see Figure 4) shows the global total volume that alternative finance platforms having facilitated along with the percentage change in some years.

![Figure 4: Global alternative finance volume ($ in Billion)](image)

Source: Schmidt (2020) and Cambridge Centre for Alternative Finance (2020).

The total global alternative finance volume has grown from $11.06 billion in 2013 to $418.52 billion in 2017 (Ziegler, Shneor and Zhang, 2020). As a result, the concept of crowdfunding has taken more space and growth substantially. According to Schmidt (2020), China solely accounted for 85.5 percent of the worldwide crowdfunding market in 2017.

**a) South Asian and Nepalese Scenario of Crowdfunding**

With the growing development in information technology, financial innovations and an avenue towards digital economy, modern and innovative models of finance have been emerged all around the world. The following table shows the regulatory provisions and legislations regarding the crowdfunding in South Asian countries.
Table 3: Crowdfunding in South Asian countries

<table>
<thead>
<tr>
<th>S/N</th>
<th>South Asian Countries</th>
<th>Provisions related to crowdfunding</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Srilanka</td>
<td>A crowdfunding initiative that merely procures gifted or donated sums without the possibility of a return may not be considered unlawful under the Securities Act (2008).</td>
<td>D’Rosario, M., Busary, A., &amp; Raval, K. (2016).</td>
</tr>
<tr>
<td>2</td>
<td>Nepal</td>
<td>The Securities Act 2007 does not permit non broker intermediaries to engage in capital raising related activities.</td>
<td>Securities Board of Nepal (SEBON) (2021)</td>
</tr>
<tr>
<td>3</td>
<td>Bangladesh</td>
<td>The Securities and Exchange Commission Act, 1993 is silent in relation to crowdfunding type methods. A crowdfunding initiative that merely procures gifted or donated sums without the possibility of a return may not be considered unlawful under it.</td>
<td>D’Rosario, M., Busary, A., &amp; Raval, K. (2016).</td>
</tr>
<tr>
<td>4</td>
<td>India</td>
<td>However, it is evident that crowdfunding as a discrete activity would be prohibited and would be considered unlawful under Indian securities legislation. In 2017, RBI issued directions targeting ‘Non-Banking Financial Companies’ and specifically P2P lending platforms. These directions require all P2P lending platforms to obtain a certificate from RBI.</td>
<td>D’Rosario, M., Busary, A., &amp; Raval, K. (2016); Suresh, K., Oyna, S., &amp; Munim, Z. H. (2020)</td>
</tr>
<tr>
<td>5</td>
<td>Bhutan</td>
<td>The Royal Monetary Authority of Bhutan, in exercise of the powers conferred by Sections 202 of the Financial Services Act of Bhutan 2011, has formulated and promulgated “Crowdfunding Rules &amp; Regulations 2019.”</td>
<td>Royal Monetary Authority of Bhutan (RMAB) (2019).</td>
</tr>
<tr>
<td>6</td>
<td>Pakistan</td>
<td>Securities &amp; Exchange Commission of Pakistan (SECP) has granted approval to the first technology based crowdfunding platform that allows startups and SMEs to raise funds from investors in return for securities.</td>
<td>SEC pakistan (27 october, 2020)</td>
</tr>
</tbody>
</table>

The following figure illustrates the number of crowdfunding platforms operating in South Asian countries.

![Crowdfunding Platforms Operating in South Asian Countries](source: Cambridge Centre for Alternative Finance (2020))

Figure 5: No. of crowdfunding platforms operating in South Asian countries
The following table shows the volume of alternative finance in South Asian countries.

### Table 4: Volume of alternative finance in South Asian countries.

<table>
<thead>
<tr>
<th>S/N</th>
<th>South Asian Countries</th>
<th>Volume ($ USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nepal</td>
<td>1,014,850</td>
</tr>
<tr>
<td>2</td>
<td>Bhutan</td>
<td>10,000</td>
</tr>
<tr>
<td>3</td>
<td>Bangladesh</td>
<td>10,272</td>
</tr>
<tr>
<td>4</td>
<td>Sri Lanka</td>
<td>38,926</td>
</tr>
<tr>
<td>5</td>
<td>Pakistan</td>
<td>8,571,762</td>
</tr>
<tr>
<td>6</td>
<td>India</td>
<td>268,579,820</td>
</tr>
</tbody>
</table>

*Source: Cambridge Centre for Alternative Finance (2018), Ziegler et al. (2018)*

The above table shows that India is the largest market in terms of volume of alternative finance followed by the Pakistan and Nepal. According to UNDP (2017), crowdfunding in developing countries raised US$430 million in 2015 with India, Philippines, and Nepal in the top three.

### Table 5: Economic indicators

<table>
<thead>
<tr>
<th>S/N</th>
<th>Particulars</th>
<th>2019/20 (Estimated)</th>
<th>2019/20 (Actual)</th>
<th>2020/21 (Estimated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gross Investment, 2020/21</td>
<td>Rs. 1889.26 Billion</td>
<td>-</td>
<td>Rs. 1312.71 Billion</td>
</tr>
<tr>
<td>2</td>
<td>Gross investment to GDP</td>
<td>50.20%</td>
<td>28.40%</td>
<td>30.80%</td>
</tr>
<tr>
<td>3</td>
<td>Fixed capital formation to GDP</td>
<td>28.10%</td>
<td>28.40%</td>
<td>27.30%</td>
</tr>
<tr>
<td>4</td>
<td>Gross fixed capital formation of government sector</td>
<td>77.90%</td>
<td>18.60% (Rest 7.6% public corporation)</td>
<td>18.10% (Rest 8.4% public corporation)</td>
</tr>
<tr>
<td>5</td>
<td>Gross fixed capital formation of private sector</td>
<td>22.10%</td>
<td>73.10%</td>
<td>74.30%</td>
</tr>
<tr>
<td>6</td>
<td>Gap between Savings and investment</td>
<td>32.10%</td>
<td>22.10%</td>
<td>24.20%</td>
</tr>
<tr>
<td>8</td>
<td>GDI per capita in current price</td>
<td>US $ 1085 (GDP per capita)</td>
<td>US $ 1196</td>
<td>US $ 1196</td>
</tr>
</tbody>
</table>

*Source: Ministry of Finance, Economic Survey 2019/20 & 2020/21*

The concept of digital economy and its supporting pillars like; SMS banking, mobile banking, QR code scan system, POS machine, internet banking, connect IPS and RTGS system can facilitate the crowdfunding. Technological awareness and subjective norms positively influence backers’ crowdfunding intentions (Hasan, Ahmad, Rahman, and Islam, 2018).
V. Payment Instruments Issued

The following figure shows the number of payment instruments issued in Nepal.

![Graph showing number of payment instruments issued](image)

*Figure 6: Number of payment instruments issued*

The following table represents the major payment system indicators in Nepal.

*Table 6: Major payment system indicators*

<table>
<thead>
<tr>
<th>S/N</th>
<th>Particulars</th>
<th>Mid July 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Total number of ATMs</td>
<td>4,106</td>
</tr>
<tr>
<td>2</td>
<td>Total inter-bank payment system (IPS) Transaction Presented Count (Yearly)</td>
<td>5,875,765</td>
</tr>
<tr>
<td>3</td>
<td>Total ConnectIPS Transaction Presented Count (Yearly)</td>
<td>2,849,964</td>
</tr>
<tr>
<td>4</td>
<td>Total number of Non-BFIs working as PSO</td>
<td>9</td>
</tr>
<tr>
<td>5</td>
<td>Total number of Non-bank institution operating as PSP</td>
<td>14</td>
</tr>
</tbody>
</table>

*Source: Payment Systems Oversight Report, 2019/20*
a) Payment Channels

The following figure shows the number of customers on payment channels in Nepal.

![Number of customers on payment channels](image)

**Figure 7:** Number of customers on payment channels

Source: Payment Systems Oversight Report, 2019/20

b) 15th Five Year Plan (FY2020-FY2024)

There has been a remarkable progress in adoption of information technology in Nepalese economy. According to Nepal Telecommunications Authority (2020), telephone service penetration has reached to 126.72 % of the total population, mobile phone service has exceeded 90% of the people, and internet penetration has reached to 74.43%. Similarly, International Telecommunication Union reported that Nepal will be among the frontrunners in internet penetration at 79% by 2025 (Frost and Sullivan, 2018).

The Government of Nepal's 15th five-year plan (FY2020-FY2024) envisions Digital Nepal project with the total estimated cost of NRs. 107.50. According to NPC (2020), 65.9 per cent of the population has access to the Internet services, and digital literacy stands at 40 percent. The Government of Nepal's 15th five-year plan (FY2020-FY2024) envisions increasing internet penetration to 80% by FY2024 (NPC, 2020). The rapid and improved access to the information technology specifically internet via mobile phones and other devices, boom in social networks and Fin-Tech developments have helped growth of crowdfunding in developed as well as in developing countries like Nepal.

c) Digital Nepal Framework-2019

Digital Nepal Framework is in effect in Nepal since 2019. It has selected 8 major sectors which includes eighty initiatives. They all support for the economic growth through enhanced use of ICT in major sectors. One of the major sectors to build up the digital foundation and its effective utilization is on financial sector. It targets unbanked population get into the banking or financial sector by the use of ICT. Besides, it aims for leveraging the financial inclusion and access upto 55 percent of the population employing Fin-Tech and digital ways (DNF, 2019).

Ministry of Communications and Information Technology (MoCIT) has recently launched the beta version of the application called "Nagarik App". This app has been launched with an aim to provide all the government related services through a single online platform, which is under the government's Digital Nepal Framework project. Similarly, "Mero Kitta" app is another example of the Ministry of Land Management, Cooperatives and Poverty Alleviation's initiatives towards digital Nepal. This app provides online land related services without having to visit government offices.

d) Nepal Rastra Bank and Legal Frameworks/Initiatives for Digital Payment System

Nepal Rastra Bank is the central bank of Nepal and it is committed to develop the digital economy and promote digital financial system in Nepal. According to NRB Act (2002) First amendment 2006, one of the major objectives of NRB is to develop a secure, healthy and efficient system of payment. Therefore, various commendable efforts have been making for the...
payment system modernization, started with the formulation of Nepal Payment System Development Strategy (NPSDS) in 2014. NPSDS guides NRB to implement the strategy across the nine pillars.

Furthermore, following strategic and legal formulation and implementations are regarded as the breakthrough in making Nepalese economy a Digital economy:

a. Licensing Policy for Institution/Mechanism Operating Payment Related Activities, 2016
b. Payment and Settlement Act, 2018,
c. Payment and Settlement Bylaws 2020,
d. Real Time Gross Settlement (RTGS) System Rule, 2019,
e. Unified Directives,
f. Monetary policy, and
g. International guiding polices such as Principles of Financial Market Infrastructures (PFMIs)

These policy level milestones are expanding, improving and securing the digital mode of payments in Nepalese economy.

e) Third Strategic Plan (2017-2021) of NRB

According the Third Strategic Plan (2017-2021) of NRB, NRB has set four core pillars that are essential for achieving organizational goals and objectives. Pillar two is related to Financial Stability and Financial Sector Development. One of its objectives is to Enhance Financial Access and Financial Inclusion, which is an integral part of Financial Sector Development Strategy (FSDS) announced in 2017. In order to achieve this objective, among others strategies and actions, encouraging different modes of digital financing is one of the important actions. Therefore, NRB is in avenue of supporting digital economy of Nepal. Therefore, it is important to pro-actively and prudently develop technological and policy level regulatory framework to support crowdfunding.

The monetary policy 2020/21 has significantly focused on Fin-Tech and digital payment in Nepal. One of the stances of monetary policy 2020/21 is that "digitization will be promoted to make payment system more secure, healthy and efficient." Following are the major provisions in monetary policy 2020/21 relating to the digital economy and digital Nepal.

a. Settlement of financial transactions through digital means will be encouraged following the spirit of the Digital Nepal Framework implemented by the GoN, which aims to promote sound and secure electronic payment system in order to minimize the cash transactions.
b. National Payment Switch will be established to facilitate the payment system further in order to maintain records of all electronic transactions conducted in Nepal.
c. A guideline will be issued to manage the electronic payments made through Quick Response (QR) code.
d. Provisions will be made to receive foreign currency earned from the exports of IT related services exported through online or electronic means in the bank account or card of the exporter or service provider.
e. Likewise, necessary arrangements will be made to receive remittances through mobile wallets.

f) Crowdfunding and its Potentiality on Economic Development of Nepal

A neo-classical economic growth model of Solow-Swan (1956) focuses on long run economic growth with the key components of saving and investment. It says that an increase in saving and investment decreases the capital stock and thus raises the full-employment national income and product. Investment is one of the pillar for the economic growth.

The previous economic crises, frequent credit crunch and stringent regulatory requirements as such have been demanding for alternative financing. In the context of Nepal, there has been a rapid growth of informal sectors that are bridging the gap between the savers and users of funds by any means. According to a study of United Nations Capital Development Fund (UNCDF) (2017), it revealed that 24% of Nepali adults had been refused loans due to lack of proof of sufficient income, while 19% were unable to provide collateral. There is always a gap between required capital and fulfilled investments. Therefore, people who are not confident enough to proceed through the formal channels due to stringent regulatory requirements and searching for alternative way of investment are the growth factors of crowd funding. On the other hand, small investors are searching for investment alternatives that give them, even though smaller, returns.

Besides, a unprecedented global pandemic of Corona Virus-COVID 19 has magnified the prominence of digital and electronic transactions in an economy no matter of its size. The market has already started as there are some online platforms that provide startup solutions for the investors and entrepreneurs in Nepal, for example, Clock b. Similarly, international competition and opportunities viz. Hult Prize, GIST Tech-I, Seedstar, and IdeaStudio in Nepal are attempting to bridge the gap between the start-ups, entrepreneurs and investors.

Similarly, there are well known donation based crowd funded projects which are being operated by a not for profit and non-government humanitarian organization called Dhurmus Suntali Foundation (DSF). The inception of DSF virtuously was for humanitarian support in reconstruction of settlements for survivor of 2015 Nepal earthquake and since then started
implementing social, economic and infrastructure development initiatives in Nepal (DSF, 2021).

It is now focused on mega-projects like ongoing construction of Gautam Buddha International Cricket Stadium-multiple sport venues and covered halls representing all 77 districts. It is also fully implementing crowdfunding for collecting donations using Fin-Tech. According to annual report (DSFa, 2021), DSF has collected donations of NRs. 18,53,42,791.75 and expensed the same amount for completing 7.17 percentage of the project until the review period. The initiative and success of the DSF has also shown an avenue for the crowdfunding in Nepal. DSF has supported for the infrastructure development in Nepal although it is based on donation crowdfunding. Therefore, these platforms act as alternative finance source and support for the other kinds of philanthropic causes and economic development of Nepal.

Crowdfunding can be a one of the major and alternative financing solutions for achieving sustainable development as well. Out of total 17 sustainable development goals, 8th goal is related to decent work and economic growth. Similarly, 9th goal concerns with industry, innovation and infrastructure. The government's big plan of 'Digital Nepal' is designed to facilitate Nepal to connect its driving socioeconomic growth of citizens, which will help and support to achieve the sustainable development goal (Giri, 2020).

In order to achieve these major goals, one of the major resources is capital and capital can be collected from alternative financing along with the traditional financing. Crowd funding is one of the emerging platforms for collecting small investments for the huge projects. Innovation in financial tools and techniques yields secured and productive platforms for the funds generation.

It helps the development of small and medium scale enterprises in such a way that it does not interfere with future development potentiality and sustainability.

The United Nations Committee for Development Policy (UNCDP) has recommended for Nepal’s graduation from the Least Developed Country (LDC) category, which would be effective in 2026 after the preparatory period ends. The efforts have been made to graduate by 2022 via 12th 3 years plan. This upgrade is based on three graduation thresholds as presented below and these must be met in two consecutive triennial reviews (or income only).
Nepal has already attained two indicators with HAI of greater than 71.2 and EVI of less than 28.4 respectively (UN, ESCAP, 2019). However, Nepal has not attained the GNI per capita threshold of $1230, which is currently US $ 1196. In order to achieve the GNI per capita threshold, Nepal has to work hard for the sustainable, wide, and higher economic growth. For this Nepal has to maintain at least double-digit growth rate for the remaining fiscal years which requires huge investments in every sectors. In contrast to it, a contemporary banking and formal financial system may be insufficient for the required investments and economic activities. Therefore, crowd funding platforms with supportive legal and regulatory environment are pillars towards economic development of Nepal.

Economic development not only implies the monetary or income growth of the people of a country but also means mental, personal, or social growth. Alternative finance, crowdfunding, provides an increasingly vital source for start-ups, entrepreneurs and Small and Medium Enterprises. At the same time, it provides a platform to share the ideas and work on to make it possible or turn into a reality. It entice individuals or entrepreneurs to be creative, innovative and persuasive to get the funder's attention and funds. Therefore, it is possible for the startups to finance their businesses either from equity or debt or mix of both and give return to the funders. There is a potentiality of crowd funding to be have positive effect on investment efficiency in the developing economies like Nepal.

Besides, business and philanthropic purposes, crowdfunding are used for the political purpose also. There are ample of examples that political campaigns also use crowdfunding to finance their events and projects. Even political projects have been crowd funded, for instance a majority of Barrack Obama’s election campaign funds in 2008 came from small financial contributions which raised over 200 million dollars in microdonations (Eranti, 2014). Better political issues and agendas funded via crowdfunding makes it possible or turn into a reality. It entice individuals or entrepreneurs to be creative, innovative and persuasive to get the funder's attention and funds. Therefore, it is possible for the startups to finance their businesses either from equity or debt or mix of both and give return to the funders. There is a potentiality of crowd funding to be have positive effect on investment efficiency in the developing economies like Nepal.

**g) Regulation of Payment System and Crowdfunding in Nepal**

It’s a responsibility of monetary as well as regulatory authority to protect investor, issuer and crowdfunding platforms. In international context, American Jumpstart Our Business Startups (JOBS) Act - 2012, enacted in US, is one of the first regulatory frameworks for crowdfunding in the USA. Title III of the JOBS Act-2012, is also called as the Crowdfunding Act, also known as Regulation Crowdfunding (Reg CF) and effective from 2016. Reg CF allowed eligible companies to raise capital through equity-based platforms with an exemption from registration crowdfunding transactions. However, the regulation also included several limitations on the maximum investable amount per year, combined with tailored disclosure procedures and disqualification criteria (Chervyakov and Rocholl, 2019). In European level, there are provisions for the regulations on investment and lending instruments, however, they are not specifically tailored for crowdfunding related activities.

Regulation of crowdfunding does influence the expenses, incomes and investments. It can go either way i.e. positive, negative or both, For instance, in 2017 China’s volume accounted for 86% of global volumes, while this year it shrank to 71%. This decline is mostly explained by regulatory enforcement efforts by Chinese authorities in a market in which, until recently, such regulations were largely unmentioned. The Centre for Alternative Finance (CCAF) database, showed that national volumes of crowdfunding are positively associated with the rule of law in the country and its quality of regulation. Similarly, it is positively relate to the control of corruption, presence of explicit or bespoke crowdfunding regulations, ease of setting up business, and financial profitability of existing financial intermediaries (e.g. the banking sector). In Indian context, central bank of India i.e Reserve Bank of India

### Table 7: LDC graduation thresholds

<table>
<thead>
<tr>
<th>S/N</th>
<th>Parameters</th>
<th>LDC graduation thresholds</th>
<th>Nepal’s achievements</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>GNI Per capita</td>
<td>US $ 1,230 or above</td>
<td>US $ 1,196*</td>
<td>Need to achieve</td>
</tr>
<tr>
<td>2</td>
<td>Human Assets Index (HAI)</td>
<td>66 or above</td>
<td>Greater than 71.2</td>
<td>Achieved</td>
</tr>
<tr>
<td>3</td>
<td>Economic Vulnerability Index (EVI)</td>
<td>32 or below</td>
<td>Less than 28.4</td>
<td>Achieved</td>
</tr>
</tbody>
</table>

Crowdfunding Prospects in Nepal

RBI regulates all types of money lending. Peer to peer (P2P) lending has been there in India since 2014, however there was no specific regulation until the latter half of 2017 (Menon, 2016).

In Nepalese context, Nepal Rastra Bank (NRB) has been continuously issuing various directives, guidelines, and policies to the licensed institutions for ensuring secured and seamless payment system. A dedicated department, Payment Systems Department, has been set up in NRB's organizational structure to regulate and oversee payment institutions (NRBc, 2019/20).

As one of the strategies to strengthen the Nepalese payment system, the monetary policy 2019/20 has already prioritized and worked on arranging for the settlement of transactions within the country by ensuring interoperability of electronic payment transactions through the development of national payment gateway/switch. The monetary policy 2020/21 has focused on some regulatory frameworks. Like:

a. New license to Payment System Operator (PSO) and Payment Service Provider (PSP) has been suspended except in the case of those which have been provided Letter of Intent (LOI).

b. License of the PSPs that fail to make at least three hundred thousand customers and at least six hundred thousand monthly average transactions by mid-July 2021 may be revoked.

c. Payment System Development Indicators (PSDIs) will be published.

The first attracting policy for establishing crowdfunding platform, as mentioned above, is Licensing Policy for Institution/Mechanism Operating Payment Related Activities, 2016. This policy has stated that there is provision for providing license to Payment Service Provider (PSP), which carries out payment related transaction function through telecommunication network. According to this policy, PSPs can perform, activities like; giving/taking payment and intermediate between customer and service provider, domestic money transfer service in home country and other activities except as prescribed above. However, this policy is still unclear about providing license to PSPs that perform crowd funding in Nepal.

Securities Act, 2007 of Nepal also does not allow non-broker intermediaries to involve themselves in raising capital and such activities in any other ways. Securities Act, 2007, section 63 as divided the types and nature of the securities business where it does not acknowledge any licensing provisions, pursuant to section 58, relating to crowd funding platforms which issue securities and operate in Nepal (SEBON, 2021).

In crowdfunding, an internet is employed as a medium for the communication and operation of online platforms. By the nature itself, there is huge possibility and risk of cyber crime, cyber threat and cyber attacks in crowdfunding platforms. There is a cyber law called Electronic Transactions Act (2008) in Nepal. According to Electronic Transactions Act (2008) Chapter 9, section 53 Abetment to commit computer related offence, “a person who abets other to commit an offence relating to computer under this Act or who attempts or is involved in the conspiracy to commit such an offence shall be liable to the punishment with a fine not exceeding fifty thousand Rupees or with imprisonment not exceeding six months or with both, depending on the degree of the offence.”

Similarly, Electronic Transactions Act (2008) section 54 has a provision of ‘Punishment to the Accomplice’, which state that “a person who assists others to commit any offence under this Act or acts as accomplice, by any means shall be liable to one half of the punishment for which the principal is liable.” Fines, penalties and punishments are the ways of regulation of cyber sector. A study concluded that the Nepal government must conduct a professional analysis of cyber crime, cyber threat, cyber security, and cyber strategies (Giri, 2019).

VI. Conclusion

Government of Nepal and Nepal Rastra Bank (NRB) are in the avenue of making Digital Nepal with the effective implementation of Digital Nepal Framework-2019. An enhanced financial access and financial inclusions have fueled the need for digital economy and demand for the innovative investment alternatives. Besides formal and regular mode of financing channels, Nepal also needs alternative financing channels for the sustainable, wide, and higher economic development. One of the latest, young and dynamically evolving alternative financing sources, in developed as well as developing economies, is crowd funding. Crowdfunding is an internet-based platforms used for collecting funds from individuals in small amount for business or social or cultural cause and issues employing social media especially.

Crowd funding has shown the huge potentiality for the development of Nepal. Success of existing donation based crowdfunding platform initiated by the Dhurmus Suntali Foundation is the best example. After the review of legislations regarding Nepalese payment system, it shows that there has not been even a licensing and other regulatory provision for the crowdfunding platforms. Regualtions based on the nature, type and models of crowd funding is the urgent need of Nepal. Likewise, cyber security is a main challenges for the growth of internet based platforms like; crowdfunding. Sooner or later modern Fin-Tech based products; like crowd funding platforms become the necessity of the economy and NRB has to be proactive and prudent to regulate such systems along with the ICT infrastructural developments. NRB, with the
vision of modern, dynamic, credible and effective central bank of Nepal, facilitates crowdfunding as an alternative financing source in Nepalese economy.

**References Références Referencias**


Crowdfunding Prospects in Nepal

from: https://mof.gov.np/uploads/document/file/EO%4A%86%E0%A4%80%E0%A5%8D%E0%A4%A5%E0%A4%BF%E0%A4%95%20%E0%A4%80%E0%A4%80%E0%A4%A3%E0%A4%95%E0%A5%A4%E0%A5%8D%E0%A5%87%E0%A4%80%E0%A5%8D%E0%A4%B7%E0%A4%A4%E0%A5%80%E0%A5%8D%E0%A5%87%E0%A4%AD_%E0%A5%AD%E0%A5%AE%20Press_20210528090726.pdf


The Effect of Corporate Governance Practice on Firms’ Profitability

By Dr. Hema Doreswamy, Dr. Madhavi Lokhande, Prof. Radhika Uttam & Ms Debasmita Lenka

Welingkar Institute of Management

Abstract- Corporate Governance has been framed in organization which basically define relationship between board members, management team and shareholders, to carry out duties at utmost transparency, ethical and accountability. It is always expected that the corporate governance should meet the global standard for better corporate success. Therefore, it is very necessary to have good corporate governance in order to manage effectively in global market. Companies put in lot of effort to build and adopt a good corporate governance model in order to catch the eye of investors. A good corporate governance practice can help companies perform better than competitors and so does it impact on profitability. This research paper focuses on finding the impact on corporate governance practices on profitability of firms. Here statistical methods like descriptive statistics and Pearson correlation methodology are used to find the direct link. Independent variables are board committee, board size, CEO duality, audit committee, non-executive director and dependent variables are PAT, EPS, ROA.

Keywords: ethical, corporate success, profitability.

GJMBR-C Classification: JEL Code: F65

Strictly as per the compliance and regulations of:
The Effect of Corporate Governance Practice on Firms’ Profitability

Dr. Hema Doreswamy, Dr. Madhavi Lokhande, Prof. Radhika Uttam & Ms Debasmita Lenka

Abstract - Corporate Governance has been framed in organization which basically define relationship between board members, management team and shareholders, to carry out duties at utmost transparency, ethical and accountability. It is always expected that the corporate governance should meet the global standard for better corporate success. Therefore, it is very necessary to have good corporate governance in order to manage effectively in global market. Companies put in lot of effort to build and adopt a good corporate governance model in order to catch the eye of investors. A good corporate governance practice can help companies perform better than competitors and so does it impact on profitability. This research paper focuses on finding the impact on corporate governance practices on profitability of firms. Here statistical methods like descriptive statistics and Pearson correlation methodology are used to find the direct link. Independent variables are board committee, board size, CEO duality, audit committee, non-executive director and dependent variables are PAT, EPS, ROA.

Keywords: ethical, corporate success, profitability.

I. INTRODUCTION

Corporate Governance is a process that mandates a particular set of ethical governance and practice in corporate. It is a process that controls and governs an organization. Corporate governance has majorly impacted the growth of economies in countries where private sector is responsible for driving the growth of economy. Catastrophic failure of private sector seen in the past was because of the bad corporate governance. It has certainly impacted the profit and earning of shareholders and the company. Well framed corporate governance gives predictable growth rate for the firm. Therefore it is very necessary that in developing countries where startup are getting into unicorn club, should make a note keeping their practices and governance to avoid catastrophic failure in future. (Okoye 2016).

Global market particularly looks into the ethics and governance of the organization to rely for partnership and business in their countries. We can see that corporate governance is also considered when there is partnership, takeovers, institutional investor activism, financial restructuring, so here the whole idea is that a strong corporate governance gives predictable rate of return on investments. If such ethics are not maintained, investing bond market, buying equity shares, becomes questionable. In such situation where corporate governance are not strong enough, companies have to rely on the internal cash stock, securities, and other financial resources for its ongoing operational work. Therefore, overall financial resources for firm get affected. On a larger scale, economies get affected as many good business opportunity are missed. (Okoye et al., 2016)

We have seen that an improved corporate governance has helped improve market liquidity, increase investor confidence, more capital resource, and there by a better financial disclosure. Major financial crime, frauds, can be avoided with better Corporate Governance and in return this can help in better inflow of foreign capital. There are evidences which has shown that, a strong corporate governance has increased chance of high fund allocation, better accessibility. Thereby increasing the valuation and goodwill of the company.

Here in this study, we would like to find out if there could be a direct link between corporate governance and profitability.

II. REVIEW OF LITERATURE

Many researchers, government regulators, global agencies have taken major interest in creating stringent corporate governance after major financial crises in 2008, some of institution in India that collapsed due to bad corporate governance are Kingfisher, Jet Airways, Sahara, DHFL. In US we have seen the same case in Enron and Arthur and in UK similar situation was in case of Marconi, now because of which corporate governance has become critically important in different parts of the world, but the regulation is different in different parts of the world. As the legal system are different in different parts of the world, therefore regulation of corporate governance tends to be different. (Mohammad & Yousef, 2016) The author found a relationship between firm profitability and the corporate governance of the firm. Here the corporate governance mechanism includes board independence, characteristics, size, growth. Statistical analysis like
multiple regression methodology was used, and its result was 0.05 level which statistically significant.

The result of the study lead to confirmation that corporate governance has direct impact on the firms’ profitability. The findings also explained the model, one of its finding was the F statistic which was found to be 1.036.

(Ahmed Adesina Babatunde 2016) In this paper, the author obtained data from annual report of 37 companies, which is the sample size, out of top 50 listed companies. The data so obtained were analyzed using Spearman’s correlation and analysis was done using variance. In this paper, author found that there was positive correlation between corporate governance and financial performance for example return on equity and board composition, board committees. When such corporate governance practices were implemented, it resulted in positive share price performance and higher profitability.

(Heenetigala 2012) Corporate governance play major role in minimizing the risk of misconduct in the firm; therefore, it has positive contribute in the company. In this paper the author found a positive relation between corporate governance and firm performance, here there was positive effect on return on asset, return on equity and return on stock. The result was analyzed using multiple hierarchical regression analysis, it was found to be significant and positive.

(W.A.D.K Jayendrika 2020) has analyzed the impact of corporate governance practices on firm’s financial performance where Earnings per share was used as a dependent variable and CEO duality, number of shares held by the directors, ratio of non-executive directors to total directors in the firm were some of the independent variables. Correlation and regression analysis used by the researcher in the study proves that ownership concentration and CEO duality has positive relationship with the financial performance of the firm.

Martin Kyere (2019), did a study on impact of corporate governance on financial performance of non-financial listed companies in UK. Agency and stewardship theory of corporate governance is used as a basis for the study. The dependent variables were ROA and Tobin’s Q and some of the independent variables were insider shareholding, board size, CEO duality etc. The author has used descriptive statistics, correlation and regression techniques to prove that strong independent board is one of the solutions to agency problem by reducing cost, thereby improving financial performance.

Afshan (2016), studied the impact of corporate governance of financial performance of firms belonging to textile industry in Pakistan. 60 companies were selected out of 156 listed companies of Pakistan stock exchange. The researcher has used similar statistical techniques and variables and concluded the study that it depends on the capabilities of managers in utilizing the assets of the firm effectively.

Aswathy Mohan (2018), has used certain variables like ROE (Return on Equity), PB ratio (Price to book ratio), board composition, board size and CEO duality. The study has used OLS regression model for analyzing the impact of corporate governance on financial performance of BSE Sensex companies. The study indicates the need for firms to separate the post of CEO and Chair in order to ensure optimal performance.

Dr. Giriraj Kiradoo (2019), has studied the relationship between CEO duality, board size and ownership concentration with financial performance of the firm. It also considers the concept of internal and external controls which helps in building good corporate governance practice. The researcher concludes the study by stating that it is purely the responsibility of the board to improve the financial performance by being more accountable and attract investors.

## III. Objectives

1. To understand the importance of corporate governance for successful functioning of a company.
2. To analyze the impact of corporate governance on firm’s profitability.

## IV. Research Methodology

In this study, corporate governance link with profitability of the firm is measured, which is basically performed using statistical methodology like descriptive statistics and correlation. In order to perform this process, independent variable and dependent variable is taken under consideration. Here the independent variable are CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee are used, and dependent variable like ROA, EPS, PAT.

### a) Sample Selection and Data

There are 30 manufacturing companies listed under NSE and here we have taken five companies (16.66% is the sample size). Those are UPL, Ultra Tech Cement, Tata Steel, Bajaj Auto, JSW Steel. Annual report of the respective companies was used from the year of 2016 to 2020.

### i. Independent variables

#### CEO Duality:  
If the same person who hold the title of chairman is also CEO, then the value to be assigned is 1 else 0.

#### Board Committee:  
This is the number of committees in the board of the firm in a year.

#### Board Size:  
This is the numbers of directors in the board of the firm.
**Non-Executive Director:** These are non-executive directors in the board of directors. They are majorly involved in policy making and planning.

**Audit Committee:** It is the number of members in the committee who look after the audit through financial reports.

ii. **Dependent Variables**

**Profit after Tax (PAT):** These are profit after deducting expenses and tax. This profit is meant for shareholders.

**Return on Asset (ROA):** This is a financial ratio, which is used to measure profitability of the firm in relation to its total asset. 5% of ROA is generally considered good and overall, 20% is considered excellent.

**Earnings per Share (EPS):** It is calculated by dividing the profit after tax by the number of outstanding shares. Here, the relationship of corporate governance and EPS is measured and studied.

b) **Correlation Matrix**

Correlation matrix is a table which shows the relation between two sets of variables and it is measured through coefficients. If two variables are correlated, then they would have positive coefficients and if two are negatively correlated, then they would have negative coefficients. The diagonal of the table is set as 1, as correlation between the same variable is always 1.

c) **Descriptive Statistics**

Here, the descriptive statistic basically summarizes the data in a simple form, which is in the form of mean, median, skewness, maximum, minimum, standard deviation, kurtosis. It is just a representation of data and it is not based on any theory of probability.

d) **Regression Analysis**

It is a type of predictive analysis where we basically find the relation between the independent variable and dependent variable using coefficient value and P-value with significance at 5% (0.05).

V. **Results**

**Table No.4.1:** Financial Data Set of firms

<table>
<thead>
<tr>
<th>United Phosphorus Ltd</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>Average</th>
</tr>
</thead>
<tbody>
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<td>0</td>
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<td>6</td>
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</tr>
<tr>
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<tr>
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<td>4</td>
<td>4</td>
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<td>3.4</td>
</tr>
<tr>
<td>PAT (in Lakhs)</td>
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<td>172700</td>
<td>202200</td>
<td>144700</td>
<td>177600</td>
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<tr>
<td>EPS</td>
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(Annual Reports)

**Table No.4.2:** Financial Data Set of firms

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### Table No. 4.3: Financial Data Set of firms

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<th>JSW Steel Ltd</th>
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### Table No. 4.6: Financial Data Set of firms

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<thead>
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<th>Board Size</th>
<th>Non-Executive Directors</th>
<th>Audit Committee Members</th>
<th>PAT (in Lakhs)</th>
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<th>ROA</th>
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<td>5</td>
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<td>0</td>
<td>6</td>
<td>9</td>
<td>3</td>
<td>4</td>
<td>581484</td>
<td>201.61</td>
<td>0.07</td>
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</table>

### Table No. 4.7: Financial Data Set of firms

<table>
<thead>
<tr>
<th>Years</th>
<th>CEO Duality</th>
<th>Board Committee</th>
<th>Board Size</th>
<th>Non-Executive Directors</th>
<th>Audit Committee Members</th>
<th>PAT (in Lakhs)</th>
<th>EPS</th>
<th>ROA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>0</td>
<td>13</td>
<td>12</td>
<td>6</td>
<td>4</td>
<td>-74195</td>
<td>-32.08</td>
<td>-0.01</td>
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<tr>
<td>2017</td>
<td>0</td>
<td>13</td>
<td>12</td>
<td>6</td>
<td>4</td>
<td>357979</td>
<td>14.66</td>
<td>0.04</td>
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<tr>
<td>2018</td>
<td>0</td>
<td>13</td>
<td>12</td>
<td>6</td>
<td>4</td>
<td>621400</td>
<td>25.85</td>
<td>0.07</td>
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<tr>
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<td>0</td>
<td>13</td>
<td>12</td>
<td>6</td>
<td>4</td>
<td>763900</td>
<td>31.77</td>
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</tr>
<tr>
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<td>0</td>
<td>14</td>
<td>12</td>
<td>6</td>
<td>4</td>
<td>403000</td>
<td>16.78</td>
<td>0.03</td>
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<td>2016</td>
<td>0</td>
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<td>3</td>
<td>378398</td>
<td>130.8</td>
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<td>11</td>
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<td>4</td>
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<td>15</td>
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<td>521191</td>
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<td>2016</td>
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<td>11</td>
<td>3</td>
<td>4</td>
<td>-304932</td>
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<tr>
<td>2017</td>
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<td>6</td>
<td>11</td>
<td>3</td>
<td>4</td>
<td>-434258</td>
<td>-44.77</td>
<td>-0.025</td>
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</table>
a) Descriptive Statistics Analysis

Table below show descriptive statistics for listed Companies of India for a period of five years from 2016 to 2020.

**Table No. 4.8: Descriptive Statistics Analysis**

<table>
<thead>
<tr>
<th>Year</th>
<th>CEO Duality</th>
<th>Board Committee</th>
<th>Board Size</th>
<th>Non-Executive Directors</th>
<th>Audit Committee Members</th>
<th>PAT (in Lakhs)</th>
<th>EPS</th>
<th>ROA</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>0</td>
<td>10</td>
<td>6</td>
<td>4</td>
<td>1326090</td>
<td>128.12</td>
<td>0.063</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>0</td>
<td>10</td>
<td>6</td>
<td>4</td>
<td>1004520</td>
<td>87.75</td>
<td>0.043</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>0</td>
<td>10</td>
<td>6</td>
<td>3</td>
<td>271958</td>
<td>22.02</td>
<td>0.011</td>
<td></td>
</tr>
</tbody>
</table>

i. **CEO Duality**

Here, it can be seen that mean, median, maximum, minimum and standard deviation is zero.

ii. **Board Committee**

From the above table it can be seen that mean value is 7.5, median is 6. The maximum and minimum range for board committee is 14 and 5. The standard deviation is found to be 3.

iii. **Board Size**

From the above table it can be seen that mean value is 12.1, median is 12. The maximum and minimum range for board size is 16 and 9. The standard deviation is found to be 2.

iv. **Non-Executive Directors**

From the above table it can be seen that mean value is 6.5, median is 6. The maximum and minimum range for non-executive directors is 13 and 2. The standard deviation is found to be 3.3.

v. **Audit Committee Members**

From the above table it can be seen that mean value is 4, median is 4. The maximum and minimum range for audit committee is 5 and 3. The standard deviation is found to be 0.6.

vi. **Profit after tax (PAT in Lakhs)**

From the above table it can be seen that mean value is 350090.8, median is 314968.5. The maximum and minimum range for PAT is 1326090 and -434258. The standard deviation is found to be 369802.5.

vii. **Earnings per share (EPS)**

From the above table it can be seen that mean value is 69.3, median is 60.4. The maximum and minimum range for EPS is 201.6 and -44.77. The standard deviation is found to be 69.5.
viii. Return on Asset (ROA)

From the above table it can be seen that mean value is 0.1, median is 0.1. The maximum and minimum range for ROA is 0.23 and -0.03. The standard deviation is found to be 0.1.

b) Correlation Analysis

Correlation statistical tool helps to understand the relationship between dependent and independent variables and on the basis of which analysis are made. After the data analysis, information that we get help us to see the relationship between variables, for example, some of them between corporate governance and firm financial performance (profitability measure).

<table>
<thead>
<tr>
<th>Table No. 4.9: Correlation Analysis</th>
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<tr>
<td></td>
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<tr>
<td>CEO Duality</td>
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<tr>
<td>CEO Duality</td>
</tr>
<tr>
<td>Board Committee</td>
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<tr>
<td>Board Size</td>
</tr>
<tr>
<td>Non-Executive Directors</td>
</tr>
<tr>
<td>Audit Committee</td>
</tr>
<tr>
<td>Members</td>
</tr>
<tr>
<td>PAT(in Lakhs)</td>
</tr>
<tr>
<td>EPS</td>
</tr>
<tr>
<td>ROA</td>
</tr>
</tbody>
</table>

From the above table, we can clearly see that, PAT is positively correlated with all the independent variable i.e. CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

In case of EPS, we see that it is negatively correlated with board committee and audit committee, where as it is positively correlated with CEO Duality, Board size, Non-Executive Director.

Same is the case with ROA, that we can clearly see, it is negatively correlated with board committee and audit committee, where as it is positively correlated with CEO Duality, Board size, Non-Executive Director.

Here, we can summarize that dependent variable like PAT, EPS, ROA have positive correlation with CEO Duality, Board size, Non-Executive Director.

But we can see that EPS, ROA have negative correlation with board committee and audit committee.

So few factors of corporate governance has positive correlation with profitability of the firm but not all of them.

c) Regression Analysis

Regression analysis is a statistical method, through which positive and negative relationship between dependent variable and independent variable are analyzed, and on basis of the P value, null hypothesis is either rejected or accepted. The significance of P value is 0.05.

Null Hypothesis

H1: There is no relationship between ROA and CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

H2: There is no relationship between EPS and CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

H3: There is no relationship between PAT and CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.
Table No. 4.10: Regression Analysis of ROA and CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

SUMMARY OUTPUT

Regression Statistics

<p>| | |</p>
<table>
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</thead>
<tbody>
<tr>
<td>Multiple R</td>
<td>0.879557</td>
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<td>R Square</td>
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<td>Adjusted R Square</td>
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<td>Standard Error</td>
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ANOVA

<table>
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<th>MS</th>
<th>F</th>
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<td>Regression</td>
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<td>0.0185807</td>
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<th>P-value</th>
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<th>Upper 95%</th>
<th>Lower 95.0%</th>
<th>Upper 95.0%</th>
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<td>Intercept</td>
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<td>-0.25</td>
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<td>65539.00</td>
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<td>-2.09</td>
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<td>-0.01</td>
<td>0.00</td>
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<td>Board Size</td>
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<td>0.01</td>
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<td>0.03</td>
<td>0.00</td>
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<tr>
<td>Non-Executive Directors</td>
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<td>Audit Committee Members</td>
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</table>

Here, there is negative correlation between ROA and Board Committee, Audit Committee, but there is positive correlation between ROA and Board size, Non-Executive Director and CEO duality. Here it can be seen that the P value is less than the significant value (0.05) for CEO duality, Board Committee, Board size, therefore in such situation the null hypothesis is rejected and the alternate hypothesis is accepted.
Here, there is negative correlation between PAT and Board size, and positive correlation between PAT and Board committee, Audit Committee, Non-Executive Director, and CEO duality. From the above, it can be seen that P value is less than the significant value (0.05) for CEO duality, therefore null hypothesis is rejected and the alternate hypothesis is accepted.

### Table No. 4.11: Regression Analysis of PAT and CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee.

**SUMMARY OUTPUT**

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<tr>
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<td>-------</td>
<td>-------</td>
<td>--------</td>
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<th>Standard Error</th>
<th>t Stat</th>
<th>P-value</th>
<th>Lower 95%</th>
<th>Upper 95%</th>
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<td>CEO Duality</td>
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<td>0.0</td>
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<tr>
<td>Board Committee</td>
<td>10728.8</td>
<td>27594.8</td>
<td>0.4</td>
<td>0.7</td>
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<td>68290.5</td>
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<td>Board Size</td>
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<td>-184925.7</td>
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<td>125266.6</td>
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<td>Non-Executive Directors</td>
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<td>131049.0</td>
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<td>Audit Committee</td>
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<td>Members</td>
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<td>-273451.2</td>
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</table>

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There is negative correlation between EPS and Board Committee and positive correlation between EPS and Board Size, Audit Committee, Non-Executive Director and CEO duality. The P value is less than the significant value (0.05) for CEO duality, Board Committee, Board Size, the null hypothesis is rejected and the alternate hypothesis is accepted.

VI. Findings

From the above study and statistical analysis few things can deduced from here that, these statistical tools have shown significant link between corporate governance and profitability.

Few factors of corporate governance were not significant linked with profitability.

- From the above table and study, we can clearly see that, PAT is positively correlated with all the independent variable i.e. CEO Duality, Board Committee, Board Size, Non-Executive Director, Audit Committee. In case of EPS, we see that it is negatively correlated with board committee and audit committee, where as it is positively correlated with CEO Duality, Board size, Non-Executive Director.
- Same is the case with ROA, that we can clearly see, it is negatively correlated with board committee and audit committee, where as it is positively correlated with CEO Duality, Board size, Non-Executive Director.
- Here, one can summarize that dependent variable like PAT, EPS, ROA have positive correlation with CEO Duality, Board size, Non-Executive Director. But we can see that EPS, ROA have negative correlation with board committee and audit committee. So few factors of corporate governance has positive correlation with profitability of the firm but not all of them.
- In case of regression analysis, it was seen that there is negative correlation between ROA and Board Committee, Audit Committee, but there is negative correlation between ROA and Board size, Non-Executive Director and CEO duality. Here it can be seen that the P value is less than the significant value (0.05) for CEO duality, Board Committee,
Board size, therefore in such situation the null hypothesis is rejected and the alternate hypothesis is accepted.

- It can be seen that there is negative correlation between PAT and Board size, and positive correlation between PAT and Board committee, Audit Committee, Non-Executive Director and CEO duality. From the above, it can be seen that P value is less than the significant value (0.05) for CEO duality, therefore the null hypothesis is rejected and the alternate hypothesis is accepted.

- It can be seen that there is negative correlation between EPS and Board Committee and positive correlation between EPS and Board Size, Audit Committee, Non-Executive Director and CEO duality. The P value is less than the significant value (0.05) for CEO duality, Board Committee, Board Size, the null hypothesis is rejected and the alternate hypothesis is accepted.

VII. Conclusion

Corporate governance has major significance in firm valuation. It has increased profitability by controlling risk in business. In this study we have found that there is positive correlation between corporate governance and profitability but not all factors of corporate governance were positively correlated with all the profitability. Most of the companies that was taken were from manufacturing sector where there is frequent change in policies in order keep ethics and transparency strong. Therefore, we can conclude that there is significant link between the independent and dependent variable, but still explore more with other factors of corporate governance like board meeting and director remuneration. There is also scope to study different industries and compare how corporate governance affect profitability.

References Références Referencias


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Effect of Internal Controls on the Financial Performance of County Referral Hospitals in Kenya

By Soi Patricia Chepkirui & Dr. Josephat Oluoch
Jomo Kenyatta University of Agriculture and Technology

Abstract: Internal Control Systems play an important role in every organization as it assists in realization of their financial performance goals. Most public institutions in Kenya have registered declining performance in recent years due to weakened internal control systems. Researches done relating to internal control systems and financial performance do not show directly the effect of corporate governance and regulatory systems on financial performance. The main objective of the study was to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya. Specifically, the study was guided by the following objectives; to investigate the relationship between physical controls, internal audit controls, corporate governance controls, and regulatory controls on and financial performance. The study used a descriptive research design approach. The target population was 47 county referral hospitals in Kenya. Census was used to select all the 47 county referral hospitals in Kenya and purposive sampling was used to select the hospital accountant in each of the hospitals to make a sample size of 47 respondents.

Keywords: internal controls on the financial performance, physical controls, internal audit controls, corporate governance controls.

GJMBR-C Classification: JEL Code: G00
Effect of Internal Controls on the Financial Performance of County Referral Hospitals in Kenya

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Abstract: Internal Control Systems play an important role in every organization as it assists in realization of their financial performance goals. Most public institutions in Kenya have registered declining performance in recent years due to weakened internal control systems. Researches done relating to internal control systems and financial performance do not show directly the effect of corporate governance and regulatory systems on financial performance. The main objective of the study was to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya. Specifically, the study was guided by the following objectives; to investigate the relationship between physical controls, internal audit controls, corporate governance controls, and regulatory controls on and financial performance. The study used a descriptive research design approach. The target population was 47 county referral hospitals in Kenya. Census was used to select all the 47 county referral hospitals in Kenya and purposive sampling was used to select the hospital accountant in each of the hospitals to make a sample size of 47 respondents. Only 35 hospitals responded to the questionnaire translating to 74.5% response rate. Survey data was collected by use of a structured questionnaire. The data obtained was analyzed using both qualitative and quantitative analysis. Fisher’s tests and bivariate and multiple regression models were used to test whether physical controls, internal audit controls, corporate governance controls and regulatory controls have any influence on financial performance. It was found that physical controls, internal audit controls, corporate governance controls and regulatory controls are significantly associated with financial performance (all p-values are <0.0001) using Fisher’s exact test of accusation. Furthermore, robust bivariate regression found that physical controls (Coefficient = 1.43, p-value <0.0001), internal audit controls (Coefficient = 1.29, p-value <0.0001), corporate governance controls (Coefficient = 1.45, p-value <0.0001) and regulatory controls (Coefficient = 1.48, p-value <0.0001) have significant influence on financial performance. In robust multivariate regression, however, only physical control (Coefficient = 0.87, p-value <0.0001) and corporate governance (Coefficient = 0.75, p-value = 0.044) have significant influence on financial performance. In conclusion, internal audit control has significant impact on financial performance and thus, it is recommended to improve internal audit control systems to impact positively on financial performance.

Keywords: internal controls on the financial performance, physical controls, internal audit controls, corporate governance controls.

I. Introduction

A n entity should put in place its own system of controls in order to achieve its objectives (Tunji, 2013). A system of effective internal controls is a critical component of an organization’s management and a foundation for the safe and sound operation of organizations. However, ineffective internal controls result in ineffective programs and eventually leading to losses (Olmbe, 2012). Recent incidences of corporate failures and accounting frauds are mostly preceded by failure in an organization’s internal control structures (Anyanzwa, 2013; COSO, 2013).

Internal controls have become of paramount importance today in the public sector worldwide including Kenya. The reason being that the control systems in any organization are a pillar of an efficient accounting system (Wanemba, 2010). This is particularly important for public institutions as weak internal control system stands as one of the major cause of dismal performance in public institutions mainly due to undetected frauds (Etuk, 2011). From a management point of view there is need to ensure that internal control systems are put in place in order to reduce the occurrence of fraud. Internal control is a dynamic integral process that is adapting continuously to the changes facing modern public sector institutions (Auditor General, 2014).

Internal controls are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Tunji, 2013). Internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for performance (Olmbe, 2010). Wanemba (2010) posits that an effective internal control system unequivocally correlates with organizational success in meeting its performance target level. Internal control keeps an organization on course toward its objectives and the achievement of its mission. They promote effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure compliance with laws and regulations.

Internal control also ensures the reliability of financial reporting (all transactions are recorded and that all recorded transactions are real, properly valued, recorded on a timely basis, properly classified, and correctly summarized and posted). An Organization with effective system of internal control is expected to
achieve its objective efficiently and effectively (COSO, 2013). However the overall purpose of the concept is to help an organization achieve its mission, promote orderly, economical, efficient and effective operations and produce quality products and services consistent with the organization’s mission, safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud. It also promotes adherence to laws, regulations, contracts and management directives as well as develop and maintain reliable financial and management data, and accurately present that data in timely reports (Magara, 2013).

The COSO (2013) Framework defines Internal Control system as “a process, effected by an entity’s board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance”. The control environment sets the tone of an organization, influencing the control consciousness of its employees. The Committee of Sponsoring Organizations (COSO, 2013), a voluntary organization offering guidance on monitoring internal controls, report indicates that this component is the foundation for all other components of internal control, providing both discipline and structure to the organization.

The COSO (2013) framework identifies five main elements of a control system against which the review should take place. These include Control environment, Risk assessment, control activities, information and communication and monitoring. Internal control systems operate at different levels of effectiveness. Determining whether a particular internal control system is effective is a judgment resulting from an assessment of whether the five components - Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives.

According to Tunji (2013), the quality of an organization internal control system has significant impact on the accuracy of management guidance. Likewise, firms that disclose ineffective internal controls system have larger tendency of experiencing management errors in their operation than those firms that report effective internal controls system. Olumbe (2012) in their study stated that effective internal controls systems are fundamental drivers toward earnings quality. In the same vein, effective internal control system has an essential role to play in a firm’s success (Jokipi, 2010).

Other scholars have defined internal control as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of a firm’s objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws and regulations and protect the organization’s reputation (Kinyua, 2016; Nyakundi & Nyamita, 2014; Muio, 2012; Ngugi, 2011; Simiyu, 2011). Effective internal control system operates when some specific procedures are adopted by the management. International Accounting Standards categorizes internal control types as a plan of organization, segregation of duties, control of documents, safeguarding of assets, competence of staff, arithmetic and accounting controls, recording and report keeping, supervision, authorization and approvals, vocation and rotation of duties, cost feasibility, routine and automatic checks (COSO, 2013). The above studies greatly support that effective internal controls significantly contribute to financial performance of organizations.

While there have been studies examining internal control systems in the private sector and corporate world, there has been a fewer studies examining the same issue in the public sector despite the fact that the embezzlement of funds from public institutions or organizations, particularly in essential services or monopolistic public institutions, is becoming more common (Kinyua, 2016; Nyakundi & Nyamita, 2014; Muio, 2012; Ngugi, 2011; Simiyu, 2011). Such scandals have raised concerns about their internal control systems. Despite the lack of any reported financial scandals, there is a growing concern as to whether they experience the same deficiencies as other public regulatory institutions do. Recent reports on the mismanagement of funds by the media coupled with exposure of the complex web of rot and poor control systems have been highlighted by the works of various investigative journalists (Olumbe, 2012). According to World Economic Forum (2013), most public institutions do not have efficient internal control systems on cash collection which has often accounted for poor financial management. Accordingly, it is no surprise that, some public service providers more often than not, view internal controls as unnecessary and irrelevant.

Around the world, governments face pressures to provide health services effectively, efficiently and equitably. However, the health sector has been controlled by numerous forces of change including; growing demand for health care, rising costs constrained resources competitive pressures and monitoring by public and private groups with a markedly better informed client. Thus, extra pressure is being exerted on healthcare managers to reassess their strategies (Muio, 2012). Strong internal control systems are the most significant and enduring strategy in ensuring survival of organizations and a fundamental route to business excellence and extending market share of health care organizations (COSO, 2013; Magara, 2013).
In Kenya, the delivery of health service is undertaken through a National Health System whose actions have a primary purpose of delivering and sustaining good health. The healthcare delivery system is devolved to the county governments with the national government playing the role of overall policy formulation and monitoring (MOH, 2013). Owing to the need to achieve universal access to healthcare packages as well as equitable and sustainable financing mechanisms, government of Kenya with county governments have drafted various policies where government and other stakeholders have agreed on funding and management of the healthcare delivery system (MOH, 2013). However, while the structures for coordination are in place at the national level, they are weak at the county level (Muio, 2012). According to the Auditor General’s Annual Report (2014/2015), there were rampant malpractices in the accountability from public institutions in Kenya including county governments and health institutions with most of their operations characterized by non-compliance with policies and procedures, misuse of resources and funds manipulations, among other cases. The ministry of health for instance is suspected to have lost over 5 billion shillings in the 2015/2016 financial year through diversion of funds, double payment for goods, and manipulation of the Integrated Financial Management System (IFMIS) (Auditor General, 2016). While development assistance continues to play a major role in financing the health services, a bigger proportion of this is off-budget and MOH has information on general budget/project support to the health sector and not off budget support (MOH, 2013). MOH has difficult of tracking donor off budget support to health sector and there is wide spread discontent among the populace mainly relating to lack of basic facilities like drugs and equipment (Muio, 2012).

a) Statement of the Problem

Globally, financial scandals have been witnessed triggering reaction for tighter regulation and enhanced standards for accounting and corporate governance (COSO, 2013). These major financial scandals were caused by poor internal control systems including weak corporate governance. In Kenya, Statistics available from CMA (2013) have shown most firms especially quoted companies have continued to register declining financial performance. Data available from World Bank (2014) showed that there was decline in service in all sectors of the economy including the health sector. In most Kenyan public institutions including health institutions there has been continued poor financial performance, where budgets are not followed, rules and regulations on the use of finances are not adhered to and there is massive unaccounted for funds (Auditor General, 2016). This has put public institutions at risk of financial inadequacy, employee dissatisfaction and poor financial performance (Mikes & Kaplan, 2014). This has left the questions of the gaps that exist within the public sector owing to such multiple breaches without any action being taken (Olumbe, 2012).

Several studies have been carried out on internal controls globally, regionally and locally on the effect on internal control system on profitability of diverse firms. For example; globally studies by Abu-Musa (2014); Chunan (2010); Wittayapoom (2011); and regionally Kakucha (2010); Odei (2011) and Nyakundi & Nyamita (2014) have established there exist a relationship between effective internal control and financial performance of the firm. However, majority of these studies have concentrated on different industries, while others have concentrated on a mix of listed firms in their localities. In addition, the studies employed different methodologies hence such studies may not be generalized to the study context. Locally, a study by conducted by Muio (2012) studied the impact of internal control systems on the financial performance of private hospitals in Nairobi clearly indicate private hospitals face quiet a number of challenges during internal controls in performance like struggles with liquidity problems, financial reports are not made timely, accountability for the financial resources is still wanting, frauds and misuse of institutional resources. As observed from the reviewed previous empirical studies, there are limited studies that focus on internal controls in the health sector in Kenya. A contextual knowledge gap therefore exists. It is against this background that this study sought to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya.

b) Objectives of the Study

i. General Objective

The general objective of this study was to determine the effect of internal controls on the financial performance of county referral hospitals in Kenya.

ii. Specific Objectives

The specific objectives of the study were:

a. To determine the effect of physical controls on the financial performance of county referral hospitals in Kenya.

b. To establish the effect of internal audit controls on the financial performance of county referral hospitals in Kenya.

c. To assess the effect of corporate governance controls on the financial performance of county referral hospitals in Kenya.

d. To determine the effect of regulatory controls on the financial performance of county referral hospitals in Kenya.

c) Research Questions

The study was guided by the following research questions:
i. What are the effects of physical controls on the financial performance of county referral hospitals in Kenya?

ii. How do internal audit controls affect the financial performance of county referral hospitals in Kenya?

iii. How do corporate governance controls affect the financial performance of county referral hospitals in Kenya?

iv. What is the effect of regulatory controls on the financial performance of county referral hospitals in Kenya?

d) Justification of the Study

The study shall be of benefit to the management of county referral hospitals in Kenya in showing them whether appropriate processes are functioning effectively to monitor the risks to which the hospitals are exposed and whether the system of internal control is effective in reducing those risks to an acceptable level. Secondly, the findings shall be of great use to county referral hospitals management in accounting to the board for developing, operating and monitoring the system of internal control and for providing assurance to the board that it has done so. Third, it shall be used by the employees in improving their financial performance through effective implementation of the internal control systems and processes. To the scholars it shall contribute to the existing knowledge, address and provide the background information to research organizations, individual researchers and scholars who would want to carry out further research in this area. It shall also expand their research into the effect of internal control on financial performance (both public and private) in Kenya as literature review.

II. Literature Review

a) Introduction

This chapter reviews the literature advanced in the area of internal control systems on financial performance of organizations. The chapter starts by reviewing various theories relevant to this study. The theories include: the systems theory, the agency theory, institutional theory, transaction theory, stewardship theory and stakeholder theory which form the basis of the concept of internal control systems. A conceptual framework is also presented based on the study's objectives. To assist in identification of existing gaps in the literature, empirical literature is reviewed in this chapter.

b) Theoretical Literature Review

A theory is a “set of interrelated concepts, definitions, and propositions that present a systematic view of events or situations by specifying relations among variables, in order to explain and predict the events or situations” (Durham & Stokes, 2015).

Theoretical literature is concerned primarily with theories or hypotheses rather than practical application. Theoretical literature begins with a formal model that seeks to explain participation patterns in terms of underlying theory (Shapira, 2011). There are several theoretical approaches which can be used to outline the financial performance of organizations, to select the predictors to the models, and to justify the functional form between these predictors. In this review these approaches are classified into the following categories; agency theory, institutional theory, transaction theory and stewardship theory.

i. Agency Theory

Agency theory has been widely used in literature to investigate the information asymmetry between principals (shareholders) and agent (management). Sarens and Abdolmohammadi (2011) state that according to the agency theory, an organization consists of a set of linked contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling these resources. A significant body of work has been undertaken in this area within the context of the principal-agent framework. The work of Jensen and Mecklin (1976) in particular as well as that of Fama (1980) is important. Agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent.

The agency relationship can have a number of disadvantages relating to the opportunism or self-interest of the agent: For example, the agent may not act in the best interests of the principal, or the agent may act only partially in the best interests of the principal. There can be a number of dimensions to this including for example, the agent misusing their power for pecuniary or other advantage, or the agent not taking appropriate risks in pursuance of the principal’s interests because the agent views those risks as not being appropriate while on the other hand the principal may have different attitudes to risks. There is also the problem of information asymmetry whereby the principal and the agent have access to different levels of information; in practice this means that the principal is at a disadvantage because the agent has more information (Sarens & Abdolmohammadi, 2011). The theory is therefore very relevant in this study as the public through county governments who are the owners of the county referral hospitals have delegated the responsibilities of daily running of the hospitals to the management who acts as their agents and hence great need for strong internal control systems to ensure the public and other stakeholder’s interests are adequately safeguarded. The theory therefore supports existence of physical controls, internal audit and corporate governance controls.
ii. Institutional Theory

Institutions are social structures that have attained a high degree of resilience. They are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life (Christopher, Sarens & Leung, 2009). Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines and artefacts. Institutions operate at different levels of jurisdiction, from the world system to localized interpersonal relationships. Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous. Institutional and neo-institutional theory suggests that adoption of organizational practices and environmental alignment is an institutional process subject to the effect of three pressures or forces – coercive, mimetic and normative. This theory further suggests that these forces can encourage organizations to adopt similar strategic actions thereby leading to organizational homogeneity (Adebanjo, Ojadi, Laosinhongthong & Tickle, 2013).

The interests of stakeholders in most public institutions have been strengthened over time, especially through efforts by the government and professional bodies. More specifically, there has been increased pressure on management to ensure that an organization is governed efficiently, effectively and economically for the benefit of shareholders. Much of this pressure has been a result of social expectations in response to recent corporate scandals (Christopher, Sarens & Leung, 2009). This study drew on institutional theory, which essentially points that organizational management and control structures tend to conform to social expectations. The theory therefore advances argument for enhanced corporate governance in management of organizations resources.

iii. Stewardship Theory

Stewardship theory has its roots from psychology and sociology and is defined by Davis, Schoorman and Donaldson (1997) as “a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward’s utility functions are maximized”. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. Argyris (1973) argues that while agency theory looks at an employee or people as an economic being, which suppresses an individual’s own aspirations, on the other hand Donaldson and Davis (1991) argue that stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust. It stresses on the position of employees or executives to act more autonomously so that the shareholders “returns” are maximized. Indeed, Fama (1980) contend that executives and directors are also managing their careers in order to be seen as effective stewards of their organization, whilst, Shleifer, Andlei and Vishny (1997) claims that managers return finance to investors to establish a good reputation so that they can re-enter the market for future finance.

Meckling and Jensen (1994) further state the cost incurred to curb agency problems (reducing information asymmetries and accompanying moral hazards) is less when owners directly participate in the management of the firm as there is a natural alignment of owner managers’ interest with growth opportunities and risk. It follows from the above that stewardship theory unlike agency theory is a complete contrast and doesn’t emphasize on the need to incur monitoring or agency cost which includes establishing an internal audit function. Nevertheless, Donaldson and Davis (1991) further note that returns are improved by having both of these theories combined rather than separated which implies that management must strike a balance. In this study the steward theory is supported by the fact that managers of county referral hospitals act as stewards of stakeholders, suppliers, creditors, consumers and employees of the hospitals.

c) Conceptual Framework

A concept is an abstract or general idea inferred or derived from specific instances (Kombo & Tromp, 2009). Unlike a theory, a concept does not need to be discussed to be understood (Durham & Stokes, 2015). A conceptual framework is a device that organizes empirical observations in a meaningful Structure (Shapira, 2011). Childs (2010) argued a conceptual framework to be a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. When clearly articulated, a conceptual framework has potential usefulness as a tool to assist a researcher to make meaning of subsequent findings. It forms part of the agenda for negotiation to be scrutinized, tested, reviewed and reformed as a result of investigation and it explains the possible connections between the variables (Durham & Stokes, 2015). Conceptual frameworks are pivotal to research as they clarify and integrate philosophical, methodological and pragmatic aspects of a thesis while helping the profession to be seen as a research-based discipline, comfortable with the language of meta-theoretical debate (Sykes & Piper, 2015).

A conceptual framework for the present study shows the effect of financial distress factors on financial performance of commercial banks in Kenya and has been depicted in Figure 2.1 below. Figure 2.1
conceptualizes that internal controls (physical, internal audit, corporate governance and regulatory controls) influence on the financial performance of county referral hospitals in Kenya.

**INDEPENDENT VARIABLES**

**PHYSICAL CONTROLS**
- CC TV cameras
- scanners
- personnel for physical check

**INTERNAL AUDIT CONTROLS**
- Monitoring & Evaluation
- Fraud prevention and detection
- Reporting

**CORPORATE GOVERNANCE CONTROLS**
- Rights of related parties
- Board’s function
- Level of transparency

**REGULATORY CONTROLS**
- Regulatory Framework
- Government Policies

**DEPENDENT VARIABLE**

**FINANCIAL PERFORMANCE**
- Income surplus ratio

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i. **Physical Controls and Financial Performance**

Muio (2012) and Mawanda (2010) asserts that physical controls are another component of internal controls. These scholars note that physical controls are policies and procedures that help ensure that management directives are carried out. Physical controls in an organization basically comprise: performance reviews (comparing actual performance with budgets, forecasts and prior period performance), information processing (necessary to check accuracy, completeness and authorization of transactions), security over both records and other assets and segregation of duties (where no one person should handle all aspects of a transaction from the beginning to the end). A study by Khamis (2013) found out that there is a significant positive relationship between physical controls and financial performance of financial institution. In his research Mawanda (2010) established that there is a positive relationship between physical controls and financial performance of institutions of higher learning in Uganda as portrayed by his case study of Uganda Martyrs University.

ii. **Internal Audit Controls and Financial Performance**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control,
and governance processes (institute of internal Auditor). COSO (2013) asserts that “Internal audit is an independent appraisal function established within an Organization to examine and evaluate its activities as a service to the organization”.

The objective of internal audit is to assist members of the organization in the effective discharge of their responsibilities. It’s also an independent appraisal function established within an organization to examine and evaluate the effectiveness, efficiency and economy of management control system (Olantuji, 2010). Its objective is to provide management with reassurance that their internal control systems are adequate for the need of the organization and are operating satisfactorily (Olumbe, 2012). It is a component of the internal control system set-up by management of an enterprise to examine, evaluate and report operations of accounting and other controls. The quality and effectiveness of internal audit procedures in practice are necessary since internal auditors cover a wide variety of assignments, not all of which relate to accounting areas in which the external auditor is interested.

Kinyua (2016) notes that "The effectiveness of internal audit function partly depends on; legal and regulatory framework, placement of the function and its independence, existence of audit committees, resources allocated to the function and professionalism of internal audit staff". It is however a bitter reality that internal audit departments are rarely adequately facilitated. Regarding the size and facilitation of the internal audit function, Gerrit and Mohammad (2010) found evidence in support of the monitoring role of the internal audit function. They specifically found evidence that management ownership is positively related to the relative size of the Internal Audit Function, which is inconsistent with traditional agency theory arguments that predict a negative relationship, but more in line with recent studies on earnings management.

This finding suggests that increased management ownership may influence the board of directors to support larger internal audit functions to allow them to closely monitor managers’ performance. Effectiveness of internal audit procedures is a measure of the ability of the programme to produce a desired effect or a result that can be qualitatively measured (Muio, 2012). Nyakundi and Nyamita (2014) argue that there should be effective internal audit procedures to ensure reliability of financial statements, operational reports, safeguarding corporate assets and effective organizational controls.

iii. Corporate Governance Controls and Financial Performance

Corporate governance has recently received much attention due high profile scandals, serving as the impetus to such recent U.S. regulations as the Sarbanes-Oxley Act of 2002, considered to be the most sweeping corporate governance regulation in the past 70 years (Ngungi, 2011). Abu Musa (2014) show that firms with stronger stockholder rights have higher Tobin Q’s, their proxy for firm value, suggesting that better-governed firms are more valuable. With so many recent regulations focusing on corporate governance, such as those based on the Sarbanes-Oxley Act and the recent stock listing standards imposed by major U.S. exchanges, there is a widely held view that better corporate governance is associated with better firm performance, but the evidence is tenuous (Kinyua, 2016; Nyakundi & Nyamita, 2014; Kakucha, 2010; Odei, 2011).

iv. Regulatory Controls and Financial Performance

Regulatory controls can be used to describe any course of action by the government which intends to change a certain situation (COSO, 2013). Government uses policies to tackle a wide range of issues which include operation of law and regulations, taxes, interest rates and market control. These tools of the government can directly or indirectly influence the financial performance of organizations (Kinyua, 2016; Nyakundi & Nyamita, 2014; Muio, 2012; Ngugi, 2011; Simiyu, 2011).

v. Financial Performance

According to Gerrit and Abdolmohammadi, (2010), Organizational performance encompasses accumulated end results of all the organization’s work processes and activities. Financial Performance measures in county hospitals can be financial or non-financial. The most effective way to improve financial performance is by reducing the level of irregularity and fraud through improvements in the firm’s systems of internal financial control. Stakeholders need to be assured that their resources are being used efficiently and effectively in providing the right service at the least cost.

Donald and Delno (2010) noted that appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives Brennan and Soloman (2011) contends that, performance is measured by either subjective or objective criteria; arguments for subjective measures include difficulties with collecting qualitative performance data from small firms and with reliability of such data arising from differences in accounting methods used by firms.

Value for Money is not paying more for a good or service than its quality or availability justifies as well public spending implies a concern with economy (cost minimization), efficiency (output maximization) and effectiveness (full attainment of the intended results). Sustained profitability can simply be seen as a continuous financial benefit that is realized when the amount of revenue gained from a business activity exceeds the expenses, costs and taxes needed to sustain the activity. The most effective way to improve
net income is by reducing the level of irregularity and fraud through improvements in the firm’s systems of internal financial control (Wainaina, 2014). Management should on a regular basis review all aspects of their company and ensure internal controls that strengthen the organization and increase profitability are in place, (Kamau, 2014). Every business decision contains risk; avoiding or mitigating this risk is achieved through strong internal controls. In this study, Income Surplus Ratio was used to measure performance.

d) Empirical Review

Mwachiro (2013) investigated the internal controls in operation at Kenya Revenue Authority with a view to establishing whether such internal controls have produced any meaningful results in increased collected revenue. The study used control environment, risk assessment, control activities, Information and communication and monitoring components of internal controls as the variables. The study was conducted using descriptive case study using causal/explanatory research design. The data was analyzed using both statistical and narrative methods while correlation was used as a way of assessing the effect of internal controls and revenue collection. The findings revealed that the five components of the control environment, risk assessment, control activities, information and communication and monitoring must be available for internal controls to work. The study established that weak internal controls and especially poor ethical values in the organization have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. The study, therefore, concluded that internal controls do function although with hiccups and that there is a significant effect between internal controls and revenue collection in KRA.

Magara (2013) sought to find out the effect of internal controls on the financial performance of deposit taking Savings and Credit Cooperative Societies (SACCOs) in Kenya. The independent variables for the study included; control environment, risk assessment, control activities and monitoring mechanisms while the dependent variable was financial performance. The findings of this study conducted on 122 deposit taking SACCOs in Kenya relied on both primary and secondary data which was obtained from the annual reports of the SACCOs. A multiple regression model was adopted to check the form of relationship between the dependent and the independent variables. The regression analysis conducted established that the independent variables have a positive strong correlation with the dependent variable. Each of the independent variables namely, the control environment, risk assessment, control activities and monitoring mechanisms contribute positively to the financial performance of SACCOs in Kenya. It is also evident from the study that without the presence of strong internal controls within these institutions, the SACCOs would be performing poorly with the risk of eventual collapse as a result of poor financial performance.

Ondieki (2013) conducted a study on effects of internal audit on financial performance of commercial banks. The independent variables for the study included; control environment, risk assessment, control activities and monitoring mechanisms while the dependent variable was financial performance. The findings of the study were that internal controls can have features built into them to ensure that fraudulent truncations are flagged or made difficult, if not impossible, to transact. Internal control audits provide assurance that controls are working, but they do not necessarily detect fraud or corruption. The objectives of internal controls audit relate to management’s plans, methods, and procedures used to meet the organization’s mission, goals, and objectives.

Muio (2012) investigated on the impact of internal control systems on the financial performance of private hospitals in Kenya. The study was anchored on monitoring, control activities, risk assessment, information and communication, control environment as the variables representing internal control systems. A descriptive research design was adopted while the target population consisted of all the private hospitals accredited by National Hospital Insurance Fund (NHIF) operating within the County of Nairobi. Linear regression analysis was used to find the relationship between monitoring, control activities, risk assessment, information and communication, control environment and financial performance of private hospitals in Kenya. The findings of the study indicate that all the five components that are Monitoring, Control Activities, Risk Assessment, Information and Communication and Control Environment must be present for an internal control system to be considered effective. The findings also indicated that Monitoring had the highest influence on the financial performance of private hospitals in Kenya followed by control environment, information and communication, risk assessment and control activities respectively.

Olumbe (2012) carried out a study to establish the relationship between internal control and corporate governance in commercial banks in Kenya. The variables included; equity structure, enterprise internal and external supervision vacancy, the board of directors and board of supervisors. The study adopted a descriptive research design and all the 43 commercial banks in Kenya were considered. The primary data was collected by use of a structured questionnaire and an unstructured interview guide. Data was analyzed through a linear regression analysis on the basis of descriptive statistics and performance comparison done across time between the years 2009-2011. The study found that most of the banks had incorporated the various parameters which are used for gauging internal
controls and the corporate governance as was indicated by the means which were obtained enquiring on the same and this showed that the respondents agreed that their banks had instituted good corporate governance with a strong system of internal controls, and there is a relationship between internal control and corporate governance.

Ewa and Udoayang (2012) carried out a study to establish the impact of internal control design on bank’s ability to investigate staff fraud and staff lifestyle and fraud detection in Nigeria. The study found that internal control design influences staff attitude towards fraud. Strong internal control mechanism is deterrence to staff fraud since all the necessary checks are in place and hence limiting staff from succeeded in any planned fraudulent activity. Weak internal control mechanism exposes the system to fraud and creates opportunity for staff to commit fraud due to the existing gaps. The study therefore emphasized on the need to have a strong internal control mechanism in order to curb fraud.

Wainaina (2011) investigated on internal control function of the Kenya Polytechnic University College. The variables for the study included; Control environment, Risk assessment, Control activities, Information & Communication, Monitoring and Information technology. The finding of the study showed that as a substitute for its presence on the scene of operations, management must rely on internal control techniques to implement its decisions and to regulate the activities for which she would ultimately be responsible for. It is in this light that use of effective Internal Control Systems (ICS’s) is deemed crucial in the management of business resources. As a result, the management of any organization designs internal control procedures to allocate, control and ensure efficient utilization of resources, in order to achieve the overall corporate goals. It was found that Internal Control Systems (ICS’s) play an important role in preventing and detecting fraud and protecting the organization's resources, both physical and intangible. This is achieved through proper authorization controls and documentation.

Ngungi (2011) carried out research aimed to find out the practice in regard to design and implementation of internal control systems in the private and the public sector and whether there was any difference in effectiveness and efficiency as the result. The research focused on the key components of internal control systems namely control environment, risk assessment, control procedures, information and communication and finally monitoring. The study explored the designs of the respective sectors to find out their similarities and differences. Data of this study was collected by questionnaires and focused group discussion. The data collected was analyzed by use of descriptive and inferential statistics. The results showed that the private sector has a strong internal control system than the public sector in all the component of internal control. However both the public and private sector do not have a significant difference in monitoring and control activities and the public sector even has stronger elements of preventive controls.

Barra (2010) investigated on the effect of penalties and other internal controls on employee’s propensity to be fraudulent. The results showed that the presence of the control activities and separation of duties, increases the cost of committing fraud. Thus, the benefit from committing fraud has to outweigh the cost in an environment of segregated duties for an employee to commit fraud. Further, it was established that segregation of duties is a "least-cost" fraud deterrent for non-managerial employees, but for managerial employees, maximum penalties are the "least-cost" fraud disincentives. The results suggest the effectiveness of preventive controls control activities such as segregation of duties is dependent on detective controls.

Kakucha (2010) evaluated the level of effectiveness of internal controls operating in Nairobi. The study was based on a number of variables including: age of an enterprise and effectiveness of its system of internal control; the amount of resources held by an enterprise and its effectiveness of its system of internal control; the nature of the relationship between internal control and financial performance. The study was quantitative and used a sample of 30 small businesses as listed in the National Social Security Fund (NSSF) Register of Kenya, 2008. The study found that there are deficiencies in the systems of internal controls, with the degree of deficiencies varying from enterprise to another. The components of internal control that were missing in most businesses surveyed were: firstly, risk analysis, and secondly lack of proper flows of information. In addition, the study established that the sample population lacked awareness of what constituted an effective system of internal control. The study also found that there is significant statistical evidence to support the negative relationship between the age of an enterprise and the effectiveness of its system of internal control. In addition, the study established that there is a negative correlation between the resources held by an enterprise and its internal control weaknesses. Finally, the study found that there is a weak negative relationship between the internal control weaknesses and financial performance. However, this study did not take into account the effects of the specific aspects of internal control such as the monitoring and evaluation and risk auditing and management within small businesses.

Amudo and Inanga (2010) carried out an evaluation of Internal Control Systems in the Regional Member Countries (RMCs) of the African Development Bank Group (AfDB) focusing on Uganda in East Africa. The variables included; monitoring, control activities, risk...
assessment, information and communication and control environment. The study established that some control components of effective internal control systems lack in these projects which render the current control structures ineffective. The study recommended an improvement of the existing internal control systems in the projects.

Wee Goh (2010) studied on audit committees, boards of directors, and remediation of material weaknesses in internal control. He measured the effectiveness of the audit committee by its independence, financial expertise, size, and meeting frequency, and the effectiveness of the board by its independence, size, and meeting frequency, and by the duality of the chief executive officer (CEO) and chair positions (CEO duality). He also examined other factors that can affect firms' timeliness in the remediation of material weaknesses, such as the severity of material weaknesses, firms' profitability, the complexity of firms' operations, and so on. He found out that the proportion of audit committee members with financial expertise is positively associated with firms' timeliness in the remediation of material weaknesses. Second, firms with larger audit committees are more likely to remediate material weaknesses in a timely manner. Third, that a more independent board is less susceptible to the undue influence of management and more likely to exert pressure on management to remediate material weaknesses.

Olatunji (2010) Sought to find out the impact of internal control system in banking sector. The study categorized controls into three major classifications: Preventive controls, detective controls and corrective controls. Data, from which the information constitutes the findings, were collected from fifty branches of Wema Bank Plc. This involved traveling to all the above mentioned states and asking the officers in charge, some prepared questions in which answers were provided accordingly. Data were obtained from both the primary and secondary sources, which includes; interview, structured questionnaire, journal publications, textbooks, newspapers, internet facilities. Secondary data are used to complement the primary data as the primary data is the original work. Data captured for this study were analyzed through descriptive and inferential statistical methods. The descriptive analysis involves the use of percentages, tabulation and graphical presentation. While, the inferential statistical method involved the use of the chi-square. According to his findings, the lack of an effective internal control system is the major cause of bank frauds in Nigeria. It is then concluded that the management of every bank should create and establish a standard internal control system, strong enough to stand against the wiles of fraud in order to promote continuity of operations and to ensure the liquidity, solvency and going concern concept of the bank. Jones (2011) investigated on internal controls, accountability and corporate governance in medieval and modern Britain. The variables included control environment, risk assessment, information and communication, monitoring and control activities. He used a modern referential framework as a lens to investigate medieval internal controls used in the twelfth century royal exchequer and other medieval institutions. He demonstrated that most of the internal controls found today were present in medieval England. Stewardship and personal accountability were found to be the core elements of medieval internal control. The recent recognition of the need for the enhanced personal accountability of individuals is reminiscent of medieval thinking.

Mawanda (2010) conducted a research on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study he investigated and sought to establish the relationship between internal control systems and financial performance in an Institution of higher learning in Uganda. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas Financial performance focused on Liquidity, Accountability and Reporting as the measures of Financial performance. The Researcher set out to establish the causes of persistent poor financial performance from the perspective of internal controls. The study established a significant relationship between internal control system and financial performance. The investigation recommends competence profiling in the Internal Audit department which should be based on what the University expects the internal audit to do and what appropriate number staff would be required to do this job. The study therefore acknowledged role of internal audit department to establish internal controls which have an effect on the financial performance of organizations.

Crutchley et al. (2011) studied the likelihood of a firm being involved in an accounting scandal. The study found that certain characteristics increased the likelihood of a firm being involved in an accounting scandal. The characteristics included high levels of growth of a firm, engaging in earnings management techniques, audit committees composed of few directors and overextended outside directors. However, firms with low level of growth and having audit committees composed of more directors had a lesser likelihood of being involved in accounting scandal. Strong internal controls and an ethical organizational culture were found key in preventing a firm from being involved in accounting scandal. e) Critique of Literature Review

A number of researches have been done relating to internal control and financial performance of organizations. Muhammad (2015) researched on effect
of internal audit function and internal control system on financial performance of an institution of higher education in Pakistan. The findings were that there was a positive relationship between internal audit, internal control environment and financial performance of higher education institution. The research focused on 3 elements of internal control that is internal audit, internal control environment and failed to show the contribution of corporate governance in the financial performance of an organization. The research also focused on a specific institution which limits the application of research to other institutions which exhibit different operational characteristics. Mugo (2013) studied on effect of internal control on financial performance of technical training institutions. Although he found a positive relationship between internal control and financial performance, the research failed to show the effect of corporate governance and government policy on financial performance of organizations.

Mawanda (2010) did a research on effect of internal control systems on financial performance of an institution of higher learning in Uganda and focused on internal control environment, internal activities and internal audit. The research failed to show the contribution of corporate governance on financial performance of the organization. Kamau (2013) did a study of effects of internal control on financial performance of manufacturing firms in Kenya. The research also failed to clearly show the contribution of corporate governance and government policy on the financial performance of organizations. Most of the researches done on internal controls are case studies and focus on specific institutions/companies that exhibit particular characteristics or material weakness in the internal control systems.

f) Research Gap

Most of the highlighted studies in the literature review do not explicitly address the effect of internal control on the financial performance of hospitals in Kenya. A scarcity of literature in the area of study exists, particularly in the developing states like Kenya. The few that have been conducted in the third world nations have eluded criticism in the criteria, title, scope and methodology used hence the research gaps in terms of literature.

III. Research Methodology

The study adopted a descriptive research design. The descriptive design is the most appropriate because the study was concerned with finding out what relationship exist between the independent and dependent variables by collecting quantifiable data (Kothari, 2013). Descriptive design has been successfully employed by different authors for studies on internal control systems such as (Kinyua, 2016; Nyakundi & Nyamita, 2014; Muio, 2012; Ngugi, 2011: Simiyu, 2011). Descriptive studies are particularly useful in understanding the characteristics of organizations that follow certain common practices and they are undertaken in order to ascertain and be able to describe the characteristics of the variables of interest in a situation (Sekaran & Bougie, 2013).

Kombo and Tromp (2011) define a population as a group of individuals, objects or items from which samples are taken for measurement. Cooper and Schindler (2013) observe that population is the total collection of elements about which one wants to make inferences. Kothari (2013) defines population as the researcher’s “universe”. Target population refers to the entire group of objects of interest from whom the researcher seeks to obtain the relevant information for the study (Cooper & Schindler, 2013; Kothari, 2013; Oso & Onen, 2011; Kombo & Tromp, 2011). They contend that a population of study should possess characteristic that meet a researcher’s study interests. There are 47 county referral hospitals as per the list obtained from the Ministry of Health Kenya; January 2020 and all the 47 hospitals which have been active for the last seven years since devolved system of government became operational in Kenya was taken as the population. The target population of this study focused on the 47 county referral hospitals in Kenya.

The sampling frame comprises of a comprehensive list of all the sampling units from which a sample could be selected. A sampling frame is required to define the universe (population). The frame (data sources) could be a list from households, establishments, and industries with detailed addresses, products produced and/or consumption, expenditure, revenue data, and so on (Bryman & Bell, 2015; Cooper & Schindler, 2013; Kothari, 2013). In Kenya, the Ministry of Health keeps records of all county referral hospitals and the researcher obtained the list from the institution.

The study then used purposive sampling when it comes to the selection of the respondents. Bryman and Bell (2015) and Cooper and Schindler (2013) state that purposive sampling involves choosing members of a sample to represent a location or type in relation to a key criterion to ensure relevance to the subject matter covered.

In this study, a structured questionnaire with a five-point Likert scale was used so that the variables can be ranked to measure the degree of agreement or disagreement of the respondents was used to gather the data. Bryman (2013) points out that because each respondent is asked to respond to the same set of questions; it provides an efficient way of collecting responses from a large sample prior to quantitative analysis.
IV. RESULTS AND FINDINGS

a) Introduction
This chapter presents the results and interpretation of findings that were obtained from the study. The chapter outlines the findings with regard to each objective under study.

b) Descriptive Frequencies of controls

i. Physical controls
The table below shows frequencies of the level of agreement for various physical control aspects. The study found that majority 40.41% (99) hospitals agreed that hospitals have effective physical control systems, followed by strongly agree at 30.20%(74), and only 1.63%(4) strongly disagreed.

<table>
<thead>
<tr>
<th>Physical Controls</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals have installed enough CCTV cameras for surveillance</td>
<td>0(0.00)</td>
<td>2(5.71)</td>
<td>7(20)</td>
<td>10(28.57)</td>
<td>16(45.71)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>CCTV cameras have enhanced transparency and accountability</td>
<td>0(0.00)</td>
<td>1(2.86)</td>
<td>10(28.57)</td>
<td>13(37.14)</td>
<td>11(31.43)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Scanners are used to inspect items in the hospital.</td>
<td>2(5.71)</td>
<td>3(8.57)</td>
<td>12(34.29)</td>
<td>10(28.57)</td>
<td>8(22.86)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Scanners have enhanced transparency and accountability in hospitals</td>
<td>1(2.86)</td>
<td>1(2.86)</td>
<td>11(31.43)</td>
<td>15(42.89)</td>
<td>7(20.00)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Scanners have reduced loss of items in hospitals</td>
<td>1(2.86)</td>
<td>3(8.57)</td>
<td>10(28.57)</td>
<td>15(42.89)</td>
<td>6(17.14)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Special people are positioned on strategic points for scrutiny in hospitals</td>
<td>0(0.00)</td>
<td>2(5.71)</td>
<td>4(11.43)</td>
<td>16(45.71)</td>
<td>13(37.14)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Strategic Positioning of personnel has improved surveillance, transparency in hospitals</td>
<td>0(0.00)</td>
<td>0(0.00)</td>
<td>2(5.71)</td>
<td>20(57.14)</td>
<td>13(37.14)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Total</td>
<td>4(1.63)</td>
<td>12(34.28)</td>
<td>56(22.86)</td>
<td>99(40.41)</td>
<td>74(30.20)</td>
<td>245(100)</td>
</tr>
</tbody>
</table>

ii. Internal audit controls
As per the information captured in the table below, most hospitals agreed that internal audit controls were working effectively 47.47% (216) followed by 34.29% (156) who strongly agreed and only 1.75%(8) strongly disagreed.

<table>
<thead>
<tr>
<th>Internal Audit Controls</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital has functional internal audit unit</td>
<td>0(0.00)</td>
<td>1(2.86)</td>
<td>1(2.86)</td>
<td>6(17.14)</td>
<td>27(77.14)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Timing of the audit here is appropriate.</td>
<td>1(2.86)</td>
<td>3(8.57)</td>
<td>6(17.14)</td>
<td>15(42.86)</td>
<td>10(28.57)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Internal audit unit here has developed an internal audit manual</td>
<td>0(0.00)</td>
<td>1(2.86)</td>
<td>5(14.28)</td>
<td>16(45.72)</td>
<td>13(37.14)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Audit process here is always completed on time</td>
<td>1(2.86)</td>
<td>8(22.85)</td>
<td>9(25.71)</td>
<td>11(31.42)</td>
<td>6(17.14)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Internal audit findings are reported directly to top management</td>
<td>0(0.00)</td>
<td>1(2.86)</td>
<td>1(2.86)</td>
<td>18(51.43)</td>
<td>15(42.86)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Majority of the audit members here are registered members of ICPAK</td>
<td>0(0.00)</td>
<td>1(2.86)</td>
<td>4(11.42)</td>
<td>18(51.43)</td>
<td>12(34.29)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Internal audit unit here plays a major role in fraud detection and prevention.</td>
<td>1(2.86)</td>
<td>2(5.71)</td>
<td>6(17.14)</td>
<td>20(57.14)</td>
<td>6(17.14)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Recommendations of the internal audit unit are taken very seriously here</td>
<td>1(2.86)</td>
<td>1(2.86)</td>
<td>6(17.14)</td>
<td>18(51.43)</td>
<td>9(25.71)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Internal auditor(s) demonstrate professionalism and objectivism</td>
<td>1(2.86)</td>
<td>1(2.86)</td>
<td>4(11.42)</td>
<td>24(68.57)</td>
<td>5(14.28)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Audit department provides management with assurance</td>
<td>1(2.86)</td>
<td>1(2.86)</td>
<td>4(11.42)</td>
<td>23(65.71)</td>
<td>6(17.14)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Internal audit department reports functionally to the audit committee</td>
<td>0(0.00)</td>
<td>2(5.71)</td>
<td>2(5.71)</td>
<td>16(45.72)</td>
<td>15(42.86)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Internal audit department conducts its work independent of the management.</td>
<td>0(0.00)</td>
<td>1(2.86)</td>
<td>1(2.86)</td>
<td>17(48.57)</td>
<td>16(45.72)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Head of the Internal audit unit is a member of the senior management</td>
<td>2(5.71)</td>
<td>1(2.86)</td>
<td>2(5.71)</td>
<td>14(0.40)</td>
<td>16(45.72)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Total</td>
<td>8(1.75)</td>
<td>24(52.7)</td>
<td>51(11.21)</td>
<td>216(47.47)</td>
<td>156(34.29)</td>
<td>455(100.00)</td>
</tr>
</tbody>
</table>
iii. Corporate governance controls

The study found that most hospitals strongly agreed that corporate governance controls were effective 35.20%(69) followed by those who agreed at 32.14%(63) and only 2.04(4) strongly disagreed.

<table>
<thead>
<tr>
<th>Corporate governance controls</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>The hospital has a well-established and effective Board. Recruitment and appointment of Board members is approved by the hospital stakeholders. The different members of the board in the hospital bring unique experiences and expertise to the management of the hospital. All members of the board of management belong to various specialized sub-committees of the board. The hospital has well established corporate governance policies and procedures that guide the affairs of the hospital. The hospital’s conflict of interest policy and procedures on how to handle any conflict of interest cases that may arise from time to time are well developed.</td>
<td>0(0.00)</td>
<td>2(5.71)</td>
<td>1(2.86)</td>
<td>12(34.29)</td>
<td>10(28.57)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Total</td>
<td>4(2.04)</td>
<td>11(5.61)</td>
<td>49(0.25)</td>
<td>63(32.14)</td>
<td>69(35.20)</td>
<td>196(100.00)</td>
</tr>
</tbody>
</table>

iv. Regulatory controls

The findings in the table below show that most of the hospitals 44.89%(110) strongly agreed that regulatory controls were effectively working, followed by 40.41%(99) who agreed, and only 1.22%(3) strongly disagreed.

<table>
<thead>
<tr>
<th>Regulatory controls</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>The hospital operations comply with the all set government policies.</td>
<td>0(0.00)</td>
<td>1(2.86)</td>
<td>1(2.86)</td>
<td>9(25.71)</td>
<td>24(68.57)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>There exists a legal unit within the hospital that updates management on any changes in the regulatory environment. Recommendations of the legal unit in the hospital are reported directly to the audit and risk sub-committee of the board. The hospital is greatly affected by government action on market prices e.g. minimum wage bill. Changes in government regulations are implemented in the hospital without delay. Financial performance of the hospital is affected by changes in government rules and regulation. The hospital frequently reviews its policies to reflect changes in government changes.</td>
<td>0(0.00)</td>
<td>2(5.71)</td>
<td>8(22.86)</td>
<td>13(37.14)</td>
<td>12(34.29)</td>
<td>35(100.00)</td>
</tr>
<tr>
<td>Total</td>
<td>3(1.22)</td>
<td>8(3.27)</td>
<td>25(10.20)</td>
<td>99(40.41)</td>
<td>110(44.89)</td>
<td>245(100.00)</td>
</tr>
</tbody>
</table>

c) The effect the controls on the financial performance

The Table 4.5 below is a contingency table between financial performance and the controls showing the frequencies and percentages of level of agreement with associated p-values from Fisher’s test. It is imperative that financial performance is significantly (all p-values are <0.0001) associated with the four controls at 95% level of confidence. This is a strong implication that each control is individually a significant predictor of financial performance, as seen in bivariate regression Table 4.5.
Table 4.5: Association between controls and the financial performance

<table>
<thead>
<tr>
<th>Physical Control</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>2(28.6)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Neutral</td>
<td>5(71.4)</td>
<td>4(57.1)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Agree</td>
<td>0(0.0)</td>
<td>3(42.86)</td>
<td>7(100.0)</td>
<td>3(42.86)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>4(57.1)</td>
<td>7(100.0)</td>
<td></td>
</tr>
<tr>
<td>Internal Control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>1(14.3)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>1(14.3)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Neutral</td>
<td>4(57.1)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Agree</td>
<td>1(14.3)</td>
<td>7(100.0)</td>
<td>7(100.0)</td>
<td>2(28.5)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>5(71.4)</td>
<td>7(100.0)</td>
<td></td>
</tr>
<tr>
<td>Corporate Governance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>2(28.6)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Neutral</td>
<td>5(71.4)</td>
<td>1(14.3)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Agree</td>
<td>0(0.0)</td>
<td>6(85.7)</td>
<td>7(100.0)</td>
<td>1(114.3)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>6(85.7)</td>
<td>7(100.0)</td>
<td></td>
</tr>
<tr>
<td>Regulatory Control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>2(28.6)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Neutral</td>
<td>3(42.9)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>&lt;0.0001</td>
</tr>
<tr>
<td>Agree</td>
<td>2(28.6)</td>
<td>7(100.0)</td>
<td>7(100.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>0(0.0)</td>
<td>7(100.0)</td>
<td>7(100.0)</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.6: Bivariate Regression

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>Coefficient</th>
<th>P-value</th>
<th>Lower 95% CI</th>
<th>Upper 95% CI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical control</td>
<td>1.43</td>
<td>&lt;0.0001</td>
<td>1.20</td>
<td>1.67</td>
</tr>
<tr>
<td>Constant</td>
<td>-2.66</td>
<td>&lt;0.0001</td>
<td>-3.65</td>
<td>-1.66</td>
</tr>
<tr>
<td>R^2 = 0.8197, F(1, 33) = 150.53, P(&gt;F) &lt; 0.0001</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal control</td>
<td>1.29</td>
<td>&lt;0.0001</td>
<td>0.79</td>
<td>1.78</td>
</tr>
<tr>
<td>Constant</td>
<td>-2.26</td>
<td>0.037</td>
<td>-4.37</td>
<td>-0.15</td>
</tr>
<tr>
<td>R^2 = 0.6804%, F(1, 33) = 28.71, P(&gt;F) &lt; 0.0001</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate governance control</td>
<td>1.45</td>
<td>&lt;0.0001</td>
<td>1.16</td>
<td>1.75</td>
</tr>
<tr>
<td>Constant</td>
<td>-2.95</td>
<td>&lt;0.0001</td>
<td>-4.22</td>
<td>-1.69</td>
</tr>
<tr>
<td>R^2 = 0.8125%, F(1, 33) = 101.95, P(&gt;F) &lt; 0.0001</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regulatory control</td>
<td>1.48</td>
<td>&lt;0.0001</td>
<td>1.09</td>
<td>1.87</td>
</tr>
<tr>
<td>Constant</td>
<td>-3.22</td>
<td>0.001</td>
<td>-4.95</td>
<td>-5.1</td>
</tr>
<tr>
<td>R^2 = 0.7415%, F(1, 33) = 60.28, P(&gt;F) &lt; 0.0001</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

i. The effect of physical controls on the financial performance

The robust bivariate regression Table 4.7 shows that physical control is a significant predictor of financial performance at 95% level of confidence. A unit increase in the level of agreement in physical control leads to a significant increase in the financial performance by 43% (Coefficient= 1.43, p-value <0.0001). Furthermore, physical control is responsible for up to 81.97% of the variation in financial performance with a significant ANOVA model (R^2 = 0.8197, P>F < 0.0001).

ii. The effect of internal audit controls on the financial performance

The robust bivariate regression Table 4.7 shows that physical control is a significant predictor of financial performance at 95% level of confidence. A unit increase in the level of agreement in physical control leads to a significant increase in the financial performance by 43% (Coefficient= 1.43, p-value <0.0001). Furthermore, physical control is responsible for up to 81.97% of the variation in financial performance with a significant ANOVA model (R^2 = 0.8197, P>F < 0.0001).
iii. *The effect of corporate governance controls on the financial performance*

The robust bivariate regression *Table 4.7* shows that physical control is a significant predictor of financial performance at 95% level of confidence. A unit increase in the level of agreement in physical control leads to a significant increase in the financial performance by 45% (Coefficient = 1.45, p-value < 0.0001). Furthermore, physical control is responsible for up to 81.25% of the variation in financial performance with a significant ANOVA model (R^2 = 0.8125, P>F < 0.0001).

iv. *The effect of regulatory controls on the financial performance*

The robust bivariate regression *Table 4.7* shows that physical control is a significant predictor of financial performance at 95% level of confidence. A unit increase in the level of agreement in physical control leads to a significant increase in the financial performance by 48% (Coefficient = 1.48, p-value < 0.0001). Furthermore, physical control is responsible for up to 74.15% of the variation in financial performance with a significant ANOVA model (R^2 = 0.7415, P>F < 0.0001).

d) *Overall effect of controls on the financial performance*

Combining the four controls to predict financial performance, the multivariate regression *Table 4.8* below shows that physical control and corporate governance have significant positive impact on financial performance while internal control and regulatory control have insignificant impact on financial performance at 95% level of confidence. A unit increase in the level of agreement in physical control increases financial performance by 13% (Coefficient = 0.87, p-value < 0.0001) keeping the other factors constant and a unit increase in the level of agreement in corporate governance control increases financial performance by 25% (Coefficient = 0.75, p-value = 0.044) keeping the rest of the controls constant. The controls contribute up to 86.47% of the variation in financial performance with a significant ANOVA model (R^2 = 0.8647, P(>F) < 0.0001).

*Table 4.8: Multivariate Regression*

<table>
<thead>
<tr>
<th>Financial Performance</th>
<th>Coefficient</th>
<th>P-value</th>
<th>Lower 95% CI</th>
<th>Upper 95% CI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical control</td>
<td>0.87</td>
<td>&lt;0.0001</td>
<td>0.55</td>
<td>1.19</td>
</tr>
<tr>
<td>Internal control</td>
<td>-0.60</td>
<td>0.094</td>
<td>-1.30</td>
<td>0.11</td>
</tr>
<tr>
<td>Corporate governance control</td>
<td>0.75</td>
<td>0.044</td>
<td>0.02</td>
<td>1.47</td>
</tr>
<tr>
<td>Regulatory control</td>
<td>0.53</td>
<td>0.278</td>
<td>-0.45</td>
<td>1.52</td>
</tr>
<tr>
<td>Constant</td>
<td>-3.29</td>
<td>&lt;0.0001</td>
<td>-4.67</td>
<td>-1.90</td>
</tr>
</tbody>
</table>

R^2 = 0.8647%, F(4,30) = 35.03, P(>F) < 0.0001

e) *Correlation analysis*

The study determined correlation analysis to establish the relationship between variables as presented in Table 4.9.

Pearson coefficient was used, significant level was set at .05, such that if the p-value was less than 0.05, then it would be concluded that a significant difference exist. If the p-value was larger than 0.05, it would be concluded that a significant difference does not exists as in Table 4.9 below, SPSS output.

The results revealed that there was a positive statistical insignificance correlation between Physical control and financial performance (r=.190; p=.046) and vice-versa.

*Table 4.9: Correlation analysis of variables*

<table>
<thead>
<tr>
<th>PC</th>
<th>IC</th>
<th>CG</th>
<th>RC</th>
<th>FP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical control</td>
<td>Pearson Correlation</td>
<td>.271**</td>
<td>.342**</td>
<td>-.100</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.004</td>
<td>.000</td>
<td>.298</td>
<td>.046</td>
</tr>
<tr>
<td>N</td>
<td>38</td>
<td>38</td>
<td>38</td>
<td>38</td>
</tr>
<tr>
<td>Internal control</td>
<td>Pearson Correlation</td>
<td>.662**</td>
<td>.100</td>
<td>-.101</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td>.920</td>
<td>.290</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>38</td>
<td>38</td>
<td>38</td>
<td>38</td>
</tr>
</tbody>
</table>

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The regression analysis was conducted to establish the effect of variables under the study as presented in table 4.9.

**Table 4.9: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.646a</td>
<td>.417</td>
<td>.395</td>
<td>.40161</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Physical control, Internal control, Corporate governance control, Regulatory control

The model summary reveals that financial performance in Physical control, Internal control, Corporate governance control, Regulatory control accounted for 41.7% (coefficient R²= 0.417) of the variation.

The calculated ANOVA was used to predict the model fitness on the regression line as presented in table 4.10.

**Table 4.10: ANOVA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>12.231</td>
<td>4</td>
<td>3.058</td>
<td>18.957</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>17.097</td>
<td>106</td>
<td>.161</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>29.328</td>
<td>110</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Physical control, Internal control, Corporate governance control, Regulatory control

Table 4.10 below shows that physical control and corporate governance have significant positive impact on financial performance while internal control and regulatory control have significant impact on financial performance at 95% level of confidence; F=18.957, .000<.05. Thus the model was fit to predict the relationship between variables.

**Table 4.11: Regression Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.162</td>
<td>.327</td>
<td>3.555</td>
<td>.001</td>
</tr>
<tr>
<td>physical control</td>
<td>.163</td>
<td>.036</td>
<td>.361</td>
<td>.000</td>
</tr>
<tr>
<td>internal control</td>
<td>.321</td>
<td>.073</td>
<td>.358</td>
<td>.000</td>
</tr>
<tr>
<td>corporate governance</td>
<td>.103</td>
<td>.105</td>
<td>.100</td>
<td>.982</td>
</tr>
<tr>
<td>Regulatory control</td>
<td>.079</td>
<td>.111</td>
<td>.072</td>
<td>.706</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Financial performance

\[
Y = \alpha + \beta x + \epsilon \\
Y = 1.162 + 0.163x_1 + 0.321x_2 + 0.103x_3 + 0.079x_4
\]
From the model it is evident that the slope coefficient for physical control, internal control, corporate governance and Regulatory control were .163, .321, .103, and .079 respectively, implying that financial performance improves by 16.3%, 32.1%, 10.3% and 7.9% for each one unit improvement in internal controls. It is evident that there is insignificant p-value (p > .05) of the explanatory variable, corporate governance and regulatory controls, implying that there was notable evidence to reject the null hypothesis that $\beta_1 = 0$.

V. Conclusion

The four controls: physical, internal audit, corporate governance, and regulatory are individually significant in predicting and influencing financial performance. In multivariate analysis, however, only physical control and corporate governance significantly influence financial performance. Consequently, improving financial performance implies that Kenyan hospitals must tap into the power of these controls to achieve the most desirable levels of financial performance.

a) Limitations and Delimitations

This study enjoys as delimitation not only the reliability of primary data but also of using census data. Moreover, the generalizability of the information from these hospitals to other hospitals not included in the study is highly valid as the county hospitals are all over Kenya.

On the flipside, the dependent variable used is a Likert scale and therefore is not a direct measurement of financial performance but is a proxy. Future studies should consider using actual measures of financial performance such as return on assets and so on.

VI. Recommendations

Combining the four controls to predict financial performance, the multivariate regression showed that physical control and corporate governance have significant positive impact on financial performance while internal control and regulatory control have insignificant impact on financial performance at 95% level of confidence. The controls contribute up to 86.47% of the variation financial performance with a significant ANOVA model ($R^2 = 0.8647$, $P(>F) < 0.0001$). It is worth noting therefore that to improve financial performance, Kenyan hospitals must a chart and implement in policy a way increase physical control and corporate governance.

References Références Referencias


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Effect of Microfinance Loan on Poverty Reduction in Rwanda

By Dolca Ingabire & Dr. Henry Jefferson Ogoi

KIM University

Abstract- The purpose of this study was to investigate the effect of microfinance loan on poverty reduction in Rwanda. The study sought to identify the achievements of microfinance loans to the individuals, explore the perceptions of microfinance beneficiaries on poverty reduction and determine the effect of microfinance loans on the economic growth. The target population for this study was 6228 persons, which included employees and clients of COPEDU PLC, Remera Branch. The study adopted descriptive research design to collect data from the selected sample size. The primary data was collected using questionnaires that were randomly distributed to the sample population. The data collected was analyzed using the Statistical Package for Social Sciences (SPSS) software to determine the mean, mode, standard deviation and inferential statistics related to the study. The findings from the study indicate that microfinance loans have a significant effect on poverty reduction. The study found that microfinance loans empower the poor and enable them to overcome the challenges that they face. The provision of microfinance loans has led to start-ups, growth and expansion of micro and small businesses resulting in asset building, job creation, poverty reduction and improved standard of living.

Keywords: poverty reduction, microfinance, COPEDU PLC, grace period.

GJMBR-C Classification: JEL Code: G21

Strictly as per the compliance and regulations of:

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Abstract: The purpose of this study was to investigate the effect of microfinance loan on poverty reduction in Rwanda. The study sought to identify the achievements of microfinance loans to the individuals, explore the perceptions of microfinance beneficiaries on poverty reduction and determine the effect of microfinance loans on the economic growth. The target population for this study was 6228 persons, which included employees and clients of COPEDU PLC, Remera Branch. The study adopted descriptive research design to collect data from the selected sample size. The primary data was collected using questionnaires that were randomly distributed to the sample population. The data collected was analyzed using the Statistical Package for Social Sciences (SPSS) software to determine the mean, mode, standard deviation and inferential statistics related to the study. The findings from the study indicate that microfinance loans have a significant effect on poverty reduction. The study found that microfinance loans empower the poor and enable them to overcome the challenges that they face. The provision of microfinance loans has led to start-ups, growth and expansion of micro and small businesses resulting in asset building, job creation, poverty reduction and improved standard of living. The study concludes that provision of microfinance loans have a significant effect on poverty reduction in Rwanda. This study recommends that the microfinance management review the loan processing requirements to facilitate the application process and induce more people to take the loans. The study also recommends that management consider providing a grace period to enable the borrowers to make proper arrangement on how to repay the loans.

Keywords: poverty reduction, microfinance, COPEDU PLC, grace period.

I. Introduction

Poverty has become a major concern for both the developed and developing countries. Based on the poverty line, people in each country can be broadly divided into categories, namely, the poor and the non-poor. The non-poor live above the poverty line while the poor live below the poverty line. Balkenhol (2007) found that microfinance schemes have been increasing significantly throughout the world. Despite the tremendous increase of microfinance schemes, the loan processing requirements to facilitate the application process and induce more people to take the loans. The study also recommends that management consider providing a grace period to enable the borrowers to make proper arrangement on how to repay the loans.

Rwanda is a landlocked country with limited natural resources. Rwanda has a population of about 12.5 millions, of which 87 per cent of live in the rural areas. The current population density of Rwanda stands at 416 people per square km. In the year 2012, Rwanda had a GDP per capita of US $ 644. Poverty is widespread with a life expectancy of 63.49 years (MINECOFIN 2012).

The Poverty Reduction Unit (PRU) of UNDP Rwanda is attempting to lessen poverty and quicken advance towards the Millennium Development Goals (MDGs) by supporting star poor monetary development and comprehensive market improvement in Rwanda. UNDP Rwanda’s strategy on Poverty Reduction seeks to furnish the low-income individuals with the tools and assets to lift themselves out of destitution through private segment activities at the national and district levels. The exercise intends to give low income people access to the business sector, merchandise and other ventures to empower themselves and reduce poverty to minimum.

Providing access to credit will enable the poor to start-up businesses resulting in poverty reduction and speedy economic growth (Robinson, 2002). Many African countries are wallowing in poverty, forcing the governments to develop strategies on how to reduce poverty and accelerate economic growth. One of the approaches to eradicating poverty is the engineering of microfinance, which is considered as an effective tool of addressing the financial challenges facing the needy (Sali, 2014).

Morduch and Haley (2002) noted that it is feasible for a microfinance organization to serve the most unfortunate to enable them meet their financial obligations. Swain (2004) stated that microfinance can be utilized as an instrument for mitigation instead of as a destitution reduction strategy.

Despite the tremendous economic progress since 1994, Rwanda still remains undeveloped country based on the destitution lines. The degree of the populace in neediness declined from 39.1% in 2013/14 to 38.2% in 2016/17, while the degree living in phenomenal destitution decreased from 16.3% to 16.0% during a comparative period and certified utilization per grown-up corresponding to the neediness line (RWF 159,375 consistently) or the extraordinary neediness line (RWF 105,064). (The Fifth Integrated Household Living Conditions Survey, EICV5 (2016/17), Rwanda has acknowledged the issue of neediness as a troublesome issue and the imagined techniques for conquering it.

Author a: Student, KIM University, Kigali, Rwanda.
Author b: Lecturer, KIM University, Kigali, Rwanda.
e-mail: henry.ogoi@gmail.com
To reduce poverty, the legislature of Rwanda has taken drastic measures related to destitution decrease. The Government of Rwanda acknowledges that microfinance plays a crucial role in reducing poverty and improving the economy, resulting in destitution decrease (Destitution Trend Analysis Report (2010/11-2013/14)).

The Government of Rwanda has further initiated several projects geared toward poverty reduction. Some of these initiatives are as explained below:

a) **Home grown initiatives**

- Community Justice (Gacaca): These are local efforts geared toward creating equity and rebuilding responsible post-destruction Rwanda.
- Mediation Committees (Abunzi): These are instruments for casual settlement of disputes and resolving of minor criminal offenses during the post-genocide period.
- One cow per poor Family (Girinka): It is a Government initiated program of providing a cow to each family to ensure a healthy sustenance and reduce poverty through a consistent source of income.
- Community Works (Umuganda): This initiative is seen as a vehicle for solidarity and commitment to the advancement of the network of achieving a common goal as a country.
- Ubudehe credit scheme: Provides a home grown solution to money related issues and poverty reduction among Rwandans. In 2008, the Scheme won the United Nations Public Service Award for participatory advancement in reducing destitution in Rwanda.

The Rwanda Vision 2020 as articulated in 2000 and revised in 2012, has ambitious targets for further economic and social development for the years ahead. One such target is the substantial reduction of poverty. The Government of Rwanda and its development partners are committed to making significant headway towards achieving the objectives contained in the national vision document (The Fifth Integrated Household Living Conditions Survey, EICV5, 2016-17). In 2016, the Government of Rwanda made business simpler by improving the registration procedure, sponsoring agribusiness, controlling prices and finance for 20 percent of the population (Rwanda’s Economic Freedom Score, 2018).

Although, the government of Rwanda put much effort for poverty reduction, poverty remains a global problem, which needs concerted effort to address it. Of the world’s 6 billion people, 2.8 billion people live on less than 2 US dollars a day and 1.2 billion on less than 1 US dollar a day (WDR, 2000/2001). Therefore, it is against this backdrop that this study sought to examine the effect of microfinance loan on poverty reduction in Rwanda.

## II. Literature Review

Stiglitz (1990) noted that lack of guaranteeing among borrowers was the greatest challenge facing MFIs in providing credit. MFIs require the guarantor to pay the loan in case the borrower defaults. Cheston and Kuhn (2002) discovered that joint obligation brings down the liquidity danger of default to the borrower. Aryeetey (1997) contended that observing the loan requirements was the key to improving reimbursement rates. The authors also noted that small-scale money lenders have a joint obligation as the case Grameen in Bangladesh. Diane and Zeller (2001) proposed a companion weight model in which borrowers are not entirely educated about their accomplices’ ability to apply or endure social endorsements. The model shows how companion weight can be utilized to alleviate default in circumstances where potential defaulters are prejudiced of authorizations.

a) **Credit as a Human Right**

Conventional banks are based on the principle that the more you have, the more you can get; if you have nothing you get nothing. They argue that banking is a business and thus it cannot indulge in charity for the poor. Grameen bank in Bangladesh has actually redefined this principle to; “the less you have the higher priority you get in receiving loans from Grameen”. If you have nothing you get the highest priority. Yunus (1998) argued that if there is one single action which will enable the poor to overcome their poverty, then it is credit. Credit should be accepted as a human right. If financial institutions can come up with a system which allows everybody access to credit while ensuring excellent repayment, then poverty will be past tense.

b) **A Critical Assessment of Microfinance as a Poverty Reduction Tool**

Chowdhury and Bhuiya (2009) contended that there exists clashing suppositions regarding the degree to which microfinance has reduced poverty. The high interest rate charged by independent venture capitalists make it difficult to access credit resulting in escalation of poverty. Chowdhury and Bhuiya (2009) found that microfinance institutions have made a significant contribution in reducing poverty and improving the living standards of the people. The authors further contend that borrowers with business aptitude, enterprise capacity and training are more likely to access credit than those without such attributes. Hence, there is a need to train and equip individuals with business knowledge and skills to not only know how to run business, but also access credit to improve and grow their businesses.

## III. Research Methodology

In this study, a quantitative research approach with a descriptive design was used to collect from the
sample population. The primary data was collected using questionnaires which were randomly distributed among the respondents. The secondary data was collected using documentary review which included the Poverty Trend Analysis Report, Rwanda Economic Freedom Score and Poverty Strategy Paper to supplement the primary data. The study focused on microfinance clients who received loans between the years 2014 to 2018. The data collected was edited, coded and analyzed through the Statistical Package for Social Sciences (SPSS) software to produce the descriptive statistics such as percentages and standard deviation. The findings were reported using tables.

IV. RESULTS

The data collected was analyzed to obtain the response from respondents using tabular representations. This study examined the effect of Microfinance loan on poverty reduction in Rwanda.

a) Classification according to age of respondent.
The following table shows how the respondents were distributed corresponding to their age.

<table>
<thead>
<tr>
<th>Age of the respondents</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between 18-24</td>
<td>6</td>
<td>7.9</td>
<td>7.9</td>
<td>7.9</td>
</tr>
<tr>
<td>between 25-34</td>
<td>29</td>
<td>38.2</td>
<td>38.2</td>
<td>46.1</td>
</tr>
<tr>
<td>Between 35-44</td>
<td>17</td>
<td>22.4</td>
<td>22.4</td>
<td>68.4</td>
</tr>
<tr>
<td>Between 45-54</td>
<td>13</td>
<td>17.1</td>
<td>17.1</td>
<td>85.5</td>
</tr>
<tr>
<td>Between 55-64</td>
<td>11</td>
<td>14.5</td>
<td>14.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research finding

The table above shows the age brackets of the respondents. The results show that 38.2% (age bracket 25-34) as the most active followed by 22.4% (age bracket 35-44) and 7.9% (age bracket 18-24) as the least active. Thus, it is evident that the level of activity can be deduced to be highest within the 25-34 years of age bracket.

b) Classification according to gender of respondents

<table>
<thead>
<tr>
<th>Response by Gender</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>46</td>
<td>60.5</td>
<td>60.5</td>
<td>60.5</td>
</tr>
<tr>
<td>Female</td>
<td>30</td>
<td>39.5</td>
<td>39.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings

The table above depicts the actual number of respondents by gender. The results show that the male respondents were more willing to give information required than the female respondents. This attribute was used to establish how microfinance loans affect the lifestyles of the respondents. This study sought to find out if the existing loan policies favor one sex over the other and how respondents feel about it. The findings indicate that 60.5% male respondents obtained microfinance loans compared to 39.5% female respondents. Qualitative data reveal that women in Rwanda were reluctant to engage in economic activities and prefer to help their husbands to own and run the business to avoid stress and risk. According to the Rwandan culture, women are expected to use their earnings in the business without having to rely on their counterparts for household needs.

Table 3: Marital Status of the Respondents.

<table>
<thead>
<tr>
<th>Marital status of the respondents</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>27</td>
<td>35.5</td>
<td>35.5</td>
<td>35.5</td>
</tr>
<tr>
<td>Married</td>
<td>49</td>
<td>64.5</td>
<td>64.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings
The table above indicates that 64.5% of the respondents were married while 35.5% were single. The higher response rate for the married respondents shows that those who are married have more financial obligations, which forces them to look for additional sources of income.

**Table 4: Educational Level of Respondents.**

<table>
<thead>
<tr>
<th>Educational level of Respondents</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illiteracy</td>
<td>6</td>
<td>7.9</td>
<td>7.9</td>
<td>7.9</td>
</tr>
<tr>
<td>Primary</td>
<td>18</td>
<td>23.7</td>
<td>23.7</td>
<td>31.6</td>
</tr>
<tr>
<td>Professionals &amp; secondary</td>
<td>45</td>
<td>59.2</td>
<td>59.2</td>
<td>90.8</td>
</tr>
<tr>
<td>University</td>
<td>7</td>
<td>9.2</td>
<td>9.2</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings

The table above shows that 59.2% of the respondents had professional and secondary education, 9.2% had university education, 23.7% had primary education and 7.9% had no primary education. The higher percentage (59.2%) of professional & secondary education shows that those who did not have the chance to proceed with high education have to think of other ways to create a stable source of income.

**Table 5: Analysis on How Clients Perceive Interest Rate**

<table>
<thead>
<tr>
<th>Respondent Perceive Annual interest rate</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13%</td>
<td>19</td>
<td>25.0</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>16%</td>
<td>57</td>
<td>75.0</td>
<td>75.0</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings

The table above shows that 75% of the respondents complained of high interest rates charged on the loans while 25% said that the interest rates were fair. However, this could be attributed to the amount of the loan, repayment schedule and capacity to pay the loan(s).

**Table 6: Reason for borrowing**

<table>
<thead>
<tr>
<th>Respondent reason for borrowing</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td>56</td>
<td>73.7</td>
<td>73.7</td>
<td>73.7</td>
</tr>
<tr>
<td>Family expenses</td>
<td>5</td>
<td>6.6</td>
<td>6.6</td>
<td>80.3</td>
</tr>
<tr>
<td>Housing</td>
<td>15</td>
<td>19.7</td>
<td>19.7</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings

The table above shows that 73.7% of the respondents borrow money for business use while 26.3% borrow for other purposes such as family expenses and housing. From the statistical perspective, majority respondents borrow money with the sole purpose of investing in business to generate profit and improvement their standards of living.

**Table 7: Main Source of Loan Payment**

<table>
<thead>
<tr>
<th>Respondent main source of loan payment</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>micro business finance</td>
<td>46</td>
<td>60.5</td>
<td>60.5</td>
<td>60.5</td>
</tr>
<tr>
<td>Wages</td>
<td>30</td>
<td>39.5</td>
<td>39.5</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings

The table above indicates that 60.5% of the respondents used income generated from micro business to repay their loans while 39.5% used their wage income to pay off their loans. This is evident that majority of the respondents are in micro business while few are on payroll.
### Table 8: Delay in Loan Repayment

<table>
<thead>
<tr>
<th>Response of respondents of Late in loan repayment</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>No</td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Research findings

The table above shows that 100% of the respondents were prompt in repaying their loans, which in turn, facilitates further access to credit to expand the business.

### Table 9: Monthly Savings after Taking Loan

<table>
<thead>
<tr>
<th>Response of respondents of Monthly Savings after taking loan in Frw</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>less than 20,000</td>
<td>15</td>
<td>19.7</td>
<td>19.7</td>
</tr>
<tr>
<td></td>
<td>Between 20,000 and 40,000</td>
<td>15</td>
<td>19.7</td>
<td>39.5</td>
</tr>
<tr>
<td></td>
<td>More than 40,000</td>
<td>46</td>
<td>60.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings

The table above shows that 60.5% of the respondents save more than 40,000Frw while 39.5% save between 20,000Frw and 40,000Frw. We can deduce that those who had more savings had adequate collateral than those who had little savings.

### Table 9: Types of Collateral Provided

<table>
<thead>
<tr>
<th>Types of collateral provided</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages</td>
<td>20</td>
<td>26.3</td>
<td>26.3</td>
<td>26.3</td>
</tr>
<tr>
<td>savings</td>
<td>45</td>
<td>59.2</td>
<td>59.2</td>
<td>85.5</td>
</tr>
<tr>
<td>House</td>
<td>11</td>
<td>14.5</td>
<td>14.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings

The table above indicates that 59.2% of the respondents used savings as collateral for the loan while 40.8% used wages and personal house as collateral for the loan. The type of the loan sought determines the collateral to be used. For example, respondents who needed business loan had to use their savings as collateral than those who needed a loan for say household purpose.

### Table 10: Obtained Group Loan

<table>
<thead>
<tr>
<th>Response of respondents on obtained group loan</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>40</td>
<td>52.6</td>
<td>52.6</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>36</td>
<td>47.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings

The table above shows that 47.4 percent of the respondents obtained individual loans while 52.6 percent obtained group loans. From the statistical perspective, group loans are more supportive than individual loans.

### Table 11: Satisfaction of Loan Terms Conditions and Repayment

<table>
<thead>
<tr>
<th>Satisfaction of loan terms conditions and repayment</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Yes</td>
<td>52</td>
<td>68.4</td>
<td>68.4</td>
</tr>
<tr>
<td></td>
<td>No</td>
<td>24</td>
<td>31.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Research findings
The table above shows that 68.4% of the respondents are satisfied with the loan requirements and repayment schedule whereas 31.6% of respondents are not satisfied with the lending requirements and repayment schedule. Those who were not satisfied with the loan requirements said that there was too much paperwork involved in accessing the credit. The respondents cited lack of grace period to allow them make proper repayment arrangements.

Table 12: Kind of business activity Loan borrowers are engaged in

<table>
<thead>
<tr>
<th>Business activity engaged in</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Transport</td>
<td>41</td>
<td>53.9</td>
<td>53.9</td>
<td>53.9</td>
</tr>
<tr>
<td>commercial activities</td>
<td>35</td>
<td>46.1</td>
<td>46.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>76</td>
<td>100.0</td>
<td></td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 13: Any Kind of Training Received from COPEDU PLC

<table>
<thead>
<tr>
<th>Any kind of Training received from COPEDU PLC</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>76</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The table above shows 53.9 percent of the respondents are engaged in transport services while 46.1 are engaged in commercial activities. This is evident that microfinance borrowers put their money into business to generate profit and improve their livelihood.

REFERENCES

http://www.grameen.info.org/mcredit
Abstract: **Purpose:** This paper aims to explain a new system of accounting for partnership financing that applies in Rastin Profit and Loss Sharing Banking. In this system, the interest rate is not used in calculations and accounting, and instead, the “time value” of capital based on the amount and duration of the partnership is used. In this part, we will go to the details of Mudarabah accounting details.

**Design:** Rastin Partnership Accounting principles have been founded on off-balance-sheet items and on the basis of the institutions’ obligations to the depositors and receivers of financial resources, and they are in compliance with the nature of the financial intermediary activity (a partnership of depositor in the yields of the fund receiver via the bank).

**Findings:** The distribution of profit among stakeholders (including workforce and capital owners) is accomplished according to the share of each beneficiary in the created value added. In this regard, Euler’s theorem, as the best mathematical-economic innovation for distribution of income is applied.

**Research limitations:** This system is novel, and it is required to be more elaborated for further practical development and adjustment.

**Keywords:** rastin banking, profit and loss sharing (PLS), partnership, profit distribution, accounting, islamic banking, musharakah.

**GJMBR-C Classification:** JEL Code: P45
Rastin Partnership Accounting Part II: Mudarabah Financial Sharing (MFS)

Bijan Bidabad

Abstract: Purpose: This paper aims to explain a new system of accounting for partnership financing that applies in Rastin Profit and Loss Sharing Banking. In this system, the interest rate is not used in calculations and accounting, and instead, the “time value” of capital based on the amount and duration of the partnership is used. In this part, we will go to the details of Mudarabah accounting details.

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Research limitations: This system is novel, and it is required to be more elaborated for further practical development and adjustment.

Practical implications: In this accounting system, the return of the partnership is distributed among sharers based on the amount and duration of their partnership. The penalty for delay in payment is calculated from the sum of the incurred loss due to negligence or blameworthy of the undertaker and not upon a penalty interest rate.

Social implications: Interest rate as an essential factor in conventional accounting is not usable in Islamic banking and other similar institutions that work based on partnership, such as mutual funds and saving and loan associations. The proposed system removes this shortage and is fairer than the conventional accounting.

Originality/value: Approach of this accounting system is fully different from the conventional accounting, because of intrinsic characteristics of the intermediary role of financial partnership institutions and Islamic banks.

Keywords: rastin banking, profit and loss sharing (PLS), partnership, profit distribution, accounting, islamic banking, musharakah.

1. Introduction

In the first part of the paper, we discussed Profit and Loss Sharing (PLS) accounting experiences, and we introduced the Rastin Partnership Accounting principles and operations. We also showed that how this new accounting system can be used for the “Funds with Variable Capital”. It was also addressed that how this accounting system deals with change in timing due to non-performance of the commitments.

In this part, the continuing topics of Rastin Partnership Accounting in Mudarabah Financial Sharing (MFS) accounting are discussed. Mudarabah Financial Sharing (MFS) provides the conditions for depositors to share in the commercial project of an entrepreneur. MFS is a financial subsystem2 of Rastin Profit and Loss sharing (PLS) banking system and works under general instructions, organisations, operating procedures, electronic software, contracts and related forms of Rastin PLS banking.

The rate of return determination in this kind of sharing – whether the bank is public or private- is the return rate of the real economy. Bank receives a commission fee. In the case, that bank is interested in depositing in a project, of course, will receive profit

2 - Financial Subsystems of Rastin PLS Banking system refer to different defined financing methods and services. These subsystems are governed by Rastin PLS Base System's regulations.


share in proportion to its further fund depositing. The agent (entrepreneur/Mudarib) is a real person or legal entity who receives the money resources of depositor through the bank and according to the contract starts particular Mudarabah activity. The depositor will fund the Mudarib and Mudarib provides adequate guarantees to the bank for assuring to conduct his job properly. Trustee unit is a unit in Rastin PLS office of the bank that monitors the project implementation.

"Mudarabah Certificate" as well as "Periodic Mudarabah Certificate" are used as new financial innovations in MFS. Mudarabah Certificates are anonym certificates with a nominal price that are issued by Rastin bank for the specified period of the project. The owners of these certificates which are kinds of Rastin Certificates share the profits of Mudarabah business in proportion to the nominal price of the certificate and the period duration they had depositing. These certificates are issued digitally over the web to provide web-based digital transactions. The holders of this certificate can transact it on the web or over the counter of PLS bank branches. Therefore, these certificates can be negotiated internationally.

"Periodic Mudarabah Certificate" is a kind of "Mudarabah Certificate", but depositor receives her/his profit periodically and entrepreneur can do the business multiple times with the fund of the depositor.

By applying to the web information portal of Rastin Certificate Market, or a Rastin PLS bank branch, depositor acquaints with depositing and dispensing through consulting with bank expert and selects the project she desires. By depositing and after signing and registering the contract, the web-based system automatically issues the certificate. At the end of the project, the accounting/auditing unit will calculate and pay the profit to the certificate holder.

By applying to a bank branch, Mudarib also offers his Mudarabah project proposal to the bank. Then, while informing the Mudarib (entrepreneur) about the conditions and regulations concerning participation through web information portal of Rastin Certificate Market (RCM) or information counter of Rastin PLS bank branch, the registration fee (according to instruction) with the written project proposal, and economic, technical and financial justification of the project will be received from the Mudarib.

The assessment unit of the PLS bank will assess the credibility of the agent on the basis of the available historical background of the Mudarib and according to the compiled instructions if the Mudarib possesses required technical and other capabilities, will report to project assessment unit. If the assessment report is positive, the necessary guarantees and collaterals will be determined according to instructions. After signing a contract with the Mudarib, bank delivers the requested fund to the Mudarib according to a Mudarabah contract. All the Mudarabah documents according to the agreement including the details of Mudarabah merchandise, budgeting, timetable, needed resources, and the method of consumption of resources and implementing the project, phasing, quality control and reporting and finishing the project will be given to the trustee unit of the PLS office of the bank. The monitoring reports of trustee unit will be delivered to accounting/auditing unit at pre-determined intervals. The trustee report will be the basis for final Mudarabah settlements. At the end of the project or at the specific periods, accounting/auditing unit of the PLS office of the bank will compute profit or loss and bank commission fee according to the compiled instructions. The share of depositor and Mudarib will be carried to their accounts. If there were a stoppage report provided by the trustee, the resulted losses would be calculated according to the compiled instructions.

II. **Mudarabah Contract**

In Islamic *Fiqh* (jurisprudence) it is a transaction contract between two persons according to which a person conducts economic activity by the money of the another person, and the derived profit is divided according to pre-agreed ratios. On the other words, *Mudarabah* is a contract between depositor (capital owner) and Mudarib (entrepreneur/agent) for conducting economic activity by the depositor’s capital and dividing the profit by an agreed percentage among them. If the business ends to benefit, it will be split between the two, but if it ends with a loss, only the entrepreneur’s loss is his unfruitful efforts. Except in the case that it is proved that agent’s fault caused the loss. In *Mudarabah* there is the condition that the depositor should accept the probable loss; otherwise, the contract will not be a *Mudarabah* deal, but it is a loan. If it is agreed to transfer all the profit to the owner of capital, again the contract will not be a *Mudarabah* one, but an *Ibza*. Defining the shares of profit of each party is of essential conditions of a *Mudarabah* contract. *Mudarabah* contract has two sides and it needs that the both side approve the contract and its conditions.

Some jurists believe that the capital of *Mudarabah* should be in cash, and conducting *Mudarabah* with commodities is not valid. On the other

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3 - In *Ibza* the agent works for the owner of capital and earns wage.
5 - Civil Act, article No. 547.
hand, by restricting the definition of Mudarabah, some jurists believe that Mudarabah should only be used in commercial activities. Of course, these beliefs do not reject original rules and conditions of the contract; and types of the Mudarabah contract can be made by goods as capital, or be made on the other non-commercial activities. On the other words, there is no reason to limit all contracts to contracts in fiqh books and as narrated contracts; therefore, even if the capital is non-cash, and it is not considered as a Mudarabah contract, though the contract is yet legal and valid. The narration-based reasoning for Mudarabah is based on epithet (iaqab) concept, which is the weakest logic in fiqh and is not a proof. On the other side, there are some narrations that goods can be regarded as the capital of Mudarabah.

Some of the Sunni jurists admit goods Mudarabah by evaluating the price of goods and considering the price as the Mudarabah capital, or if a debt were created by transacting measurable/weighable property, it would be quite similar to cash money, and the Mudarib (agent) receives what he is rightful and accordingly, there will be no guarantee-less profit (Rebhe-la’yoZman). In addition, it is possible for Mudarib to give back the original capital (commodity) at the end of Mudarabah.

Mudarabah is a definite and revocable contract. The Civil Act of Iran prescribes: “Mudarabah is an agreement according to which one party of the contract provides the capital and the other party should do business with it and divide the profit between them. The share of each side in the profit should be clarified from the joined ownership such as a quarter, a third or else. These shares should be determined before unless it were generally known, and if it is not defined by the parties, it is considered as a common general case. It is also mentioned in the Iran’s Civil Act that the subject of Mudarabah might be any general unconditional business activity - if any particular event is not referred to in the contract. Mudarib (agent) will work as an amin (trustee) and therefore s/he is not a guarantor of the owner’s capital, except he has wasted or oppressed it. As another condition of Mudarabah, the capital is to be specified. If someone provides the money and conditions that all the profit should be returned to him, the other side only receives a commission; unless it is proved that, the Mudarib has carried out the task freely. If it is conditioned in the contract that the agent is responsible and guarantor for the Mudarabah capital, then the contract will be nullified unless it has been said that the Mudarib compensates the losses freely from his own wealth.

III. Mudarabah Financial Sharing (MFS)

Civil Act defines the legal basis of Mudarabah Financial Sharing (MFS). In addition, other regulations and measures have been ruled on the detailed application. Accordingly in Mudarabah Financial Sharing (MFS), one party provides the money, and the other one trades with that money, and the profit is shared. The necessary activities to be carried out by the agent (Mudarib) should be defined in the contract. The agent can be a real person or legal entity as well. The MFS activity should be carried out under the general instructions of Rastin PLS Banking Base System unless the deviation from it is mentioned.

In MFS, bank obtains the Mudarabah project proposal from Mudarib. After careful assessing of the project proposal and agent capability and reliability according to compiled instructions, the project proposal is introduced to depositors; and by issuing Mudarabah Certificates bank will provide the necessary fund for Mudarabah activity. Bank allocates the resource to entrepreneur and Mudarabah starts under the supervision of bank’s trustee unit, and after the end of Mudarabah activity, the bank pays the principal capital and profit shares back to depositor and agent, and the bank receives its commission. If the business fails to obtain profit, the bank will receive no commission fee. The issuance and transaction of Mudarabah Certificate are according to Rastin PLS banking instructions.

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7 - Khomeini, Seyyed Rouhul-Allah Musavi; Tahrir-ul-Vasileh, Qom, Islamic Publication Institute, 1420 Lunar Hijri.
8 - Article 560, Civil Act: Mudarabah contract follows the conditions and regulations considered between two sides of the contract.
9 - Epithet is discussed in Feqh Principles. It is to say that if a title or name is the subject of a commandment, what is not generally covered by this name, is not included in that commandment. Muzaffar, Muhammad Reza, Osoule Feqh, vol. 1, Ismaelian publication.
11 - This is a kind of profit for which the person has no guarantee about it.
13 - Article 550, Civil Act of Iran.
14 - Article 546, Civil Act of Iran.
15 - Article 548, Iran Civil Act.
16 - Article 549, Iran Civil Act.
17 - Article 553, Iran Civil Act.
18 - Article 556, Iran Civil Act.
19 - Article 557, Iran Civil Act.
20 - Article 558, Iran Civil Act.
Mudarabah subject is a commerce (trade) to be carried out in following fields:

a. Transaction of merchandise inside the country (domestic trade)
b. Exporting merchandise for selling abroad (export)
c. Importing merchandise to sell in the country (import)
d. Importing merchandise to re-export (transit)
e. Interchanging foreign trade merchandise (swap).

The Mudarabah capital is defined by acceptable costs (including the price of buying goods for Mudarabah, insurance, transportation, warehousing, packaging, order registration, customs, commercial and banking fees) for the buying and selling period. Depositing a percent of import value, as the guarantee banking fees) for the buying and selling period. This payment should be carried out by the agent himself.

Other related and different unexpected costs are acceptable if the Rastin bank’s trustee unit confirms their necessities; otherwise, they should be paid by the agent. The cash capital of Mudarabah is given to the Mudarib (entrepreneur) all in once or in different prespecified stages.

If the trustee unit of the Rastin Bank accepts the entrepreneur’s request for further funds, because of increase in some of the above-mentioned agreed costs or price increase, this will be financed through complimentary contract according to the compiled instruction. If it is necessary, the bank will decide about additional collaterals. Financing new fund will be through issuing new Mudarabah Certificates for the new depositors to apply for the same project.

Duration of the contract is proportional to a full period of buying and selling of the Mudarabah merchandise. Export Mudarabah contract length is determined by considering the maturity of the letter of credit (LC) and its length should be more than the former. Mudarabah duration can only be extended by providing documents to the trustee unit of the Rastin Bank about the occurred delay according to the instructions of Rastin PLS Banking and trustee unit approval. However, this period should not be set longer than 6 and 9 months for internal and external trade contracts respectively.

All bank supervisions will be carried out by trustee unit. All the sell receipts will be transferred to a particular account of the bank immediately. The agent should promptly inform the trustee regarding his purchase, and the trustee will supervise his warehousing and sale. The trustee is obliged to monitor the flow of the purchased merchandise from the supplier to storehouse and details of sell and outgoing from the store. Mudarib is bound to inform the trustee unit of the PLS office about all physical movement of the merchandises from the place of sale to storehouse, loading and delivery of merchandise and move it by trustee unit permission. If there is a delay, fault, violation, or other similar troubles, the trustee unit of the PLS office will reconsider the competency of the agent to preserve the rights of the depositor.

The Mudarabah capital will be in ownership of bank to preserve the depositor’s rights. After receiving information about the stoppage of Mudarabah activity, or bankruptcy of agent, the bank will promptly provide a list of merchandise and confiscates it into the hands of the bank. Then, by selling goods under the supervision of the trustee, the bank will settle the claims of the depositor. The Mudarib allows the bank with an irrevocable attorneyship power for after his death to permit the bank to refer to his firm, storehouse or other places related to the subject of Mudarabah, and confiscates the related merchandise, and draw depositor claim from his accounts in any bank to perform his obligations and settle the contract if necessary.

The organisational structure applied in MFS banking, its processing procedures, regulations and instructions and requirements designed for the bank, depositor, Mudarib and necessary regulatory structure work under Rastin PLS banking regulations. Rastin PLS banking organization is defined in chart framework of “Rastin PLS Banking Leading Committee”, “Reviewing Group for Rastin PLS Banking Regulations” and “PLS Office”21, together with “Legal Unit”22 and “Assessment Unit” and “Trustee Unit” and “Auditing and Calculation Unit”23 and “Financial Engineering Unit”24 and “PLS Branch” with “Cashier Section” and “Information and Consulting Section”. The same organisation will be used for MFS.

a) Apportionment of Benefit between Depositor and Mudarib

Dividing profit between Mudarib and depositor is one of the significant Mudarabah problems. Traditionally, this splitting is made by mutual agreement, but it is not possible to leave the decision to bank branches, and it is necessary to compile special regulation for it. Before discussing this subject, we should consider that Mudarabah activity is a process, which creates value added in economic concept and in the framework of national accounting is considered as the production of goods and services.

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21 PLS Office: It is a bank department that along with subordinate units manages participation processes in Rastin Banking.
22 Legal unit is a unit in PLS office in of Rastin Banking and includes awarded insurance and law experts in Rastin Profit and Loss Sharing Banking.
23 Auditing and Calculation Unit is a unit in PLS office of Rastin PLS bank and includes accountants and auditing experts.
24 Financial engineering unit is a unit in PLS office of Rastin PLS bank for supervision on Rastin Certificat Market and information disclouser of the entrepreneur.
Different schools of thoughts have differences of opinion about the value of work along the history, and different people believed different sources for the creation of value. Their points of view in different schools of thoughts are so different that some of them think that labour is not a source of value creation, and others believe that labour is the sole source of value creation.

Physiocrats were the pioneers who discussed the source of “value added” and extended it from transaction to production. They considered value in a frame of material tangible goods with the meaning of “use value”, not trade value. Thus, the concept of value added was just in the form of the value of production against the value of goods used to produce the commodity, which is called “net production”, and only exists in the agriculture and farming sector. According to Physiocrats’ belief, that only shape of materials changes in manufactory and no added value is created in industry, and the only farmer creates added value.

In Marxian literature, “The theory of value” is described as the amount of used human labour that is equal to the value of goods, and labour should produce relative added value in addition to the goods’ absolute added value in the competitive scene. In order to create relative added value, his personal value of produced goods should be less than his current social value of that product. In creating absolute added value, the labour should use capital. Producing absolute added value is a material manifestation of capital by labour. If we regard total production process from a production viewpoint, production means are the tools by which production takes place according to Karl Marx and his descendants; and it is only the labour, which is creative. As far as work is an individual process, a worker carries out all the work until the product is made and a human being has not hegemony on nature by his own solely, and force the nature to create crops as Physiocrats asserted. Therefore, the direct production of a single worker will change into a joint production of labours. According to the Marxist viewpoint, the concept of capitalistic production is not just the production of goods, but it is derived from a surplus value. The labour is not producing for himself alone, but for the capital owner and increase of his wealth, and he is not just producing, but he is also producing surplus value.

In Ricardo viewpoint, surplus value is an inherent and inseparable part of the capitalistic production. Ricardo is not searching for the very reason of the existence of surplus value but he is looking for the cause that defines the amount of this value. Mercantilists believed that the surplus price of goods over its production cost is because of the transaction and selling it at a price above its original value. John Stewart Mill believed that the origin of profit is the excess production of labour more than his own sustenance needs and the reason for the creation of profit from capital is because of the durability of raw materials and production means more than the time required for producing them. Hence, according to this economic school of thought, profit is not created by the transaction, but it is because of productivity power of labour.

These theories have not the applicational merit for distribution of the outcome of Mudarabah, but the neoclassical microeconomic firm theory has an extensive and profound analytical base that can be used for this problem. In simple words, according to the neoclassical opinion, “firm” is a place, which produces goods by using factors of production of labour and capital. The production function of the firm is a mathematical presentation of the relation between labour, capital and product. Consider a Mudarabah procedure in which Mudarib uses two variable factors of production: capital of the depositor (K) and labour work of Mudarib (L) together with his own fixed production factor to produce value added (from a business). The Mudarabah value added (Q) as a mathematical function of variable factors of production as capital (K) and labour (L) will be as follows:

\[ Q = f(L, K) \] (1)

The above function is defined without fixed factor of production, and the amount of production is defined by variable factors of production L, and K. The production function is defined for an exclusive period in which the fixed cost does not enter into calculations. That is investment does not change. The applied technology, technical information of the entrepreneur

25 These topics are discussed in history of economic thoughts.
26 Physiocrats did not believe to social concept of value and “surplus value” in Marxian literature.
27 Physiocrats believed that this is because of the power of growth in plants, which is seen only in agriculture and not in industry. In their view, the added value is not because of labour, but it is created by the cooperation of land and nature and it is the creativity or fertility power of the land which changes the amount of planted seeds to larger amounts of seeds. Accordingly, the dividend of proprietor or additional value in agriculture is a natural endowment that is because of relationship of human being and land, and not because of his social relations.

29 For more detailed discussions see microeconomics books, specially:
about using capital, is included in the mathematical form of the production function. Usually, the production function is assumed to be a continuous non-negative, single-valued, increasing function in the domain and regular strictly quasi-concave. The scope of entrepreneur and his activity and capital of depositor are defined for a specific period. The period in which the amount of L and K and thereof the Mudarabah function are defined has three constraints: Firstly, this time must be so short, in which entrepreneur cannot change the fixed factor of production. Moreover, it should be so short that the production function might not be modified because of improvement of Mudarabah technology. Thirdly, it should be so long enough to cover all the process of Mudarabah. The marginal efficiency of factors of production or the labour of Mudarib (entrepreneur) and the capital of depositor are defined as MP$_L$ and MP$_K$ respectively:

$$MP_L = \frac{\partial Q}{\partial L} = f'_L (L, K) = f_L$$

(2)

$$MP_K = \frac{\partial Q}{\partial K} = f'_K (L, K) = f_K$$

The “decreasing marginal productivity of factors of production” rule explains that increasing the amount of a variable production factor will increase its marginal productivity for first, and then after diminishing point of return decreases the marginal productivity of that factor. That is the more use of that variable production factor, after reaching a point of production; the lower will be the amount of extra production. This rule has particular effects on the Mudarabah profit distribution, which can be confined from the forthcoming profit distribution relation.

The term “Economies of scale” explicates the method of proportional increase in all factors of production. If Mudarabah is increased commensurate with labour and capital increments, the economies of scale in the specified range of their combination is fixed. The increasing return to scale can be seen when the increased use of production factors leads to more production increment, and it is decreasing when it leads to a lower increase in production. “Return to scale” is defined by the concept of homogeneity. A homogeneous production function has a degree of “$j$” if:

$$f(tL, tK) = t^j . f(L, K)$$

(3)

Increasing the depositor capital factor of production and Mudarib labour factor of production by $t$ times for amounts of $j>1$, $j=1$, $0<j<1$, the return to scale will be increasing, constant and decreasing respectively. Moreover, a linear production function can be obtained from a collection of linear simultaneous activities. Linear production functions are homogeneous of degree one and hence, have constant returns to scale. The concept of homogeneity of production function means that if an increase (or decrease) in all factors of production occurs proportionally, production will increase (or decrease) proportionally as well. If production increase was proportional to the increase of production factors, the production function is homogeneous of degree one. When production increase was less than the increase of production factors, the homogeneity is less than one. Otherwise will be greater than one. In these cases of homogeneity of degree one, less than one and greater than one, the return to scale will be constant, decreasing and increasing respectively. This condition in the production function is mathematically confined by equation (3).

The assumption of homogeneity of degree one in the Mudarabah function is entirely rational and meaningful and by this assumption we can obtain a way for distribution of the yields of Mudarabah by Euler theorem. In other words, in the case of homogeneity of degree one, if all production factors increase/decrease proportionally, the production amount will also increase/decrease proportionally. In this case, because of the stability of average productivity of production factors, total productivity will not change. Euler’s theorem explicates that the following equation is established in homogeneous production function of degree $j$:

$$L . f_L + K . f_K = j . f(L, K)$$

(4)

Substitution of (1) into (4) and assuming $j=1$ (homogeneity of degree one), the following relation is reached:

$$L . f_L + K . f_K = Q$$

(5)

According to this theorem, we can understand that the total value of Mudarabah is equal to the sum of multiplication of marginal production of the labour of Mudarib ($f_L$) by his labour ($L$) and marginal production of the capital of depositor ($f_K$) by the amount of her/his capital ($K$). On the other words, if we want to distribute the yield of Mudarabah according to the marginal function is homogeneous of degree one.

---

30 - This point is the intersection point of average and marginal productivity curves.

productivity of labour and capital, the total outcome exhausts. Euler’s theorem has a basic role in marginal production theory, and each production factor will receive its marginal production and Mudarabah yield is distributed accordingly. It should be mentioned that the homogeneity of degree one causes the Mudarabah function to be homogeneous as well. In other words, let \( \pi \) be the profit of Mudarabah, we have:

\[
t\pi = f(tL, tK) - tL - tK
\]  

(6)

This means that if the amount of entrepreneur’s labour work and depositor’s capital increase at the same ratio, the Mudarabah profit will increase proportionately.

By means of this analysis, we can compute the share of depositor and Mudarib according to the ratio of marginal capital and labour productivities by using the following formulas. In the following relation, the capital value is the Mudarabah sharing capital; and the marginal productivity of labour is Mudarabah profit, and the value added is the profit of the sale, and the value of the sold merchandise is the amount of Mudarabah commodity sold. In other words, we have:

\[
K + L = Q = C + V
\]  

(7)

That is the total value of added (\( V \)) plus cost (\( C \)) is equal to Mudarabah value (\( Q \)) and is equal to the values of labour (\( L \)) and capital (\( K \)). This is because:

\[
\pi = V
\]  

(8)

This means that the value added equals to Mudarabah profit, and the value of the sold merchandise is equal to the sum of value added and cost:

\[
C + V = Q
\]  

(9)

Therefore, the value of the Mudarib labour will be equal to the value of the sale value of merchandise minus the capital of depositor:

\[
L = Q - K
\]  

(10)

Therefore, the profit share of depositor from the created value added (\( R_L \)) is equal to the ratio of the depositor’s capital to the value of the sold merchandise and the profit share of the entrepreneur from the created value added (\( R_K \)) is equal to the ratio of the value added to the value of the sold merchandise. In other words:

\[
R_L = \frac{V}{Q}
\]  

(11)

\[
R_K = \frac{K}{Q}
\]  

(12)

The profit share of the depositor (\( \pi_L \)) and the entrepreneur (\( \pi_K \)) are obtained by multiplication of their profit shares into their corresponding values added. That is:

\[
\pi_L = R_L \times V
\]  

(13)

\[
\pi_K = R_K \times V
\]  

(14)

Accordingly, each part of the Mudarabah (depositor and entrepreneur) share proportionately to their productivity ratios in producing value added. On the other words, if we sum up the above-mentioned relations, we will get the following relationship in which, the value added is equal to the total productivity (output) of labour and capital:

\[
\pi_L + \pi_K = V
\]  

(15)

which is compatible with Euler’s theorem of distribution of value added between labour and capital according to the marginal productivity of labour (Mudarib) and capital owner (depositor). Therefore, the amount received by the depositor for the principal and profit of the activity will be:

\[
P_K = \pi_K + K
\]  

(16)

That is the amount of payment to the depositor at the end of Mudarabah is equal to the sum value of his original capital plus his profit. The amount paid to Mudarib will be equal to his profit share:

\[
P_L = \pi_L
\]  

(17)

The sum of the above two relations shows that after the end of Mudarabah and reimburse of principal capital and distribution of Mudarabah profit, the sum of the payment to the entrepreneur and payment to the depositor is equal to the total value of depositor’s capital and profits of depositor and entrepreneur:

\[
P_L + P_K = \pi_L + \pi_K + K
\]  

(18)

On the other hand, the total amount paid to depositor and Mudarib is equal to the total value of depositor capital and Mudarabah profit:

\[
P_L + P_K = \pi + K
\]  

(19)

b) Mudarabah Financial Sharing (MFS) Accounting

In order to provide the financial facilities and allocate the resources, needed for commercial projects, the bank can employ the subsystem, of Mudarabah Financial Sharing (MFS). On behalf of the depositor, the bank will sign a mudarabah contract with the entrepreneur and as an intermediary, and will give the deposit of the depositor to the entrepreneur (i.e., the mudarib) in order to perform the mudarabah; moreover, the bank will monitor the entrepreneur’s operation and on the other side, will surrender the Mudarabah Certificate or the Periodic Mudarabah Certificate to the depositor. After accomplishing the mudarabah financial process, the bank will share the gained profit or loss between the depositor and the mudarib after deduction of the bank’s commission (if any profit realised). The
main subject of mudarabah in Mudarabah Financial Sharing (MFS) is to use the depositor’s capital by the entrepreneur (mudarib) for the purpose of selling and buying (business), which can be carried out via domestic commerce, export, import, re-export, transit, and swap.

The ratio of the profit share of each party (the entrepreneur and the depositor), of the value added of the mudarabah operation, will be determined according to the return ratio of capital and labour, via the following formulas: in the following relations, the capital value means the depositor’s partnership capital, the return rate of the mudarib’s labour means the profit obtained from mudarabah, the value added means the benefit yielded from sales, and the value of sold goods means the total sales of goods.

The depositors’ profit share of the value added will be equal to the ratio of the depositors’ capital value divided by the value of sold goods. Also, the entrepreneur’s profit share of the value added will equal to the ratio of the value added divided by the amount of sold goods; thus:

\[
\text{Depositors’ profit share} = \frac{\text{Depositors’ capital value}}{\text{Sold goods amount}}
\]

\[
\text{Entrepreneur’s profit share} = \frac{\text{Value added}}{\text{Sold goods amount}}
\]

The depositors’ and the entrepreneur’s profit will be obtained by multiplying their profit shares by the created value added; hence:

\[
\text{Depositors’ profit} = \text{Depositors’ profit share} \times \text{Value added}
\]

\[
\text{Entrepreneur’s profit} = \text{Entrepreneur’s profit share} \times \text{Value added}
\]

Accordingly, each party (the depositors and the entrepreneur) will take a share of the value added, based on its return ratio. After calculation of each party’s profit, the settlement process with the depositors and the entrepreneur will be proceeded as below:

\[
\text{Payment to depositors} = \text{Depositors’ profit} + \text{Depositor’s deposit}
\]

\[
\text{Payment to entrepreneur} = \text{Entrepreneur’s profit}
\]

After performing the calculations and the sharing process, the bank’s commission will be deducted in favour of the bank from the value-added resulting from the mudarabah, based on the depositor’s and the entrepreneur’s profit shares and the full resources financed, and will be remitted to the bank’s account. The bank’s commission will be receivable, only if any value added has been realised in the partnership operation. If the bank PLS office and the entrepreneur agree upon the equal sharing of the mudarabah profit between the depositor and the entrepreneur, the entrepreneur will be obliged, at the time of contract signing, to buy the Mudarabah Certificate of his/her own project, equal to half of the nominal value of the deposit, minus the predicted value added in the project proposal.

The original deposit and the value added of each depositor (in accordance with the mudarabah subject and terms and conditions), will be calculated, distributed, and paid to depositors, based on the “term share” (resulted from the nominal amount and the partnership duration) of the Mudarabah Certificates (issued for each project according to the provisions of Rastin Banking regulations (Rastin Partnership Accounting)). Hence:

\[
\text{Share of the depositor (Mudarabah Certificate holder), of the value added} = \frac{\text{Duration of Mudarabah Certificate} \times \text{Nominal amount of Mudarabah Certificate}}{\text{Total amount of Mudarabah Certificates issued for the project} \times \text{Nominal amounts of Mudarabah Certificates}}
\]

If for a project, all Mudarabah Certificates are issued once and on the same date, the above-mentioned formula will be simplified as below:

\[
\text{Share of the depositor (Mudarabah Certificate holder), of the value added} = \frac{\text{Nominal amount of Mudarabah Certificate}}{\text{Total nominal amounts of Mudarabah Certificates, issued for the project}}
\]

The selling price of goods in the project proposal will be predicted based on the predicted price and market conditions. The entrepreneur will be obliged to confirm the real price of the day of selling goods with the trustee unit. The trustee unit will investigate the mentioned price and adjust it with the market price...
quote and then, will issue the permission for selling goods at a price declared by the entrepreneur.

*** To be continued in Part III ***

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Preferred Author Guidelines

We accept the manuscript submissions in any standard (generic) format.

We typeset manuscripts using advanced typesetting tools like Adobe In Design, CorelDraw, TeXnicCenter, and TeXStudio. We usually recommend authors submit their research using any standard format they are comfortable with, and let Global Journals do the rest.

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3. Ensure corresponding author’s email address and postal address are accurate and reachable.
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5. Authors should submit paper in a ZIP archive if any supplementary files are required along with the paper.
6. Proper permissions must be acquired for the use of any copyrighted material.
7. Manuscript submitted must not have been submitted or published elsewhere and all authors must be aware of the submission.

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Acknowledgments

Contributors to the research other than authors credited should be mentioned in Acknowledgments. The source of funding for the research can be included. Suppliers of resources may be mentioned along with their addresses.

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Preparing your Manuscript

Authors can submit papers and articles in an acceptable file format: MS Word (doc, docx), LaTeX (.tex, .zip or .rar including all of your files), Adobe PDF (.pdf), rich text format (.rtf), simple text document (.txt), Open Document Text (.odt), and Apple Pages (.pages). Our professional layout editors will format the entire paper according to our official guidelines. This is one of the highlights of publishing with Global Journals—authors should not be concerned about the formatting of their paper. Global Journals accepts articles and manuscripts in every major language, be it Spanish, Chinese, Japanese, Portuguese, Russian, French, German, Dutch, Italian, Greek, or any other national language, but the title, subtitle, and abstract should be in English. This will facilitate indexing and the pre-peer review process.

The following is the official style and template developed for publication of a research paper. Authors are not required to follow this style during the submission of the paper. It is just for reference purposes.
Manuscript Style Instruction (Optional)

- Microsoft Word Document Setting Instructions.
- Font type of all text should be Swis721 Lt BT.
- Page size: 8.27” x 11”, left margin: 0.65, right margin: 0.65, bottom margin: 0.75.
- Paper title should be in one column of font size 24.
- Author name in font size of 11 in one column.
- Abstract: font size 9 with the word “Abstract” in bold italics.
- Main text: font size 10 with two justified columns.
- Two columns with equal column width of 3.38 and spacing of 0.2.
- First character must be three lines drop-capped.
- The paragraph before spacing of 1 pt and after of 0 pt.
- Line spacing of 1 pt.
- Large images must be in one column.
- The names of first main headings (Heading 1) must be in Roman font, capital letters, and font size of 10.
- The names of second main headings (Heading 2) must not include numbers and must be in italics with a font size of 10.

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)

A research paper must include:

a) A title which should be relevant to the theme of the paper.
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.
e) Resources and techniques with sufficient complete experimental details (wherever possible by reference) to permit repetition, sources of information must be given, and numerical methods must be specified by reference.
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.
k) There ought to be references in the conventional format. Global Journals recommends APA format.

Authors should carefully consider the preparation of papers to ensure that they communicate effectively. Papers are much more likely to be accepted if they are carefully designed and laid out, contain few or no errors, are summarizing, and follow instructions. They will also be published with much fewer delays than those that require much technical and editorial correction.

The Editorial Board reserves the right to make literary corrections and suggestions to improve brevity.
Format Structure

It is necessary that authors take care in submitting a manuscript that is written in simple language and adheres to published guidelines.

All manuscripts submitted to Global Journals should include:

Title
The title page must carry an informative title that reflects the content, a running title (less than 45 characters together with spaces), names of the authors and co-authors, and the place(s) where the work was carried out.

Author details
The full postal address of any related author(s) must be specified.

Abstract
The abstract is the foundation of the research paper. It should be clear and concise and must contain the objective of the paper and inferences drawn. It is advised to not include big mathematical equations or complicated jargon.

Many researchers searching for information online will use search engines such as Google, Yahoo or others. By optimizing your paper for search engines, you will amplify the chance of someone finding it. In turn, this will make it more likely to be viewed and cited in further works. Global Journals has compiled these guidelines to facilitate you to maximize the web-friendliness of the most public part of your paper.

Keywords
A major lynchpin of research work for the writing of research papers is the keyword search, which one will employ to find both library and internet resources. Up to eleven keywords or very brief phrases have to be given to help data retrieval, mining, and indexing.

One must be persistent and creative in using keywords. An effective keyword search requires a strategy: planning of a list of possible keywords and phrases to try.

Choice of the main keywords is the first tool of writing a research paper. Research paper writing is an art. Keyword search should be as strategic as possible.

One should start brainstorming lists of potential keywords before even beginning searching. Think about the most important concepts related to research work. Ask, “What words would a source have to include to be truly valuable in a research paper?” Then consider synonyms for the important words.

It may take the discovery of only one important paper to steer in the right keyword direction because, in most databases, the keywords under which a research paper is abstracted are listed with the paper.

Numerical Methods
Numerical methods used should be transparent and, where appropriate, supported by references.

Abbreviations
Authors must list all the abbreviations used in the paper at the end of the paper or in a separate table before using them.

Formulas and equations
Authors are advised to submit any mathematical equation using either MathJax, KaTeX, or LaTeX, or in a very high-quality image.

Tables, Figures, and Figure Legends
Tables: Tables should be cautiously designed, uncrowned, and include only essential data. Each must have an Arabic number, e.g., Table 4, a self-explanatory caption, and be on a separate sheet. Authors must submit tables in an editable format and not as images. References to these tables (if any) must be mentioned accurately.
Figures

Figures are supposed to be submitted as separate files. Always include a citation in the text for each figure using Arabic numbers, e.g., Fig. 4. Artwork must be submitted online in vector electronic form or by emailing it.

Preparation of Electronic Figures for Publication

Although low-quality images are sufficient for review purposes, print publication requires high-quality images to prevent the final product being blurred or fuzzy. Submit (possibly by e-mail) EPS (line art) or TIFF (halftone/photographs) files only. MS PowerPoint and Word Graphics are unsuitable for printed pictures. Avoid using pixel-oriented software. Scans (TIFF only) should have a resolution of at least 350 dpi (halftone) or 700 to 1100 dpi (line drawings). Please give the data for figures in black and white or submit a Color Work Agreement form. EPS files must be saved with fonts embedded (and with a TIFF preview, if possible).

For scanned images, the scanning resolution at final image size ought to be as follows to ensure good reproduction: line art: >650 dpi; halftones (including gel photographs): >350 dpi; figures containing both halftone and line images: >650 dpi.

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Tips for Writing a Good Quality Management Research Paper

Techniques for writing a good quality management and business research paper:

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.

2. Think like evaluators: If you are in confusion or getting demotivated because your paper may not be accepted by the evaluators, then think, and try to evaluate your paper like an evaluator. Try to understand what an evaluator wants in your research paper, and you will automatically have your answer. Make blueprints of paper: The outline is the plan or framework that will help you to arrange your thoughts. It will make your paper logical. But remember that all points of your outline must be related to the topic you have chosen.

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.

4. Use of computer is recommended: As you are doing research in the field of management and business then this point is quite obvious. Use right software: Always use good quality software packages. If you are not capable of judging good software, then you can lose the quality of your paper unknowingly. There are various programs available to help you which you can get through the internet.

5. Use the internet for help: An excellent start for your paper is using Google. It is a wondrous search engine, where you can have your doubts resolved. You may also read some answers for the frequent question of how to write your research paper or find a model research paper. You can download books from the internet. If you have all the required books, place importance on reading, selecting, and analyzing the specified information. Then sketch out your research paper. Use big pictures: You may use encyclopedias like Wikipedia to get pictures with the best resolution. At Global Journals, you should strictly follow here.
6. **Bookmarks are useful:** When you read any book or magazine, you generally use bookmarks, right? It is a good habit which helps to not lose your continuity. You should always use bookmarks while searching on the internet also, which will make your search easier.

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.

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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:

○ Single section and succinct.
○ An outline of the job done is always written in past tense.
○ Concentrate on shortening results—limit background information to a verdict or two.
○ 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:

○ Explain the value (significance) of the study.
○ 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.
○ Present a justification. State your particular theory(-ies) or aim(s), and describe the logic that led you to choose them.
○ 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.

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<th>A-B</th>
<th>C-D</th>
<th>E-F</th>
</tr>
</thead>
<tbody>
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<td><strong>References</strong></td>
<td>Complete and correct format, well organized.</td>
<td>Beside the point, Incomplete</td>
<td>Wrong format and structuring.</td>
</tr>
</tbody>
</table>
### Index

**A**
- Adequately · 43, 45

**C**
- Conglomerate · 1, 2, 4, 7, 8
- Conventional · 65
- Convergence · 1
- Credibility · 66

**D**
- Decayed · 5
- Delimitation · 55

**H**
- Haphazard · 2
- Hegemony · 69

**I**
- Inferred · 6, 7, 43
- Influenced · 3
- Infrastructure · 15, 23
- Intangible · 47
- Intermediary · 24, 65, 72
- Interpreted · 3
- Irrelevant · 40
- Isolated · 1

**M**
- Massive · 8, 41
- Monopolistic · 40

**N**
- Nullified · 67

**P**
- Paramount · 39
- Penetration · 21
- Persistent · 48
- Preceded · 39
- Preferable · 3
- Prespecified · 68
- Prevalent · 2
- Prominent · 6
- Pursuant · 25

**R**
- Radically · 1
- Reciprocal · 1
- Referential · 48
- Reimbursement · 59
- Relevance · 50
- Rigorous · 14

**S**
- Stewardship · 29, 42, 43
- Stringent · 22, 24, 28

**T**
- Tenuous · 45

**U**
- Urging · 14

**W**
- Wounding · 1