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Considerations regarding the Strategy for managing the Stock of Sovereign Debt of Romania

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Abstract

The paper aims an analysis of the evolution of the stock of sovereign debt of Romania in recent years, in the macroeconomic context of this period. The study aims to examine also the strategy for managing the different types of risks that are associated with public debt. At the same time, the work will result in purposeful sustainability studies of sovereign debt in the context of fiscal-budgetary strategy adapted by our Government in front of the community authorities and in front of our nation.

Keywords: sovereign debt, the stock of government debt, risk management, public debt, tax-budgetary strategy.

Introduction

Starting from the budgetary equilibrium concepts according to which "the loans granted from the State budget may be covered either on account of the final receipts, either on account of resources from the State's hiring of a long-term loan", (Talpoş, 1996, p.117) crystallized the concept of public or sovereign debt (Kamenaga, 2003, p. 239-263). As it was stipulated in the first law of public finances of budget deficits since 1989 cover shall be made by the Contracting State loans or issuing treasury bills, being prohibited from financing through coinage.

Research issue

The need to have information about the financial effort that makes a State, as a result of contracting of loans, is requested both, by the authorities as a manager of public debt, by lenders to know his client state solvency, as well as by citizens, ultimately the later benefiting from borrowed funds on public services, but the rates payers due public debt on the tax levies.

Literature review

The formulation of the concept of excessive indebtedness belongs to the economist Jeffrey Sachs (1984) who starts from the theoretical prediction that excessive debt is associated with the situation in which public debt service is directly proportional to its nominal value.

Recent works (Adam, 2011, p. 57-74) suspects that the Government debt has important implications for the conduct of monetary and fiscal policies. These considerations would induce risk budget necessity, which can provide important incentives to reduce quantitative public debt over time, but the optimal speed of debt relief is not necessarily reported in accumulated public debt levels.

For various reasons, may be significantly understated the speed optimal for debt reduction. First, constraints at the global level, the inequality of such loan limit implied by the Laffer's curve may provide additional incentives for debt relief.

W. Corden's model (1989, p. 243-257) aims to adjust excessive debt in the three sequences, because of the changes in national income distribution between consumption and investment, for the purposes of the levy in the second sequence of a larger investment.

The model proposed by Hoffman and Reisen (1990) starts from the model proposed by Corden, who added the international capital mobility hypothesis. The model of Hoffman and Reisen lies in appreciation of the constraints resulting from the debt-liquidity report. This constraint is represented graphically below.

Helpman, E., Frenkel, J., Dooley, M. and Wickman, P. propose a model that excludes the hypothesis that the consumption behavior is determined by the public and passes a decision for household's consumption.

The starting point in the model developed by D. Cohen (1989) is his Laffer's curve on the external public debt. At a certain level of tax

burden the effect is to reduce public revenue and not to increase it, as might be expecting from those who legislated the imposition.

The effect of the policy regarding the rate policy of the Central Bank on the cost of government debt was highlighted by the analysis conducted by G. Bloise and P. Reichlin (2008, p. 1721-1731) showing that, if the Central Bank stabilizes the nominal interest, the level of debt remains an undetermined cost, when at least part of the debt consists of debt securities with an infinite maturity, even under a regime of non-richardiane policy.

Research methodology

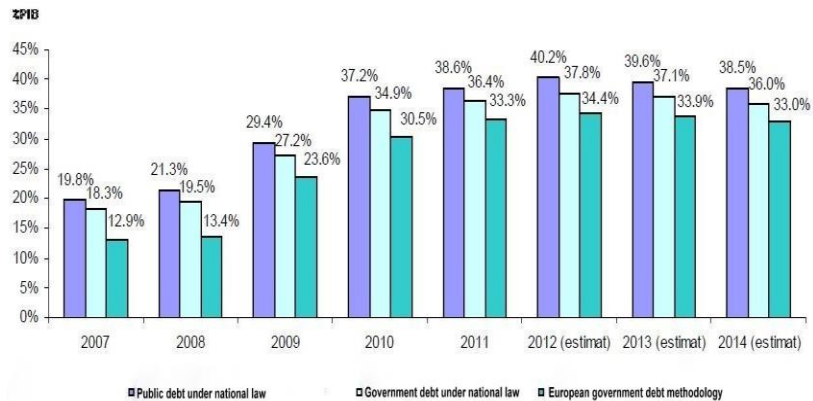
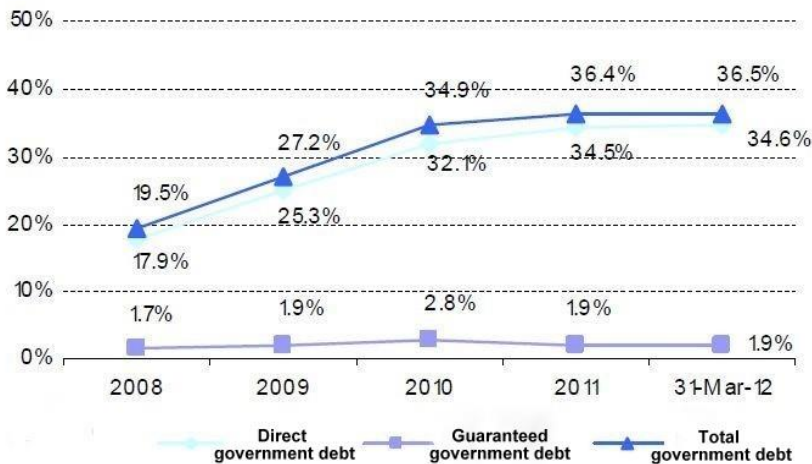
Production function Cobb-Douglas and utility function log-linear shows that there is a threshold for the initial stock of government debt at every level of government debt for public investments because of the deficit politics to be sustainable, and that threshold is increasing the stock of public capital.

Helpman model examines the interdependence of public debt and the level of investment in terms of the mobility of capital and then in its absence. In the first situation, the debt level for the purpose of the reduction has positive effect on the level of investments only where the business environment is not subject to an additional facility. In the second situation, the reduction in public debt is accompanied by increasing levels of investments only in conditions of a relaxed attitude about the risks from investors.

Laffer's curve leads to the conclusion that along with the increase in creditors' rights of public debt; it will be reducing the benefits received by them. Rational behavior of these would be in the vision of Cohen, to proceed with the restructuring of the debt so as not to lose the benefits due, the first step being in this case the determination of the maximum current value of anticipated future payments to be made by the debtor country.

Results of the study

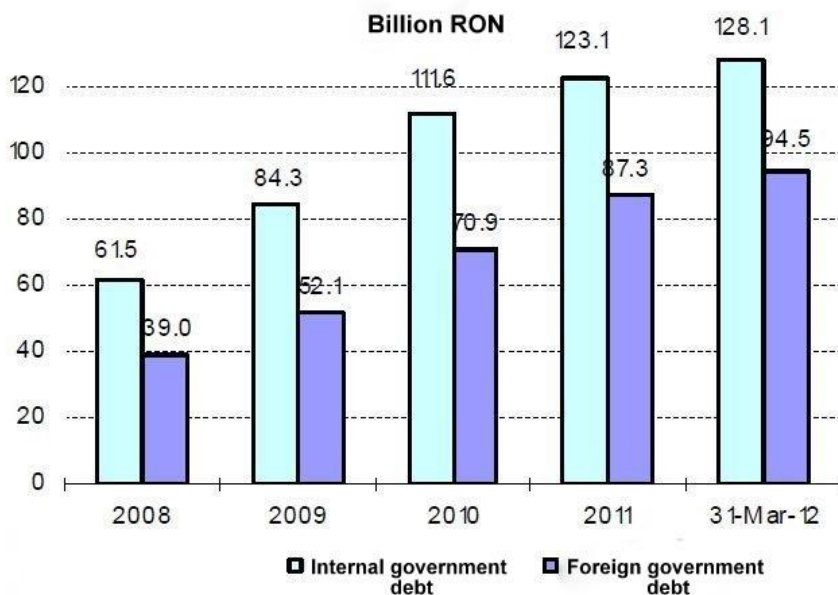
In the analyzed 2007-2014 period, the dynamics and structure of public debt in Romania has evolved as follow:

Fig. no. 1. Level government debt, %/GD (2007-2014)**Fig. no. 2.** Level government debt direct and guaranteed (2008-2012), %/GD

As shown in fig. no. 1, public debt in 2007-2014 could not overcome 40% from PIB (related to the requirements of the Stability and Growth Pact). It must be within reasonable limits, below 60% from PIB.

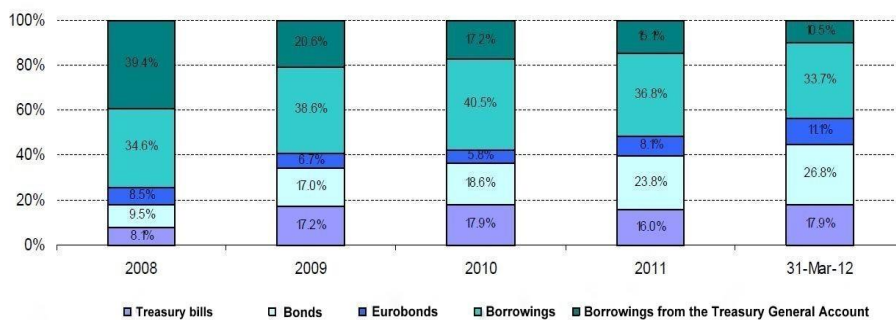
Also, the level of debt guaranteed by the Romanian State is insignificant in relation with the direct one.

Fig. no. 3. Volume government debt, billion lei (2008-2012)



In terms of the origin of its loan, it is noted in the chart above that more than 50% is internal.

Government debt structure after the financial instruments is illustrated in the graphic below; the issuance of State Securities in Romania is made by Minister of Public Finances, which has as an agent for sale transactions, settlement, transfer and storage, National Bank of Romania. As it is observed the state loans represented in recent years the preferred tool of the Romanian State for contracting government debt.

Fig. no. 4. Structure government debt after instruments (2008-2012)**Fig. no. 5.** Government debt cost (2011-2015)

As shown in fig. no. 5, in the analyzed period the interest charges on the public debt grew at a minimum level for year 2011, year 2012 achieves the maximum value in the PIB, 1.8%. In terms of the share of public debt with interest in Romania, PIB have diminished values compared with the developed or developing countries, with a 3-4% from PIB average.

Debt management involves along with a legislative framework to ensure the improvement of the financial and budgetary discipline and the development of a strategy which aims primarily to set some targets on the structure of government debt for the purposes of portfolio optimization. It also outlines the influences and sovereign debt portfolio

risks against the background of developments on domestic and foreign financial markets. In this context, two major risks are whose effects must be limited in performance management process of the public debt: the risk of refinancing, the market risk (currency risk, interest rate risk), credit risk, the risk of counterparties and the risk of payment errors in the payments system, the operational risk

Regarding to Romania's sovereign risk, it is periodically evaluated by a number of international agencies providing the country's rating.

Other findings

Techniques for budgeting of government debt are different from one state to another, as in some countries the legislature imposes limits and ceilings until that you can borrow (Denmark, USA, Canada), while in others (United Kingdom) public borrowing are included in annual budgets, however are not subject to public voting. In France the procedure is to include operations in the public budget Treasury debt (Belean, Anghelache, Risti, Gînguță, 2007, p. 282).

Conclusions

On the management strategies of government, the medium term public debt developed by the Romanian authorities (www.mfinante.ro) for the 2011-2014 period allow the detachment of general financial policy regarding the management of government debt. Considering the sources for financing the budget deficits, as well as the developments on the domestic and international financial markets management strategy of the Government public debt in recent years they are related mainly on: increase the control of public debt, reduce the cost of government debt on the medium and long term, limit the risks associated with the portfolio of governmental public debt and Government securities market development.

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Islamic Microfinance: an Interest free Microfinance Model for Poverty Alleviation

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Abstract

This theoretical paper deals with Islamic microfinance and its rationality in Indian context as a panacea of Muslim poverty. Conventional microfinance system is very effective to alleviate poverty of developing countries. But it could not touch all community of people because of ‘interest’ component in debt and high degree of interest. Muslims dislike that microfinance which is based on ‘interest’ as it is strictly prohibited in Islam. Therefore the motto of financial inclusion is out of reach through conventional microfinance. An alternative interest free microfinance model has been developed in some part of world to include all Muslim poor people within the banking system. India is yet to adopt Islamic microfinance though 20% of total population is Muslim. The author strongly opines that India should adopt Islamic microfinance as a tool for poverty alleviation of Muslims as well as other communities.

Keywords: Microfinance, Interest Free Finance, Islamic Microfinance, Interest (Riba), Poverty Alleviation

Introduction

Microfinance is a financial service of small quantity provided by financial institutions to the poor. Besides size and clientele group what makes micro credit different from normal credit is that the latter is 'walk in' and the former is 'walk out' business for the financial institution. Besides, credit is provided with collateral substitute. After the successful operation of the Grameen Bank model in Bangladesh, the concept of microfinance has drawn the attention of the development economists all over the world. The microfinance has become of late a development fad in many less developed countries. It has created a euphoria that is unparalleled in the recent history of development practice. India has become home to one of the largest micro credit programmes in the world. India's share in the global micro credit market in 2005 was 15% of all clients and 20% of the poorest clients (Karmakar, 2008).

There are five models of micro finance based on different philosophies and target groups viz. Grameen and solidarity model developed in Bangladesh and now popular in South Asia, Self-Help Groups (SHG) model popular in India, Indonesia and Kenya, Individual Credit – mostly priority sector lending in India, Community Banking – developed in Latin America and replicated in Africa and Central Asia, Credit unions and Co-operatives – popular in Sri Lanka. The self-help group is the latest breeds of the microfinance industries in India. The SHGs proved beyond doubt that they are the fastest growing and most cost-effective micro financial initiatives in the world. In India there have been many significant state initiatives in the major institutional and policy spheres since the early 1990s to promote SHGs and their microfinance activities.

But these conventional models of microfinance are not sufficient to include financially all community of people in the world. Muslim community is not interested in interest based loan as the interest (Riba) is strictly prohibited in Islam but they are interested in debt as it is permitted in Islam. Till date, a part of world Muslim population is excluded from microfinance. A considerable (28.26%) portion of world population is Muslim and half of world poor people are lives in Muslim countries. So, microfinance is a very effective tool to reduce the Muslim poverty, but the problem is the interest component of debt. To trim down the poverty among the Muslim community a new microfinance model has been developed all over the world: interest free microfinance i.e. Islamic microfinance. It is very popular among the Muslims as there

is an absence of the interest component in debt and free from religious constraint. Islamic microfinance is exclusively based on 'faith' not on 'Riba (interest)'. India is a country where Muslims are 20% of total population, suffering from the problem of acute poverty. The financial regulatory authority of Government of India is yet to adopt the Islamic microfinance as a tool for financial inclusion, as well as poverty eradication.

Eradication of poverty has been an important issue before the developing countries of the world. This is a big challenge for South Asian nations, as about half of the world's poor live in this region. Again the intensity of poverty is high in India. One of every three persons in India is officially poor, and two of every three are either undernourished or malnourished. The more rational way to help the poor could be the provision of sustainable economic opportunities at grass-root level, especially provision or required financial services at competitive rates to support their investments and viable business activities. India is perhaps the largest emerging market for micro finance. Over the past decade, the micro finance sector has been growing in India at a fairly steady pace. Though no microfinance institution (MFI) in India has yet reached anywhere near the scale of the well known Bangladesh MFIs, the sector in India is characterized by a wide diversity of methodologies and legal forms.

Literature review

Microfinance is an interesting field of research for the researchers of business studies. In recent past there are numerous research conducted on the topic over the world. The author tried to highlight some previous research works to the related field, below.

Karmakar, K.G. (2001) focuses on the concept and functions of SHGs and discusses the micro finance needs of various groups including tribals, the rural non-firm sector, rural women and micro entrepreneurs. Morduch, J. and Haley, B. (2001) are of the view that micro finance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorer strata of society. Range (2004) underlines how the prohibition of Riba in Islamic finance does not constitute an obstacle in building sound microfinance products; on the contrary, the side effects of an Islamic foundation could probably enhance it. These effects are: the high rate of return (compared to a

fixed interest rate), the holistic approach in supporting businesses and productive activities, a more effective mobilization of excess resources, a fairer society. Montgomery, H. and Weiss, J. (2005) surveys the evidence from Asia by carrying out a rigorous study and states that microfinance may have had positive impacts on poverty but its reach to the core poor is very limited. Swope, T. (2005) shows that microfinance can lead to an increase in income, better nutrition for families, greater high school attendance, empowerment of women and alleviation of poverty. Moreover, there is abundant support to demonstrate that microfinance can lift families out of poverty and is also able to expedite the completion of sex of the seven millennium development goals. Segrado, C. (2005) expresses that Islamic banks have grown recently in the Muslim world but still constitute a very small share of the global economy compared to the Western debt banking paradigm. Misra, A. (2006) brings out the missing link impact assessment in the Indian context, which is a precondition for poverty reduction on account of the influence of new paradigm of institutional viability under commercial microfinance.

Dusuki, A.W. (2007) suggests the use of special purpose vehicle, SPV as one of the possible alternatives for channeling funds to the poor. With its unique bankruptcy-remote feature, Islamic banks are fully protected from any failure of SPV that involves microfinance activities. Islamic banks can practice microfinance without compromising with institutional viability, competitiveness and sustainability. The tentative findings of Yusuf, T. O. and Mobolaji, A. H. I. (2012) study suggests that Islamic Micro Insurance Company might be doing better than its conventional counterparts. In an exploratory study Aziz and Alam (2012) developed a conceptual promising microfinance model (Interest Free Microfinance Model) to address the challenges of the existing models.

The study of Haneef Md. (et.all 2014) found that in OIC member countries religious and cultural norms drive preference of Islamic microfinance over conventional microfinance. The study further developed an integrated waqf based Islamic microfinance model (IWIMM) for poverty reduction in OIC member countries.

Objectives of the study

The major objective of the paper is to analyze the conceptual aspects of Islamic microfinance with traditional microfinance and to assess the rationality of Islamic microfinance in India. In order to do that the author sub-divided the broad objective into five sub-objectives.

- a. To study the conceptual aspects of microfinance
- b. To study the concept of Interest free microfinance and its status in India
- c. To study the theoretical aspects of Islamic microfinance and its rationality in India
- d. To study the difference between traditional microfinance and Islamic microfinance
- e. To study the relation between microfinance and economic development
- f. To study the role of Islamic microfinance to trim down poverty.

Methodology

This study is purely based on the information collected from different sources like websites, articles published in reputed national and international journals, newspapers and reputed reference books related to this field. Phase wise discussion of different aspects relating to innovative microfinance models has been done to realize the objectives of the study. Finally the author reaches to the conclusion and recommends something for a better implementation of Islamic microfinance in India.

Evolution of Microfinance Market

A system of providing small amount of credit to the poor i.e. the delivery of microfinance is not a new phenomenon in India. It began formally with the nationalization of commercial banks in 1969. It gained strength after the introduction of RRBs in 1975. It got momentum by the commencement of IRDP and many other poverty alleviation programmes in 1980s. The government has supported micro finance schemes by providing subsidy to the beneficiaries. The approach to microfinance in all these initiatives is individualistic and group.

Although the microfinance market has expanded rapidly, both in its quantum and coverage till the early 1990s, it failed to reach the

poorest among the poor. The individualistic approach to micro credit delivery system has revealed many deficiencies. To highlight a few of them:

- I. There is gender inequality in micro credit. The proportion of male in small borrowing accounts and the outstanding credit amount exceeded 80% as against the share of female hanging around 14% to 16% in both respects.
- II. The high transaction cost involved in reaching out the poor, both for banking institutions and the borrower.
- III. Improper identification of borrowers and/or loan purposes which lead to misuse of credit, non-payment of loan and eventually resulted in mounting NPAs of banks.
- IV. Formal banking agencies are involved in multiple activities and hence cannot devote the attention to the poor, particularly the poor women they deserve.
- V. Finally there was lack of mutual trust and confidence between the bankers and the rural poor.

Due to the problems mentioned above banks were skeptical about the business viability of microfinance sector. Against this background the group approach towards microfinance has been conceived and its delivery by non governmental organizations and non formal groups has started. The earliest step in microfinance in India by the NGO may be traced to the initiative undertaken by the Self-Employed Women's Association (SEWA). The SEWA has been providing banking services to the poor and self employed women working as hawkers, vendors and domestic servants etc. in Ahmedabad.

Similarly working women's cooperative societies in Tamil Nadu since 1980, Shreyas in Kerala since 1988 are the examples of the organizations involved in microfinance operations. By the same time a good number of NGOs spread throughout the country began to sponsor loan to the poor and encouraged the poor to organize themselves as self-help-groups. An important mile-stone in this direction is the NABARD's SHGs - Bank linkage programme started in 1991. The RBI has also encouraged the growth of SHGs by pursuing a policy of reckoning credit to SGHs as priority sector credit. Several state governments including Karnataka are giving some financial assistance in the form of seed money to these self-help-groups.

Microfinance

The concept of microfinance can be described as small, short, unsecured lending of money and provision of money and provision of very small loans that are repaid within short period of time. It is essentially used by the low income individuals and households to empowered them economically and enable them financially. Microfinance refers to a movement that envisions a world where low-income households have permanent access to high-quality and affordable financial services to finance income-producing activities, build assets, stabilize consumption and protect against risks. Initially, the term was closely associated with micro credit - very small loans to unsalaried borrowers with little or no collateral - but the term has since evolved to include a range of financial products, such as savings, insurance, payments and remittances (Microfinance Gateway, 2014). The microfinance is used as a sustainable tool to combat poverty. Micro finance can lead to micro solutions to poverty. The features of microfinance are:

- It is a tool for empowerment of the poorest.
- Micro credit is delivered normally through Self-Help Groups.
- It is essentially for promoting self empowerment and productivity in formal sector of economy.
- It is generally used for direct income generation and consumption smoothing.
- It is not just a financing system, but a tool for social and economic change, especially for women.
- It provides for seasonality, allow repayment flexibility and avoid bureaucratic and legal formalities.
- It assists the women to perform traditional roles better and to take up micro entrepreneurship.

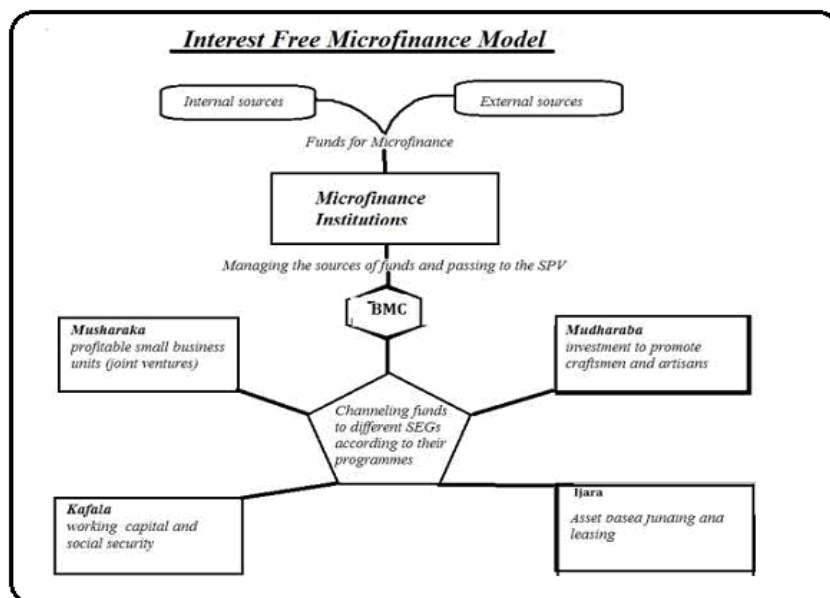
Interest free microfinance

Interest free microfinance is an interesting concept of microfinance, growing in the country in different models and becomes influential organizations in several parts of the country. This financing system is exclusively based on 'faith' not on 'interest'. It's very popular among the poor people as an alternative of traditional microfinance system as well as existing banking system based on interest component. Interest free microfinance helps to reduce the vulnerability of the needy poor persons and disadvantaged section of population through economic

empowerment, which benefits to the poor people through creating new employment opportunity to reduce poverty.

There are two types of microfinance model which operates in the country viz: mainstream and alternative. Mainstream microfinance is similar to the traditional banking system but alternative microfinance is based on faith (Christian, Islamic, Judaic, Hindu etc), exclusively interest free potential tool of inclusiveness and poverty alleviation. In India are two legal routes of availability of microfinance: Non Banking Financial Companies (NBFC) and Cooperative Credit Societies established under State/Central Act. NBFC route has to face many problems when it consider for microfinance operation but Cooperative Credit Societies are specially established to offer interest free microfinance to the poor people.

A classic example of interest free microfinance institution in India is Nidhis or Paraspara Sahaya Nidhis which emerge as influential microfinance institution in Kerala. The Nidhis collects fund by donations, charities, small savings etc. and offers interest free microfinance up to Rs. 25000 with repayment period of 3 to 12 months. The default rate of finances provided through Nidhis, operating more than 500 units in village area of Kerala, is very interesting i.e. near about zero percent.



Source: Aziz and Alam (2012)

Islamic Microfinance

Islamic microfinance is an alternative model of interest free microfinance. Some people of Muslim community don't participate in traditional banking system because of 'component of interest' involved in it. Since interest is strictly prohibited in Islam so they prefer to remain out of the banking system. In those cases Islamic banking should be encouraged and government should incorporate suitable working environment to operate these institution at par with other institutions. Islamic banking is growing at a rate of 15% for the last three decades. Islamic microfinance is a new concept in micro credit that caters needs of poor all over the world. Islamic microfinance is becoming an increasingly popular mechanism for alleviating poverty, especially in developing countries around the world. The Islamic finance industry as a whole is expected to reach over \$2 billion dollars in 2012 and is a continually growing sector due to its ethical principles and prohibition of riba/interest (International Islamic News Agency, 22 Feb. 2012). Funds to Islamic microfinance may be provided by religious contributions through the institutions like Awqaf, Zakat, Sadaqat, Qard-Hasan and other charities.

A comparison between Islamic microfinance and the conventional counterpart shows that both have similarities in terms of focusing on economic development and social objective, aiming to achieve a better life for whole people, supporting additional income, promoting entrepreneurship, encouraging risk sharing, believing that the poor should get involved in entrepreneurship activities (Obaidullah, 2008). Also, both are expected to rely on providing wider access to the poor, being a sustainable institution which can achieve "market based for profit approach", supported by efficient system and transparency reporting, with the focus on capacity building, combining with integration between microfinance and official financial system (Obaidullah, 2008).

Table no. 1. Differences between conventional microfinance and Islamic microfinance

Category	Conventional Microfinance	Islamic Microfinance
Category of poor	One category	Two levels: 1. deeply poor who do not need loan but social safety net and charitable fund (<i>zakah</i>) 2. moderately poor who will be better to obtain credit for running micro enterprises
Based of financing	Debt based and interest based approach	Profit and loss sharing (PLS) approach, free of interest (<i>riba</i>) and uncertainty (<i>gharar</i>)
Approach/target of empowerment	The poor and woman	The poorest and family
Sources of fund	External funds, saving of clients	External funds, saving of clients and Islamic charity fund.
Dealing with default	Group/centre pressure and threats	Group/centre/spouse guarantee and Islamic ethics.
Social development program	Secular	Religious (behavior, ethics and social

Source: Obaidullah (2008), Ahmed (2002)

Islamic Microfinance: Causes of Popularity

Islamic microfinance is popular not only for Muslim community, but also for people of other religion. The specific terms and conditions make Islamic microfinance products more favorable and accessible to the most vulnerable populations. These are discussed below:

Risk-sharing: By sharing potential risks between investors and clients, Islamic microfinance becomes more attractive for borrowers who will not carry the full risk as compared to many conventional products.

Profit-sharing: In Islamic microfinance, the lending institution is no longer a sole financier but becomes a co-owner of the business with a strong interest in its success.

Fixed repayment rate: In line with the Shariah, which prohibits any rate of return on financial transactions, Islamic microfinance

products have a fixed repayment rate with no possibility of making profit through interest.

Transparency: Islamic microfinance stipulates contracts with a fixed liability that is known to the customer upfront.

Social welfare and justice: The ultimate goal of Islamic microfinance modalities is to ensure growth with equity for social welfare and justice. In line with this principle, Shariah-compliant financing foresees that, in a context of default, the penalty is limited to no more than 1 per cent of the outstanding installment.

Need for Islamic Microfinance in India

Although many secular countries in the world viz. UK, France, Hong Kong change their laws in favor of Islamic microfinance, India is still orthodox in this regard. India is a country where 20% of total population is Muslim; about 50% people living below poverty line needed the financial system which is considering human values, mercy and justice. Islamic microfinance addressed the human values and best fit for country like India. Islamic banking is not only for Muslims but for all community, basically for the poorest of the poor. It is free from exploitative mode of interest. A part of the Muslim people in the world does not take part in traditional microfinance or banking system because of interest (Riba) component which is strictly prohibited in Islam. So the people who believe in God should support the Islamic banking system. Opening the window of Indian regulatory system for Islamic finance and insurance system will drive to flow of foreign direct investment to the country which promotes the growth of the nation. In Indonesia the role of Islamic microfinance institutions to reduce the poverty is very significant. SMEs create employment opportunity and employment reduces poverty of the nation. There is a close relation between SME and availability of microfinance in Indonesia. For empowering the poor Micro Thakaful (Islamic insurance) in Indonesia is very helpful.

Islamic banking is a rapidly growing phenomenon in the international financial market. The global market for Islamic investment products was growing at a remarkable pace of approximately 15 to 20% annum. After the emergence of the era of globalization Indian financial sector had opened up. Foreign investors, both, individual and institutional were allowed to invest in India and Indian investors make similar investments abroad. The international financial market enjoyed the existence of Dowjones Islamic index. Malaysian financial market

had Shariah index. In this scenario Indian financial regulatory authority also made enough steps to promote Islamic financial products. It will promote the flow of foreign direct investment and growth of the country. Islamic financial instruments are fit for infrastructure financing than the conventional interest based system. In Islamic finance various instruments including Isthisna, Mudaraba and Musharaka are best fit for infrastructure finance. Several projects in the country including Kerala and Maharashtra state government are thinking on the way. India needs a jump in the infrastructure sector by constructing new roads, bridges, metros, railway lines etc. for the growth of the country. But the financing is problem. If India are ready to raise funds by using Islamic modes of financing it is expecting flow of funds from different nations. So the government tries to increase infrastructure facilities by attracting funds, using these modes.

Microfinance and Economic Development

The real idea of microfinance is to help increase income of poor people, particularly women. It is based on the notion that with small scale loans and access to other financial and business services, the poor can help themselves to generate income by creating or expanding small businesses. The fight against poverty has taken many widely differing forms that cannot be readily encapsulated into one single concept. Food and clothes, for example, are needs addressed by the government and donor policies.

Both, however, are elements of the same drive to change the situation of the poor. It is estimated that nearly out of 400-500 million people worldwide, about 80% of those who are in need of financial services are yet outside the mainstream of formal financial systems (Batra and Sumanjeet, 2011). In order to reduce the poverty among the village people, Microfinancial Institutions come forward to provide financial services to the needy people. Asia is the most developed continent in the world in terms of volume of Micro Finance Institutions (MFI) activities.

Conclusions

The study reveals that traditional microfinance failed to include all poor people under the system because of its high interest rate and also interest component of debt which holds back Muslims as it (Riba) is strictly prohibited in Islam. But half of global poverty resides in

Muslim world while the Muslim population is 28.26% of the total global population. If the dangerously increasing poverty in the Muslim community is not controlled soon then it will hinder the economic development. India has a vast Muslim population exceeding 175 million and a major part of this population does not participate in the Indian financial market largely dominated by interest-yielding instruments and conventional interest-based banking. According to a report by the Reserve Bank of India ('RBI'), India's Central Bank, the Credit to deposit ratio of Muslims in the country is 47% against the national average of 74%. It can be observed from the above statistics, India offers a huge potential for Shariah finance. Islamic microfinance may be the panacea of present dilemma. Financial regulatory authority of India still not adopts Islamic microfinance as an alternative way of financial inclusion, while interest free microfinance is working in few part of the country. Not only that other financial products in the form of mutual funds, real estate funds, financial investment companies and lots of Shariah based shares are available in Indian market.

The various causes of rapidly increasing poverty in the Muslim world are lack of education, lack of employment, political instability and so on. But on the other hand, the main snag is unavailability of the proper financial products which are in line with the Muslim's religious values and social norms. Microfinancing is not use by Muslim population due to interest and thus is excluded from financial inclusion. On the other hand, Muslim world can be led out of the poverty by extending financial inclusion through Islamic microfinance. According to the statistical information of multilateral development agencies, 300 million people were graduated from Micro to SME level in past year, and the countries mentioned in the list are China, India, Brazil and Chile etc. but when we look at the enlisted countries we will come to know that then countries mentioned in the list are not Muslim and by this we will come to know that the poverty is decreasing in non Muslim countries and increasing in Muslim world.

Unfortunately, Islamic microfinance is not given the proper place in the poverty alleviation strategies of International development agencies (e.g. World Bank, UNDP, IFC, USAID etc) in the way it should have been given. Islamic microfinance is just 1% of the total microfinancing of the world that is just 1 billion US\$. There is no religion of poverty, but religion plays an important role in poverty alleviation. This is the reason why Islamic microfinance should be given

a proper place in the modes of poverty alleviation through which both Muslims and non-Muslims can take benefit.

The famous columnist M. D. Nalapat blames the government of India especially the financial regulatory authority for not adopting Islamic banking in India while giving valedictory remarks in an international seminar on Islamic finance held in Kochi on 4th to 6th October, 2014. Acting against Islamic finance due to religious matters is not a good thing. If it has a capacity to contribute Indian financial sector it should be promoted.

Islamic microfinance products have huge potential in the country and if it is utilized by introducing Shariah based products India will improve the growth. India should adopt Islamic microfinance model for the development of nation.

Suggestions

Suggestions to change the Indian regulatory system in favor of Islamic banking and finance are incorporated below:

1. Government of India should accept the recommendation of the Committee on Financial Sector Reforms (CFSR) of Planning Commission of India headed by Dr. Raguram Rajan to introduce interest free banking in main banking sector for inclusive growth through innovation.

2. Government of India should suitably amend Banking Regulation Act 1949 and taxation law to provide a level playing field for Conventional Banking as well as Islamic banking as done in several modern, secular and industrialized countries.

3. The Indian government should accommodate Shariah compliant mechanism in Microfinance institutions which are mainly operating as NBFC's along with conventional mechanism based on interest.

4. Reserve bank of India (RBI) should open interest free windows as a pilot project in few conventional banks which can operate within the framework of Indian Banking Regulation Act 1949.

5. Insurance Regulatory and Development Authority (IRDA) should amend the Insurance Act in order to introduce Micro Takaful (Muslim Insurance).

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Cost Benefit Analysis of Khaddar Industry: a Study on Comilla District

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Abstract

The study tries to findout the Cost Benefit Analysis (CBA) of Khaddar industry. Comilla district is considered as the study area. Sample is selected purposively based on the stablishment available within the district. The collected data is analysed by using Microsoft Office Excel 2007 to calculate different statistical values used in this paper. All the possible techniques of Cost Benefit analysis are employed. The findings suggest that, in both the cases i.e., in case of Hand Loom as well as in case of Power Loom the expected return is very high. The value of Net Present Value (NPV), Benefit Cost Ratio (BCR) and Internal Rate of Return (IRR) suggest that, there is a very higher profitability in this sector. The IRR of the projects is 183 and 157 for Hand Loom and Power Loom respectively which is exceptionally very high. The higher value may due to low establishment costs and low maintenance costs for hand loom alternatively high productivity and comparatively lower operating costs for power loom industries.

Keywords: Khaddar, Cost Benefit Analysis (CBA)

Introduction

Mohatma Gandhi launched the non-cooperative movement in 1921 to revive hand-spinning cloth, Khaddar. An organization in the name 'All Indian Spinners Association' was set up to propagate charka-spinning all over India as a symbol of independence movement, a source of employment for idle labor in the rural areas and a way to achieve self-sufficiency in cloth.

In ancient times, hand-spinning was a common occupation in many families in the cotton growing districts of Bengal. The art of hand-spinning reached its climax in the production of the finest type of yarn (varying from 150-200 counts) used for weaving the famous 'Dacca Maslin'. The industry began to decline for various reasons, mainly due to stiff competition from mill manufactured cloth after the establishment of British rule in Bengal.

After liberation, surveys and research studies indicate that there were on an average six person in each rural family and one earning member in the family carries the burden of four dependent members. There are other studies which indicate that only 69% of the total man-days available in the village are utilized for gainful work. On top of that there are women and school drop-outs in every village of Bangladesh who can not be either employed in the fields or in the factories. Although no study has yet been made in Bangladesh to ascertain the extent of the unemployable rural labor force, it can safely be said that the percentage is quite high.

From different research works it is observed that, the demand for original khaddar is very high, but the industry is going to extinct. The reason which may determine the extinction of this industry might be the low rate of profit. It's an initiative to identify the rate of profitability by using cost benefit analysis.

Cost Benefit Analysis (CBA) is a technique for evaluating a project or investment by comparing the economic benefits with the economic costs of the activity. There are several objectives of CBA. First, CBA can be use to evaluate the economic merit of a project. Second, the results from a series of CBA can be used to compare competing projects. Third, CBA can be used to assess the wisdom of

using natural resources of alternative environmental conditions. Ultimately, CBA aims to examine potential actions with the objective of increasing social welfare.

Literature Review

Historically it is found that, from very ancient time the occupation hand spinning and hand weaving exist all over the cotton growing district of the subcontinent. Facing a lot of obstacles Khadi saw its golden age in the decade of 1920s. In the Swadeshi Movement, Mahatma Gandhi used Khadi as a weapon to rescue the Indian subcontinent from British rule. After the liberation war, Bangladeshi Khaddar also facing a lot of problems and it is almost going to extinct today.

In the ancient times, hand spinning was a common occupation in many families in the cotton growing districts of Bengal. The art of hand spinning reached its climax in the production of the finest type of yarn (varying from 150-200 counts) used for weaving the famous '*Dacca Maslin*'. The industry began to decline for various reasons, mainly due to stiff competition from mill manufactured cloth after the establishment of British rule in Bengal. (M. Nurul Haq, 1973)

According to local weavers, lack of business capital, scarcity of yarn, dyes, price hike of raw materials and mismanagement in distribution system are seriously hampering Khadi production at Chandina which is renowned for manufacturing coarse cloth in Comilla. (The Daily Sun, 2011)

After the partition of India in 1947, Khadi work was almost on its way to extinction due to various changes in the political and social environments. Comilla also suffered the effects of those changes. After the language movement of 1952, Dr. Akhter Hamid Khan who was professor at Victoria College and the Director of the Bangladesh Academy of Rural Development (BARD), Comilla along with the then Governor Firoz Khan Noon took a lot of trouble of found "The Khadi and Cottage Industries Association". A training centre for Khadi and Khaddar work was also founded. In this way and with this cooperation of the Government of the time, the near-dying art of Khadi was rescued from extinction and the work has retained its excellent quality ever since. After the liberation of Bangladesh, Khaddar work again flourished and made a name both at home and abroad, making its home district Comilla well-known and famous all over. (Zakir Azad, 2006)

The Khadi industry has been struggling for survival as it has had to make do with outdated equipment, inconsistent product quality, lack of professional expertise and funding, lack of unity and resolve within the industry to adjust to changing market trends. In contrast, the country's overall textile sector has grown tremendously with the adoption of modern technology, branding and strong marketing. The art of spinning needs continuous practice. Some spinners are leaving their profession and switching to other work. Many of them have left the country and their replacements have not been proportionate to. A continuous training program can solve this problem. But running a training program is an expensive affair. The cotton required for production is often unavailable according to demand. As a result the workers have to make do with whatever is available. A continuous twelve month work period can not be maintained. Long Staple cotton of good quality is not grown in Bangladesh. Import of such cotton from foreign countries requires spending of hard earned foreign exchange. Storage of supply of cotton has become the most serious problem. There is shortage of other materials such as dyestuff, printing equipment and spare parts for charka. (Tithi Farhana, 2009)

The Khaddar industry of Comilla has a strong background. Attractive and new design cloths are produced, which is the symbol of patriotism. It can be said that despite a lot of problems, after liberation in the garments industry only khaddar sector is surviving in its own without any government or non-government help. 'However, for long in the country's fashion scene, Khadi has not been a favorite. It had the tag of 'hand made' or 'made in Bangladesh', yet, it needed a designer touch perhaps to make it popular in the domestic and global fashion market.' (Prodip Kumar Raha, 2010)

Khadi as Dhaka Muslin could now only be reminiscent in the chapters of history. As late as the 1940's through the drives of the independence movement of India, considerable progress was made to revive Khadi. It is regrettable that today we can no longer find the masterly expertise in the weaves of Bangladeshi Khadi. The devious producers are using waste mill yarns to weave Khadi. It is clearly unethical to label the product as Khadi. Bangladeshi designers and retailers alike have failed to restore and resurrect Khadi production. We could not hoist Khadi as the main sail of our rooted textile tradition rather it was knocked down to the ground and stumped to death. This universal craft can easily be a way forward towards our self-reliance

again, but then why did the popularity of Khadi get diminished after our independence? May be if we had tried to evaluate the requirements of ever changing demands of the market or expedite technology to develop fine products it may have seen new light. It is important for us to invest in design development for the heritage weaves or teach our next generation about the legacy of our finest traditions as Khadi has arrived and it is here to stay. (Maheen Khan, 2011)

In an earlier research of the researcher (2013) it is found that, ‘the demand for Khaddar (hand spinning and hand weaving cloth) is very high. But due to lack of availability of Khaddar in the market, i. e., lack of supply side deficiency the crisis is created’. Now the question is raised, in spite of high market demand why the producer are not willing to supply the Khaddar product in the market? In this research paper we tried to find out the answer of the question.

Objectives

The objective of the research was to know the cost involved in the production process and benefit from Khaddar production. The general and specific objective of the research was, as follows:

General Objective: The general objective was to know the cost-benefit of Khaddar production.

Specific Objectives: The specific objectives were to know

1. the cost involved in manual Khaddar production process
2. the benefit that can be gained by the producer
3. comparative advantages or disadvantages with power loom (Khaddar produced with technological equipments)

Methodology: The detail about research Methodology is as follows:

Research Location: The Comilla District is considered as research area. The researcher prefers the location where the establishment of Khaddar industry is available. Based on the information about the establishment available, the four sights is selected, i.e., Chandina, Deviddar, Homna and Comilla town. From the mentioned four locations the data were collected.

The Data: To check the stating objectives of the research, the data is mainly collected from primary sources, i.e., from the owner of the Khaddar firm directly. Individual firms are considered as sample unit. Considering the scatter establishment of Khaddar firm, the

researcher decided to take maximum firms covering various locations. Total of twenty (20) samples are investigated among them, 10 from hand loom production unit (traditional production process) and another 10 from power loom production unit (modern production process). In reality, samples are selected purposively because the establishments are not available at present all over the district evenly but the researcher tries to ensure the participation of all the possible region of Comilla. Data is collected through the technique face to face interview with pre-designed semi-structured questionnaire.

Analyze Methods: After collecting data from the sample unit directly, it is analyzed by using the technique Cost-Benefit Analysis (CBA). From the collected data the average value is calculated for all possible costs and benefits of the hand loom firms and power loom firms separately and then the average value is considered for further calculation, i.e., for the cost-benefit analysis of the Khaddar industry. All the possible tools of CBA, i.e., Net Present Value (NPV), Benefit Cost Ratio (BCR) and Internal Rate of Return (IRR) are employed. In all shorts of calculation the Microsoft Office Excel 2007 is used.

Selection of Discount Rate: Here the discount rate is considered 15%. From the collected data it is observed that, on an average the borrowing rate of capital by the owner of the firms is more than the value considered. Most of the owner borrows from different NGOs and non-recognized sources where the rate is too high. From the statistics of Bangladesh Bank it is found that, the average lending rate at present is almost 15%. This is the base of considering the discount rate.

Research Findings

• **Analysis and Findings:** In this section firstly the researcher decide to show the data analysis for hand loom and power loom separately and then discuss the comparison between the two industry. First of all let us have a look on Cost Benefit Analysis.

Cost Benefit Analysis (CBA) is a technique for evaluating a project or investment by comparing the economic benefits with the economic costs of the activity. Several Variations on the basic cost-benefit rule can be used to compare the cost and benefit of any investments, projects or decisions. In these circumstances, the following techniques are used to calculate the cost and benefit of Khaddar industry.

Net Present Value (NPV): The Net Present Value (NPV) is the current value of all project net benefits. Net benefits are simply the sum of benefits minus costs. The sum is discounted at the discount rate. Using this method, if the project has a NPV greater than 0 then it appears to be a good candidate for implementation. The general formula used to calculate the NPV is:

$$NPV = \sum_{t=1}^T \frac{(Benefit_t - Cost_t)}{(1+r)^t}$$

The formula used in this case is as follows:

$$\begin{aligned} NPV &= \sum_{t=0}^{24} \frac{B_t - C_t}{(1+r)^t} = (B_0 - C_0) + \sum_{t=1}^{24} \frac{B_t - C_t}{(1+r)^t} \\ &= (B_0 - C_0) + \sum_{t=1}^{24} \frac{k}{(1.15)^t} \end{aligned}$$

where, $k = B_t - C_t$ and $r = 0.15$

$$\begin{aligned} &= (B_0 - C_0) + \left\{ \frac{k}{1.15} + \frac{k}{1.15^2} + \frac{k}{1.15^3} + \dots + \frac{k}{1.15^{23}} + \frac{k}{1.15^{24}} \right\} \\ &= (B_0 - C_0) + k \left\{ \frac{1}{1.15} + \frac{1}{1.15^2} + \frac{1}{1.15^3} + \dots + \frac{1}{1.15^{23}} + \frac{1}{1.15^{24}} \right\} \end{aligned}$$

Since, for whole life time the revenue earned and costs involved are the same. So, the difference can be expressed by a constant. Here it should be mentioned that, the value of the discount rate is considered 15% i.e., $r = 0.15$. So, the denominator of the fraction is also a constant. In the second part of the previous equation, it is likely to a geometric series where the first term of the series (a) is $a = \frac{1}{1.15}$, the common ratio is

$r = \frac{1}{1.15}$ and number of total terms in the series is $n = 24$. So the summation of the series is:

$$S_n = \frac{a(1-r)^n}{(1-r)} = \frac{\frac{1}{1.15} \times (1 - \frac{1}{1.15})^{24}}{(1 - \frac{1}{1.15})} = 6.433771$$

By using this factor we can calculate the present value of benefit as well as costs and the net Present value as well for any industries.

Benefit Cost Ratio (BCR): The benefit Cost Ratio (BCR) is calculated as the NPV of benefits divided by the NPV of Costs. If the BCR exceeds one, then the project might be a good candidate for acceptance. The formula used to calculate the BCR is:

$$BCR = \frac{\sum_{t=1}^T \frac{Benefit_t}{(1+r)^t}}{\sum_{t=1}^T \frac{Cost_t}{(1+r)^t}}$$

Internal Rate of Return (IRR): The internal Rate of Return (IRR) is the maximum interest that would be paid for the project resources, leaving enough money to cover investment and operating costs, which would still allow the investor to breakeven. In other words, the IRR is the discount rate for which the present value of total benefits equals the present value of total costs.

According to Hawkins and Pearce, ‘The IRR is the rate of return that is being earned on capital tied up, while it is tied up after allowing for recoupment of the initial investment.’ (p. 125, P-H, 1971).

In general, the IRR should be greater than the discount rate for a project to be accepted. The formula used to calculate the IRR is:

$$IRR = PV(Benefit) - PV(Cost)$$

where $PV = \frac{P_t}{(1+r)^t}$

Alternatively, the formula can be written as:

$$IRR = \sum_{t=0}^T \frac{Benefit_t - Cost_t}{(1+r)^t} = (Benefit_0 - Cost_0) + \sum_{t=1}^T \frac{Benefit_t - Cost_t}{(1+r)^t}$$

$$= (Benefit_0 - Cost_0) + k \sum_{t=1}^T \frac{1}{(1+r)^t} \text{ where, } k(\text{constant}) = Benefit_t - Cost_t$$

On the basis of the different techniques of CBA discussed above, the following findings are observed:

• **Findings Regarding Hand Loom:**

The Net Present Value for hand loom is:

$$\begin{aligned} NPV &= (B_0 - C_0) + k \times 6.433771 = -18600 + 34800 * 6.433771 \\ &= 205295.23 \end{aligned}$$

From the findings of the data collected from hand loom firms, it is found that, the average sustainability of the firm after construction is 24 years which required the mean establishment cost BDT. 15000 and also required the average operating costs (including raw materials, labor, fuel and electricity, maintenance and miscellaneous costs) per year is BDT. 289200. It is found that, the firm can be established within 6 month of the base year so it can produce some output in the starting period. From the first year the average costs to run the firm is BDT.289200 per year and the average yearly benefit of the firm is BDT. 324000. The costs and benefits are continued for the life time of the projects which is found to be 25 years including base period.

Cost Benefit Analysis of Hand Loom: By using the average value of the collected data, the following results are found:

Name of the techniques of CBA	Result found at 15% discount rate	Decision making condition	Decision
Net Present Value (NPV)	BDT. 205295.2	NPV > 0	The project can be taken
Benefit Cost Ratio (BCR)	1.105819	BCR > 1	The project can be taken
Internal Rate of Return (IRR)	187%	IRR > the discount rate, i.e., 15%	The project can be taken

From the result it is found that, in all the cases the project shows profitable, i.e., the project is economically viable or very suitable for investment. Here the IRR is exceptionally very high. It might be due to very low establishment costs and longer sustainability with very low maintenance costs.

• Findings Regarding Power Loom:

The Net Present Value for power loom is:

$$NPV = (B_0 - C_0) + k \times 6.433771 = - 564000 + 888000 * 6.433771 = 5149188.65$$

From the findings of the data collected from power loom firms, it is found that, the average sustainability of the firm after construction is also 24 years which required the mean establishment cost BDT. 350000 and also required the average operating costs (including raw materials, labor, fuel and electricity, maintenance and miscellaneous costs) per year is BDT. 4152000. It is found that, the firm requires a year to its establishment. From the first year the average costs to run the firm is BDT.4152000 per year and the average yearly benefit of the firm is BDT. 5040000. The costs and benefits are continued for the life time of the projects which is found to be 25 years including base period.

Cost Benefit Analysis of Power Loom: By using the average vale of the collected data the following results are found

Name of the techniques of CBA	Result found at 15% discount rate	Decision making condition	Decision
Net Present Value (NPV)	BDT. 5149189	NPV > 0	The project can be taken
Benefit Cost Ratio (BCR)	1.1887739	BCR > 1	The project can be taken
Internal Rate of Return (IRR)	157%	IRR > the discount rate, i.e., 15%	The project can be taken

From the result of above table it is found that, in all the cases the project shows profitable, i.e., the project is economically viable or very suitable for investment. Here the IRR is too high. It might be due to very high productivity and longer sustainability with comparatively lower maintenance costs.

CBA Comparison between Hand Loom and Power Loom

In both the cases the investment is found very profitable. It is well known that, in case of different investment volume, to compare different projects the IRR is the best technique. In case of Hand Loom the IRR is 183 where in case of Power Loom it is 157. The IRR represents the rate of return of any investment projects. The research finds that, the economic viability or profitability is higher in the Hand Loom firms with compare to power loom industries.

Recommendations

Inspite of high market demand the supply of Khaddar in the market is very low. It should also mention that, the expected profit in this sector is also very high. Beside all the things the producers are not encouraged to produce the product, especially hand loom product. To revive them in this sector the following initiatives might be taken:

1. The wages of the artisan people who are engaged with hand loom production are very low. They are the core people in producing Khaddar. So it is very urgent to increase the wage rate of such people and without increasing it is impossible to revive from extinction.

2. Government should provide loan with lower interest rate.

3. The import duty on the raw materials used in this sector should be reduced.

4. The relevant government and non government organizations have to arrange specialized training program on spinning, weaving, dyeing and designing so that the people involved with these occupation can train them and give quality output.

5. New entrepreneur should come forward and take the responsibility of sustaining Comilla's cultural heritage with higher profit.

Limitations

During conducting the research the following limitations were faced by the researcher:

1. List of Khaddar Establishments: Unfortunately there are no associations or organizations which maintain a complete list of Khaddar industry. In the research study period it was very difficult task to find out the location of the establishment of the industry.

2. Financial Constraints: At the time of conducting the research the researcher could not select large number of sample because of financial constraints. Large sample might give better result but it involves more costs.

3. Time Constraints: The time periods for the research were too short to conduct properly. If additional couple of months could be allocated, it might give a more fruitful result.

Conclusion

From the study conducted it is found that, in both the cases the economic return is very high and hand loom firm is more profitable than the power loom. The investment in the hand loom firms is also very low. So, it can be concluded that, the unemployed person can make them selves dependent with very low investment and might get a handsome profit. Power loom firms also found profitable sector of investment but requires comparatively higher investment. If the Government provide loan with low interest rate among the entrepreneur of this sector then, it might be a very good way to earn profits as well as employment generation in larger scale. Such investments might bring fruitful result for any regional development. Beside local people, government should concentrate to revive and maintain the cultural heritage of Comilla.

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The History of Sustainable Management – A Literature Review

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Abstract

Sustainable development has become part of our contemporary life. The concept has been incorporated in many UN declarations during the last years. But we use to forget the birth and the evolution of the sustainable management theory and practice.

This paper aims to analyze the meanings of the sustainable management process and its limitations, making also a quick review of the evolution of this phenomenon.

Keywords: sustainable development, sustainable management, responsibility, eco-economics, economic development, environment, ecosystem, present generation, future generation, limits of growth.

Introduction

Sustainable development isn't a new concept, but a recently way to express a very old ethics which involve human relationships with the environment and the responsibility of the present generation to future generation. Sustainable development has been defined in many ways. Sustainable development is designed by some authors as maintaining

the opportunities and living conditions for the next generation, especially the renewable natural resources, at least at the level of the ones existing nowadays for current generations and to reduce the environmental factors affected by pollution. (Avram, 2004)

Other authors considered sustainability as a manner to represent the economic efficiency in the management of services provided, based on the natural resources endowment. (Kennedy and Thirlwall, 1972)

The most frequently quoted definition of sustainable development is coming from *Our Common Future*, also known as the Brundtland Report (1987): "Sustainable development is the development that meets the needs of the present without compromising the ability of the future generations to meet their own needs. It contains within it, two key concepts:

- the concept of **needs**, in particular the essential needs of the world's poor, to which an overriding priority should be given;
- the idea of **limitations** imposed by the state of technology and social organization on the environment's ability to meet the present and future needs."

All the definitions require that human beings must see the world as a system that connects simultaneously, space and time.

When we think at the whole world as a system over space, we must understand that air pollution from North America affects the air quality all over the world, and that fertilizers/pesticides used in Asia could destroy the ecosystem of the animals' living in the Seas and Oceans.

When we think at the world as a system over time, we start to realize that the decisions taking by our grandparents about how to farm the land continue to affect agricultural practice today. At the same time, the economic policies we endorse today will have an impact on urban poverty when our children will be adults.

The quality of life is a system, too. It's good to be physically healthy, but how is it if we are poor and don't have access to education? It's good to have a secure income, but what happens if the air in our part of the world is unclean? (International Institute for Sustainable Development, <https://www.iisd.org/sd/>, accessed at 30 January 2015)

The concept of sustainable development is rooted in this sort of systems thinking, a way which helps us to understand ourselves and our world.

The growing concerns for sustainable development are related nowadays to a complex of problems facing humanity. These are:

- poverty in the middle of abundance;
- the uncontrolled expansion of urbanization;
- the degradation of the environment;
- the insecurity of employment;
- removing the traditional values of different cultures;
- inflation, unemployment, monetary, economic and social

crisis.

The problems we face are complex and serious. Sustainable development means a better quality of life for everyone, now and for generations to come. It offers a vision of progress that integrates immediate and longer-term objectives, local and global action, and regards social, economic and environmental issues as inseparable and interdependent components of the human progress.

(<http://ec.europa.eu/environment/eussd/>, accessed at 30 January 2015)

The evolution of the “Sustainable Development” concept and practice

During the late nineteenth and early twentieth century, the industrial revolution swept across the United States and Western Europe. Those countries that had undergone industrialization and developed a strong manufacturing base were considered “developed countries”. While industrialization contributed to significant economic gains for developed countries, pollution associated with industrialization, such as carbon dioxide and mercury emissions, caused severe negative consequences for the world’s air, soil and water quality.

Based on the growing concerns of the impacts of pollution, various environmental movements formed and began to gain strength in many industrialized countries during the 1960s and 1970s. National governments began to elevate environmental issues on their agendas. There was also a wide recognition of the international nature of pollution, which led to a desire to address issues of the environment and development at an international platform. The United Nations spearheaded this effort and Sweden agreed to host the first international conference on the environment in Stockholm (1972).

The concept “sustainable development” was born in 1972 as an answer to the new coming environmental problems and as a reaction to the natural resources crisis, especially the energy crisis.

The United Nations Conference on the Human Environment in Stockholm has considered the need for a common outlook and for common principles to inspire and guide the peoples of the world in the preservation and enhancement of human environment. The Stockholm Declaration on the Human Environment is the moment when it was recognized that human activities contribute to the environment damage, in that way threatening the future of the planet. (Schulz-Walden, 2013).

The Stockholm Conference was widely attended, with one hundred thirteen countries represented. The U. N. Environment Programme (UNEP) was founded at the Stockholm Conference; two important documents resulted from that meeting: the Stockholm Declaration on the Human Environment and the Stockholm Action Plan. The Stockholm Declaration on the Human Environment helped shape principles of sustainable development that would be further elaborated at the World Commission on Environment and Development, attempting to strike a balance between environmental protection and development.

A few years later (1983) started the activity of the World Commission on Environment and Development (WCED) which reexamines the issues and problems of global environment and development to the year 2000 and beyond, in order to formulate realistic proposals for resolving these issues. The WCED was created to address growing concern about the accelerating deterioration of the human environment and natural resources and the consequences of that deterioration for the economic and social development.

The Commission established eight priority areas at its first meeting:

- Perspectives on Population, Environment and Sustainable Development;
- Energy: Environment and Development;
- Industry: Environment and Development;
- Food Security, Agriculture, Forestry, Environment and Development;
- Human Settlements: Environment and Development;
- International Economic Relations: Environment and Development;
- Decision Support Systems for Environmental Management;
- International Cooperation (from the World Commission on Environment and Development's Inaugural Meeting and Work plan,

available at: <http://www.un-documents.net/ocf-a2.htm#V>, accessed at 28 January 2015).

The culminating report of the Commission that would shape the future of environment and development policy worldwide was entitled *Our Common Future* (as we stipulated earlier). Although the report has been criticized, it was also considered a landmark event that raised the principle of “sustainable development” to a center issue in the international environment. The report outlined the concept of sustainable development that involved both: “meeting the needs of the present without compromising the ability of future generations to meet their own needs” and “meeting the basic needs of all and extending to all the opportunity to fulfill their aspirations for a better life.”

Among other findings, the report illustrated the troubling implications of population growth and resource use and its links to poverty. The Commission has underlined the threat posed by disappearing species and threatened ecosystems and provided recommendations for the international community to cooperate for species protection. With respect to energy, the Commission stated that the energy policies of the developed countries could not be repeated in the developing world without threatening the entire planet. The Commission acknowledged the needs of developing countries, as articulated earlier by the G-77, to have “common but differentiated responsibilities” recognized. While the whole world would have to shift its energy track, the report showed that developing countries should be given “primary” energy usage, while the developed world should severely curb energy use. It recognized the critical role of energy efficiency and renewable energy sources in achieving a more sustainable path.

Addressing industry, the paper noted the importance of technology transfer from developed to developing countries, and stressed the need for more effective control of trade in hazardous chemicals. The Commission addressed the trend of urbanization and provided recommendations for governments to cope with increasing urban populations. Finally, it focused on improved international cooperation and institutional reforms. Sustainable development requires meeting the basic needs of all and extending to all the opportunity to satisfy their aspirations for a better life.

In 1985 was discovered the hole in the ozone layer above the Antarctic and then, in the same year, in Vienna took place the

Convention for the Protection of the Ozone Layer, often called a framework convention, because it served as a framework for the efforts to protect the globe's ozone layer. The Vienna Convention was adopted in 1985 and entered into force on 22 September 1988. The Vienna Convention did not require countries to take concrete actions to control ozone depleting substances.

(http://ozone.unep.org/new_site/en/vienna_convention.php, accessed at 28 January 2015)

The idea of sustainable development grew from numerous environmental movements in earlier decades. In 1992, at the United Nations Conference on Environment and Development (“UNCED” or “The Earth Summit”), the concept of sustainable development was the organizing principle for much of the negotiations process and its outcomes. Summits such as the Earth Summit in Rio, Brazil, were major international meetings to bring sustainable development to the mainstream. The countries adopted here Agenda 21 - a blueprint to rethink economic growth, advance social equity and ensure environmental protection. Agenda 21 was a plan of action and a recommendation that all countries should produce national sustainable development strategies. At the same time, the Convention on Biological Diversity (CBD) was born. 192 countries and the EU were Parties to that convention.

In the 1992-2002 periods, there has been little change in poverty levels, inequality or sustainable development, as the World Development Movement notes.

The Human Development Report (1996) was principally addressed to what countries can do for themselves. It made important recommendation and synthesizes four essential components of the sustainable development paradigm:

- **productivity:** the population must improve their productivity and have to participate entirely at the revenues generation process, economic growth being a subsystem of the human development models;
- **equity:** population must have equal access to options;
- **durability:** the access to options must be assured not only for the present generations, but also for the future ones.
- **participation:** people must participate entirely at the decisions and processes which may change their lives.

All the countries must strive to improve the nature and quality of their economic growth. In many countries, the immediate needs also

include increase in economic growth. Certainly, policies must be tailored to national circumstances. The global community may also help the countries to implement their own strategies of sustainable human development.

(http://hdr.undp.org/sites/default/files/reports/257/hdr_1996_en_complete_nostats.pdf, accessed at 28 January 2015)

Sustainable development became an objective of the European Union in 1997, when it was included in the Maastricht Treaty.

The Kyoto Protocol is an international agreement linked to the United Nations Framework Convention on Climate Change, which commits its Parties by setting internationally binding emission reduction targets. The Kyoto Protocol was adopted in Kyoto, Japan, on 11 December 1997 and entered into force on 16 February 2005. Recognizing that developed countries are principally responsible for the current high levels of CO₂ emissions in the atmosphere as a result of more than 150 years of industrial activity, the Protocol places a heavier burden on developed nations under the principle of "common but differentiated responsibilities."

(http://unfccc.int/kyoto_protocol/items/2830.php, accessed at 10 February 2015)

In 2001, at the Summit in Gothenburg focused upon EU enlargement, sustainable development, economic growth and structural reform issues, was adopted the Sustainable Development Strategy for the EU, whom has been added an external dimension at the Barcelona Summit, in 2002. (<http://www.globalissues.org/issue/367/sustainable-development>, accessed at 30 January 2015)

In 2012 took place the UN Conference on Sustainable Development, with aims to get bold agreements to address things like poverty, sustainable development, decent jobs etc.

In the international literature occurred, in the recent years, numerous works regarding the global issues facing the human civilization in the early XXI century. The most famous works are written by Lester Brown, environmental analyst, founder of the Worldwatch Institute and founder/president of the Earth Policy Institute, a nonprofit research organization. Brown is the author or co-author of over 50 books on global environmental issues and his works have been translated into more than forty languages. One of his most recent books is "Full Planet, Empty Plates: The New Geopolitics of Food Scarcity", which was released in September 2012.

Among other ideas, the author underlines that the crisis which faces nowadays the international relationships between the countries and the world economy presents great hazards and seems to worsen (a testimony are the terrorist attacks of 11 September 2001). It is considered that the gap which separates the rich from the poor countries is an essential element of these crises and often is so huge that it seems people use to live in different worlds. Another source that gives rise to the current global crisis is the huge fuel, energy and raw material consumption, with their tendency to collapse.

Because of the unlimited economic development, we assist at the process called “demographic explosion” and at an unbalanced geographical distribution of the population in relationship with the available resources of the planet; that’s why are needed efforts to eliminate poverty, to lift the level of culture, to develop the ability of human collectivities in improving the efficient use of the available resources.

In terms of species and ecosystems, it is necessary to maintain the genetic diversity and to propose rainforest protection programs.

The industry development must be done by promoting more effective and less polluting new technologies, underlining the need for an increased control on toxic chemicals used in both – industry and agriculture, as well as on discharges of hazardous waste for the environment.

Regarding human settlements, it is necessary to ensure a balanced development between the urban and rural environment, the control of urban development and the avoidance of overcrowding, supporting the efforts to eliminate underdevelopment.

Every generation uses up some part of the earths original endowment of non-renewable resources. There is no alternative. Maybe eventually if our economy is based entirely on renewable. What should each generation give back in change of depleted resources if it wishes to abide by the ethic of sustainability? It should add to the social capital in other forms, enough to maintain the aggregate social capital intact. In other words, it should replace the used-up resources with other assets of equal value. (Solow, 1993)

Sustainable Development in the context of Economic Development

The huge development registered at the moment of entering the world in the “industrial era” with more than 200 years ago, started from

the image of the unlimited size of our planet and from its ability to insure indefinitely non-renewable mineral resources, unlimited living conditions and welfare for a continuously expanding population, and also the ability of the planet to take over again and again (forever) the pollutant's arising from the industrial and no industrial activities.

The imminent exhaustion of mineral resources such as oil, copper ores or of precious metals, deforestation of huge areas of the forests, the disappearance of hundreds of animal and plant species, the acid rain, the ozone layer depletion and the climate changes are just a few elements which determines a number of scientists to draw more frequent alarm signals about the poor state of the actual natural environment. That's the reason why rapid changes are necessary regarding our attitude towards the environment and the development issue.

The top ten industrial countries of the world, with 10% of the world's population, but with economies oriented exaggerated on consumption uses more than 60% of the Earth resources, producing 75% from the solid waste of the world. Even if in 1970, the world's rich countries agreed to give 0.7% of their gross national income as official international development aid annually, and, since that time, billions have certainly been given each year, rarely have the rich nations actually met their promised target. That means, more exactly, the environmentalists (and the population) can not agree with this kind of development. The planet has a lack of resources for all its inhabitants. In this respect, an illustrative example was given by J. Chirac at the Barcelona Summit (2002), showing that it is completely unfair that the first three richest families from all around the world holds each fortunes over 50 billion dollars, while the first 150 families have their income equal with those of the poorest half of the worlds population.

Increasingly, the industrial society, through the wrong priority of consumption at any price, exploited indiscriminately the non-renewable resources. She destroyed huge surfaces of fertile soils. In many places, it put in danger life through air, water and soil pollution.

This situation can not last. A balanced society must have other priorities, to provide an adequate standard of living for all its members, under the conditions of decreasing resource consumption, keeping a high quality of the environment and also, keeping the conditions of maintaining life for the future generations.

The main element of sustainable development is the interaction between population, economic progress and the potential of natural resources. It should be designed such an economic environment which one, through its inputs and outputs, is in dynamic compatibility with the natural environment, and also with the needs of the future generations.

The overall objective of sustainable development is to find the optimal interaction and compatibility of four systems: economic, human, environmental and technological, in a dynamic and flexible process. In other words, for the system to be operational it is necessary to apply this support and viability in all the subsystems forming the four dimensions of sustainability, starting with energy, agriculture, industry, to investments, human settlements and biodiversity.

Sustainability as a world system refers to the careful use of resources – and this does not just refer to mineral and renewable resources, but to all, local, regional and global ecosystems, and, in times of global warming, to Planet Earth itself. The Limits to Growth did not just give birth to the discipline of sustainability research, but also ushered a new era of world domestic policy. A “sustainable development” towards reconciling economy and ecology became part of the United Nations agenda. Specific UN programmes such as the Framework Convention on Climate Change and Agenda 21 (both of 1992), the Kyoto Protocol (1997) or the Millennium Development Goals (2000) formulate requirements for achieving sustainable development.

The minimum requirements to achieve a sustainable development include:

- resizing the economic growth, emphasizing the qualitative aspect of production;
- eliminating poverty in terms of satisfying the essential human needs: job, food, energy, water, home, health, assuring an acceptable level of population growth;
- conservation and enhancement of natural resources, maintaining ecosystems; the supervision of the impact of economic growth on the environment;
- technological reorientation and the control of its risks;
- increasing the governments involvement in the making decision process regarding environment and, finally, regarding the whole economy.

The multiple aspects of sustainable development, starting with economic growth and employment, as far as the gender equality, environment protection and individual freedom, must be treated in an integrating vision, with focus upon the enlarging of the manifestation possibilities of the people's choice.

The essential components of a sustainable development strategy are:

- stabilizing the population, ensuring a decent living for all the people;
- maintaining the natural fertility of soils;
- protecting the biological systems of the planet;
- reducing the dependence of the global economy on oil and fossil fuels;
- the development of the alternative renewable energy;
- the recycling of materials, diminishing the consume of mineral resources and of pollution.

All these efforts have led to a new concept and a new science: ecological economics.

Ecological economics and ecological management

The human race is entirely dependent on the ecosystems that feed it, regulate the environment, recycle the wastes and provide all the peoples need to survive and thrive. Over the past 100 years, humans have changed ecosystems more rapidly and extensively than in any comparable period in the history. There have been net gains in human well-being and economic development, but these gains have been achieved at growing cost in the form of environmental degradation, loss of biodiversity and depletion of natural capital.

Many options exist to reverse ecosystem degradation, but an understanding of the ecological systems and science is just a starting point. Understanding how the science interacts with policies, institutions and practices, is vital to achieve real change.

Ecological economics (called also eco-economics) refers to both, a transdisciplinary and interdisciplinary field of academic research, that aims to address the interdependence and co-evolution of human economies and natural ecosystems, over time and space. It is different from environmental economics, which is the mainstream economic analysis of the environment, by its treatment of the economy as a subsystem of the ecosystem and its emphasis upon preserving

natural capital. One survey of German economists found that ecological and environmental economics are different schools of economic thought, with ecological economists emphasizing strong sustainability and rejecting the proposition that natural capital can be substituted by human-made capital (Daly and Farley, 2010).

Ecological economics was founded as a modern movement in the works of various European and American academics. The related field of green economics is, in general, a more politically applied form of the subject

According to the economist Malte Faber (2008), ecological economics is defined by its focus on nature, justice and time. Issues of intergenerational equity, irreversibility of environmental change, uncertainty of long-term outcomes and sustainable development guide ecological economic analysis and valuation. Ecological economists have questioned fundamental mainstream economic approaches such as cost-benefit analysis and the separability of economic values from scientific research, contending that economics is unavoidably normative rather than positive (empirical). Positional analysis, which attempts to incorporate time and justice issues, is proposed as an alternative. Ecological economics shares many of its perspectives with feminist economics, including the focus on sustainability, nature, justice and care values.

The new concept “eco-economics” starts from a set of principles of sustainable development, like: living within environmental limits; achieving a sustainable economy; promoting good governance; using sound science responsibly; ensuring a strong, healthy and just society.

The targets for all the governments must be a significantly reduce of waste, water usage and carbon emissions, together with making our environment more sustainable. To reach these targets is possible only if we can maintain the equilibrium of our nature. Natural or environmental equilibrium means to assure that:

- the rate of fertility loss of the soil does not exceed the rate at which new soil is formed;
- deforestation should not exceed the rate of reforestation;
- the fishing capacity do not exceed the regenerative capacity of fish stocks;
- the reduce of habitats should not reach below the required limit necessary to preserve the animal and vegetables species, preserving biodiversity on the planet;

- carbon dioxide emissions should not exceed the natural ability of the Planet to retain carbon;
- the elimination of wastage of raw materials, fuels and energy, are done by using clean technologies.

It is an urgent objective to develop new forms of clean energy, like: wind and solar energy, use of hydrogen, fission and fusion energy, high temperature geothermal energy, biomass etc. The interest for alternative energy gets the attention of the specialists in international environment problems. They are concerning in assuring the energetic resources, because of the price of oil barrel which is doubled in the last decade. The frequent problems faced by climatic changes - influenced by pollution - but also the opportunities offered by the alternative energies are new economic and social development directions. That reality changes this field into a domain able to bring local, regional and international benefits, if it will be real extended.

To attract the whole society into the eco-economics field depends on the ability and capacity of the individuals involved to adopt and implement programs, strategies and plans based on conceptual models which are characteristics for ecology and sustainability. Such a model is those which cover the use of energetic resources, within this context. (Ardelean and Maior, 2000)

Because the transition to such an economy means to change thinking and ways to operate upon the environment, to maintain the human impact in the stability field of ecological systems, results the necessity to guide the peoples into the direction of the future changes. It is necessary to change the attitudes and practices of each individual, which means not only an efficient use of the resources, but also the changing of economic mechanisms in each country and over the world, with the purpose of implementing the global transition into the direction of a real sustainable development model.

To reach a dynamic and continuous equilibrium between the available resources and the human needs - social and ecological - by using a policy able to stimulate de human creativity in finding solution to the dangerous problems which concern our society: pollution, overpopulation, starvation, the need for houses, the exhaustion of some raw materials and energy resources and so on, in the last years, because of the increasing of the consume, a new concept has been often used: "ecological management". (Dobre, 1999)

Ecology is defined as the relationship between organisms and their environment. In terms of human beings, ecology also entails the interaction between human groups and their social and physical environments. Seeing that humans are organisms, even though they are not given considerable attention in general ecology and biodiversity dialogue, ecological management should incorporate programmes which focus on the wellbeing of humans, other animals and their environment, along with their inter-linked relationships. (<http://cnirdregional.org/cnird/cnird-projects/sustainable-ecological-management/>, accessed on 10 February, 2015)

When the term “ecological” is used, it often describes a body or process which is beneficial to the environment, or results in minimum damage to the environment. Ecological management can be defined as the act of incorporating personnel to effectively and efficiently achieve desired objectives pertaining to the relationship between organisms and the natural environment, in a manner that is beneficial or causes minimum damage to the environment.

Environmental management and sustainability is a multidisciplinary field which focuses on finding solutions to the world's most pressing environmental problems. (Held, 2004)

If the term “sustainable” is incorporated into “ecological management”, that is: “sustainable ecological management”; it can be defined as effectively managing ecological systems in a manner which allows resilience and maximum benefit to organisms with little to no damage inflicted on these ecosystems. In light of this, programmes in this portfolio will incorporate all the above principles for the development and benefit of organisms (including humans) and the environment.

Sustainable environmental management proposes solutions to overcome the current environment crisis, through:

- monitoring key pollutants and pollution factors;
- implementing measures to prevent pollution, environmental degradation, evaluating the costs of prevention and organizing the performance of these activities;
- evaluating the environmental damages which results from the economic activities;
- estimating the costs needed for the rehabilitation of the degraded areas, as well as those for environmental protection;

- promoting clean and green industries/technologies whose use has to be done in harmony with the nature, by the principle of sustainable development;
- formulating effective decisions regarding environmental management and natural resources, the harmonization of the environmental with the economic requirements.

The final objectives of environmental management must be:

1. To maximize the potential of humans to generate sustainable income with minimal cost to their natural environment, with emphasis placed on persons in rural communities;
2. To foster a positive mutual understanding between humans and the surrounding ecosystems, effectively managing and conserving these ecosystems;
3. To promote awareness and implement programmes as it relates to sustainable land management, to ensure the strategic use of the available land resources without compromising the health of the ecosystems;
4. To ensure youth development in sustainable ecological management, that means to assure a greater appreciation of the environment by the young generation.

Limits of sustainable development

The concept of sustainable development has emerged and become a globally necessity in terms of the systematic degradation of the natural conditions, as a result of the demographic explosion and economic development in the last two centuries.

It is over 20 years since Agenda 21 was adopted in Rio de Janeiro and a huge number of countries have now espoused this code to use sustainable development as a mean of avoiding an ecological catastrophe.

“Living within environmental limits” is one of the five principles of sustainable development. But the practical meaning of this principle and our methods to achieve it has not yet been articulated clearly. It is easy to talk about environmental limits, and many of us accept that such limits must exist. But how do we recognize them? What can we do to prevent those limits being expanding?

With all our desire to change the current status quo, we must understand that of this road of sustainable development there are limits imposed by (Csorba, 2014):

- the technological level we have reached till nowadays, pollution accompanying effectively and totally the business practice;
- the strict calculation of the economic efficiency, while we continue to use classical technologies, which are cheaper than the sustainable one;
- there are people who do still not have decent minimum living conditions and who need to be helped to achieve that decent minimum. That means additional resource consumption, possible new natural imbalances, pollution etc.

It doesn't exist "totally clean technology", but only less polluting technologies, which mean to continue pollution in all its forms, affecting all the environmental factors.

It is impossible to give up totally the use of fertilizers and pesticides taking into account the growing demand for food for a population which increases every year. It is not possible to give up the fast and secure transport by land, water and air, which requires fuel generating pollution.

The limits of sustainable development are coming also from the international un-honored support of the developed countries in the direction of the developing states in areas such as providing the population with drinking water supply, the development of agricultural production, ensuring the minimum need of electricity, and so on.

However than, the radioactive waste that we have stored on the ocean floor and in drilled areas in the earth's crust are problems which must be solved by the future generation, expecting from them concern, money, time, work in our account.

In 1972, a team of scientists at the Massachusetts Institute of Technology, Donella H. Meadows, Dennis L. Meadows, Jorgen Randers and William W. Behrens III produced the World3 model to simulate the relations between world population, industrialization, pollution, food production and resource depletion. The book "Limits to Growth" provided computer generated models of what might happen to the world, to our society, invaded by natural disasters and economic crisis; this are just two of the many situations that require us to build a more resilient society.

He insists that what we need to do is to adjust our lifestyles with the reduction of resources. Therefore, the word resilience has apparently become the next buzzword, replacing sustainable government, at least for some parts of the world.

Meadows define resilience as: “the ability to absorb a shock and quickly regain the ability to perform essential functions”. While sustainable development assumes that order exists and the current system works, resilience assumes the existence of chaos where the current system does not work. There is no one universally accepted way of defining the word “resilience” but in the simplest way of defining it, a “resilient society” would be a society that can survive a crisis and function again, maybe not as it was before the crisis, but enough to sustain the life of the society.

Resilience is worth promoting, so that the next generation has a better chance to survive because, as argued by Meadows, a resilient system will eventually be sustainable. It is now up to the society to act, and we do not need to wait for the rest of the world to take the lead.

As Meadows states: “There are global problems like climate change that require global actions, and there are universal problems that can be dealt with locally.” Identifying and acting on the universal problems that we can deal with locally would be a good starting point. We can’t forget that our society already possesses a self-supporting mechanism, which if developed further will enable us to go on after crisis or chaos. “If this practice can be applied to the bigger picture of development and resource management and is adapted to the government’s development policy, we might have a chance to take a short breath before continuing to worry about the future of our children”, said the author.

The author maintains the term “sustainable development”, with the assumption that it is no longer available the tendency that the rich countries can continue to live as they are, while the poor countries strive to catch up with minimum risks for the future. This is a perfect example of how a developing country is striving to reach the level of developed countries, a feature of sustainable development.

(<http://www.thejakartapost.com/news/2012/12/07/limits-growth-sustainable-development-or-resilience.html#sthash.WwIHUug8.dpuf>)

Conclusion

Sustainability is achievable only on a global scale and cannot be regionalized or isolated. That demonstrates the need to move to a new way of thinking, to show the humanity its real place in the natural environment and to highlights the importance of the global environmental stability.

Because of that reason, a huge change in the sustainable development paradigm is needed. The strategic nucleus of these must be the conservation of ecosystems, especially forests, and the partial reconstruction of destroyed ecosystems, as well as an understanding of the humanity's real place in the natural environment. The understanding of this issue, coming from the population and the "environmentally" target groups may be demonstrated through:

- A positive behavior change, evidenced through increased support and participation of/at environmental activities;
- The implementation of projects which serve to protect surrounding ecosystems within their respective communities;
- To sustain the implementation of Eco-friendly small businesses.

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Effect of Performance Appraisal on Employee Productivity in a Nigerian University

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Abstract

The purpose of this study is to investigate the effect of appraisal system in Niger Delta University on employee productivity. The ineffective practice of performance appraisal could affect employee productivity. The methodology employed was a survey study design. During the research process, the population of study comprises about 3478 Academic and non-academic staff. The researcher sampled 3% of the total population using stratified random sampling. In course of investigation, instrument used were self developed questionnaire distributed to 104 respondents of which 102 were retrieved. Correlation coefficient was used to test the hypothesis. There was a significant relationship between performance appraisal and employee productivity and that effective appraisal system could boost the morale of workers especially when they are rated adequately. The findings also revealed that performance criteria also affect the relationship between performance appraisal and employee productivity. Performance appraisal

should provide accurate and relevant rating of an employee performance as compared to pre-established criteria. Employees should not be appraised based on their personal trait but on performance variables.

Keywords: Performance, Evaluation, Employee, Productivity

Introduction

Performance appraisal is an essential instrument of personnel management designed to identify an individual employee's current level of job performance, identify employee strengths and weaknesses, enable employee improve their performance, provide a basis for rewarding or penalizing employee in relation to the contribution or lack of adequate contribution to corporate goals, motivate higher performance, identify training and development needs, identify potential performance, provide information for succession planning, validate selection process and training, encourage supervisory understanding of the subordinates (Shehu, 2008).

Performance appraisal provides a rational medium or instrument for measuring individual worker contribution to corporate goals achievement and success. It is a complex management function which demand for extra-maturity, fairness and objectivity in assessing individual worker job performance based on explicit job related criteria.

According to Nurse (2005), appraisal results provides vital information about a workers strength and weaknesses, training needs and reward plans such as advancement, promotion, pay increase, demotion and work or performance improvement plans. Performance appraisals have the equal probability of having a bad impact on the organization as well as employee performance.

It is also known as a formal program in which employees are told the employer's expectations. Performance appraisers are used to support the decisions including promotions, terminations, training and merit pay increases. It is an employer's way of telling employees what is expected of them in their jobs and how well are meeting those expectations.

Performance appraisals usually have a positive and negative impact on employees. Employees who receive a good score on his/her

appraisal are generally motivated to perform well and maintain his/her performance. Positive feedback on appraisal gives employee a feeling of worth and value especially when accompanied by salary increment. If a supervisory gives employee a poor score on his/her appraisal, the employee may feel a loss of motivation in the workplace. This has an impact on the employee performance (Cook and Crossman, 2004).

Performance appraisal is what managers use to review and rate employees underneath them. Company use a variety of performance appraisal types based on their philosophies and what qualities they are interested in employees having most appraisal resembles checklists or rating systems for specific skills and qualities, while this tools help businesses find problem areas in employees and ensure employers are earning their compensation. They also have issues companies should be aware of.

Statement of Problem

Performance appraisal is a veritable tool for employee productivity. The essence of performance appraisal is to checkmate the contribution made by every employee and to know how well they are going on with their task. Appraisal help to identify the skilled and performing employee of an organization to increase their salary and other benefits that can make them satisfied on their job (Leigh, 2012).

There are lots of problems associated with effective performance appraisal which includes untrained supervisors/managers, lack of effective metrics, inconsistent rating of employees, unreliable reward systems. It is on this premises that the study seek to know the effect of performance evaluation system on employee productivity.

Objectives of Study

The general objective of the study was to find out the effect of performance appraisal system on employee productivity. The specific objective of the study was to determine:

- the relationship between performance appraisal and employee productivity;
- the impact of performance criteria in performance evaluation on employee productivity.

Hypothesis

H₀: There is no significant relationship between performance appraisals and employee productivity.

H₁: There is a significant relationship between performance appraisal and employee productivity.

H₀: There is no significant relationship between performance appraisals criteria and employee productivity.

H₁: There is a significant relationship between performance appraisals criteria and employee productivity.

What is Performance Appraisal?

Performance appraisal is a formal program in which employees are told the employers expectations for their performance and rater and how well they have met those expectations. Performance appraisals are used to support human resource decisions including promotions, terminations, training and merit pay increases.

It is an employer's way of telling employees what is expected of them in their jobs and how well they are meeting those expectations.

Performance appraisal is the strength of performance management which in turn affects the organizations performance. It helps to identify and overcome the problems faced by the employees on his/her work (Mackey, 2000).

According to Nurse 2005, performance appraisals have the equal probability of having a bad impact on the organization as well as on employee performance. Performance appraisal provides a periodic review and evaluation of an individual's job performance. The forms may only be completed once a year, the job of performance appraisal is continuous, sometimes daily and requires effective communication on both the parts, of the supervisor and the employees.

Objectives of Performance Appraisal

According to Allan (2014), Performance appraisals are essential for effective management and evaluation of staff. Appraisal helps to develop individuals, improve organizational performance and feed into business planning. Formal performance appraisals are generally conducted annually for all staff in the organization. Each staff member is appraisal by their line manager. Directors are appraised by the CEO, who is appraised by the chairman or company owners, depending on the size and structure of the organization. Annual performance appraisals

enable management and monitoring of standards, agreeing expectations and objectives, delegation of responsibilities and tasks. Employee performance appraisals also establish individual training needs and enables organizational training needs analysis and planning.

Employee performance appraisal measures staff performance against set objectives and standards to show how well it was accomplished. Appraisals helps organization to know the input made by every employee and also enables the organization know the next grade level of the worker and the pay associated to it.

Employee appraisal helps in motivating workers. When an employee is graded high and as such promoted, it boosts his morale and as worker he wants to continue putting in his best. Performance appraisals are measures taken in managing the performance of people and organization.

Performance appraisal is a systematic evaluation of an individual with respect to performance on the job. Samantha Gluck (2000) in his book titled "Purpose of performance appraisal system" reveals that companies use performance appraisals for evaluation and developmental purposes. A well designed performance appraisal can start dialogue between supervisors, direct reports and coworkers that may result positive outcomes for the individuals and the business.

Performance Appraisal Process

The process of performance appraisal begins before a worker is being appraised. Employees should know what is expected of them and also know the standard at which they will be judged. The following are the steps of performance appraisal.

Establishment of Standards: This involves out of job analysis and job description. The standards should be clear and achieve the objectives. The goals of the organization should be prioritize. To accomplish the goals, the jobs are to be performed. The level of performance should be established. Performance standards are statements which specify what constitutes good work. Those who are concerned in fixing performance standards should develop the list of specific job tasks than they write statements that specify how the quality of the work will be determined.

Performance Standard and Expectations Should be Communicated: When performance standards of organizations are established, it should be communicated to those involved. There should

be proper communication between the managers and the employee on the job regarding the goals, expectation from employee, performance standard to be achieved, the jobs to be performed and the methods of performing the job.

Performance Measurement: Performance has to be measured with the already set standards. To understand what performance is all about, information about it should be gotten. There are four common sources of information frequently used by managers to measure performance. They are personal observation, statistical reports, oral reports and written reports. The combination of the above increases both the number of input sources and the probability of receiving reliable information. The performance can be measured in quality, quantity, time, cost, difficulties faced, competences, behavior, initiatives.

Comparison: This is the comparison of actual performance with standards. Standards are compared with the prefixed standards. There is need to identify standard performance and actual performance. Slow and fast working persons can be identified through comparison. If comparison is not carried out then the goals and performance cannot be aligned to meet the planning requirement.

Appraisal Feedback: Here, information gotten relating to appraisal are analyzed and discussed with the employee. Employees are to be told about their strength and weaknesses on their job so as to enable them work harder next time.

Correction, Motivation and Development Action: Corrective actions can be taken at the earliest to remove the cause of the problem. Performance may be poor due to workers, machines, working methods, environment etc. Actions are to be taken to motivate the workers, equipment should be provided and workers/employees are also to be trained on their job for better productivity.

The Effect of Performance Appraisal

Performance appraisal which is seen as a way of providing review and evaluation of an individual job performance has its own negative and positive effect on the employee's productivity in an organization.

This system acts as a motivator to the employee to improve their productivity. When the goals of the employee are clarified, his performance challenges identified, the effect is to motivate the employee to achieve those goals.

Creating a comprehensive plan for employee development and giving an employee achievements to strive for, will inspire a higher level of efficiency. It is seen as a career development tool for the manager and employee. The manager can help guide the employee on the path to corporate advancement, and the employee gets a clearer understanding of what is expected from her in her daily duties.

The duty of the employee is based on guidance from management. Appraisal is when a manager and employee review the job descriptions and compare the employee's performance with expectations. This gives the employee a feeling of clarity and understanding that will help him better perform his job duties.

According to Rudman (2003), performance appraisal policy is a critical factor in an organization in enhancing the performance of the employee. There is a strong connection between how firms manage their employees and the organizational results they achieve.

Cook and Crossman (2004) highlight that employee whose performance is under review often become defensive. Whenever employee performance is rated as less than the best or as less than the level at which employee personally perceives his/her contribution, the manager is viewed as being biased. Disagreement about the contribution and performance ratings can create a conflict ridden situation that festers for months.

According to Mayhew (1985), company use performance appraisals to measure employee job performance and to determine salary and wages increases. Nevertheless, performance appraisal also brings news that causes fret over job security, status, eligibility for promotion and possible bias or unfair ratings. It also shows the strength and weaknesses of employee on their job.

How a Performance could be Effective

There are several management and leadership practices that determine the effectiveness of performance management systems including the leadership by senior management, management ownership and checks or balances who owns and leads the system.

According to the data, line management has a greater ownership than the human resource function in most organizations. It also shows that this is very much a positive for the effectiveness of the system. Line management ownership correlates highly with performance

management effectiveness while human resource ownership does not (Lawler, 1979).

A successful performance management is the ownership and leadership of senior management. When management owns the system instead of HR and when senior leaders support it, performance management systems are much more effective. What gets measured for effectiveness gets done effectively. Training should be undertaken by those who do appraisals as well as those who are appraised. Appraisal discussion seems uncomfortable for individuals to participate in and to conduct, and in the absence of training, they lack an understanding of what is supposed to happen and how the overall systems work.

The appraisal activity should be audited to know how well the performance appraisal activities were carried so that their effectiveness can be determined. Integration with the overall human resources strategy is a critical enabler of not just the performance management processes, but the overall talent management system in an organization.

The basis of a good performance management system is in the planning process. As you launch your business, give serious consideration to the type of performance management system you believe is best suited to your workplace. The performance management system used by your company must be congruent with the company's philosophy, mission and values.

Defining your company philosophy, mission and values start with your business plan and carries out through your company practices. (Sean, 2010).

For your performance management system to be effective, there are steps which are to be taken. They include developing job descriptions and job specifications, identifying performance standards and formulating the types of rewards and recognition you offer for good performance.

Drawbacks of Performance Appraisals

Performance appraisals which are seen to have a negative and positive effect on organizations, there are several drawbacks of performance appraisals because the activity seems to be very stressful.

Performance appraisal system practice in an organization can make an employer and its employee to have a different perspective/interpretation of the appraisals outcome. When an area of improvement is identified which is to be corrected, it may sometimes

lead to your employee feeling that the appraisal was nothing more than a “chewing out” session, causing reduced morale.

Some of the major limitations of performance appraisal include bias of appraisals, ambiguity in standards, insufficient evidence; several qualities remain without appraisal, leniency or strictness tenancy, average rating problems, influence of man’s job and similarity error (Smriti, 2014).

According to Ruth (2012), the training provided by employer is woefully inadequate for preparing supervisors to provide unbiased feedback to employees in a manner that motivates workers to strive for higher performance ratings.

Another drawback of performance appraisal system is that supervisors/raters feel the time it takes to prepare an employee performance appraiser exercise. Interaction between the rater and the rate is usually frightened because of the close proximity within which raters and rate working small business setting.

The Relationship between Performances and Employee Productivity

Performance appraisal is necessary in an organization; this is because it helps in clarifying goals and expectations and also creates an environment for open communication. It brings about positive feedback and advice for improvement.

Performance appraisal brings about high productivity in the sense that it creates a link between employee’s expectations and how the employees work contributes to the larger organization’s success.

Appraisal helps in identifying strength and weaknesses of employee performance. Opportunity is usually created for employees and supervisors to discuss employee goals, supervisor’s goals for the larger organization and ways that the employee and supervisors can work together by further developing skills and strength necessary to reach these goals.

The Effect of Pay (Compensation) on Employee Performance

Reward system is the instrument used to increase employees’ performance which seeks to attract and retain suitable employees, encourage good management, minimize tensions and conflicts as it deals with all forms of final returns, tangible services and mechanism

for good relationship. It is of a truth that industrial conflict is usually based on the fact that employees feel their benefits are denied and as such compensation is to provide a good platform for equity and fairness. The effect of pay on employee is that their needs at all levels are provided. This develops a company integrity, procedures, policy and practices capable of improving organizational productivity.

With effective pay, better result can be achieved and everyone goes home fulfilled and satisfied. Pay increase morale of your workers and also lead to an increase in productivity as they feel a sense of loyalty to the company because you show loyalty to your workers. Increase in the pay of workers gives an organizational competitive edge over their competitors.

Determining Performance Appraisal Criteria

According to Shehu (2008), in his book titled manpower planning and administration, an effective appraisal system specify what to measure in the appraisal form such as quality and quantity of output, services and requisite job behavior, talents and attitudes. Different job should have different performance measurement criteria. Care must be taken not to use one system of criteria for measuring performance of different professions and skill like in the civil service where APER form is used as a standard criteria to measure all jobs in the service whether applicable or not, assessment just have to be made.

For a performance appraisal system to be effective there must be an organized training for the raters. They should be aware of the skills necessary for evaluating employee performance. The training should be on goal setting, coaching employees, providing feedback.

Research Methodology and Design

Research design is seen to be the planning of any scientific research from the first to the last step. It is a specification of the most adequate operations to be performed in order to test a specific hypothesis under a given condition (Williams, 2006).

Research Design

The design used is the survey design and is based on solving an existing problem by the use of questionnaire. The design of this study was exploratory. This was to give room for flexibility in enhancing the data for the conduct of the study.

Target Population

The population is the aggregate or the totality of the units in the universe of study. The population of the study involves the Academic and Non-academic staff of Niger Delta University, Wilberforce Island, Bayelsa State. The total population is about 3478 which includes Academic strength of 985 and Non-academic strength of 2493. The target population in this research is 3% of the total population in each stratum, using stratified random sampling which gave us the total of 104 respondents. The academic staff was 30 while the non-academic was 75.

Data Collection Method

The data collection method was a survey design. Questionnaires were administered to 104 respondents of Niger Delta University and 102 questionnaires were returned. A covering letter was used to inform the respondents of the purpose of the research.

Data Analysis

Data was analyzed using Pearson Correlation in testing the hypothesis using GraphPad Instat® software version 3.10.

Findings and Discussion

Table no. 1. Data Analysis of Performance appraisal

QUESTIONS	SA	%	A	%	D	%	SD	%	TOTAL	%
Performance appraisal has a great impact on employee productivity.	62	61	38	37	1	1	1	1	102	100
Performance appraisal has equal probability of having a bad impact on the institution as well as employee performance.	12	12	28	27	40	39	22	22	102	100
Performance appraisals are used to measure employee job performance and to determine salary and wages increment.	45	44	37	36	14	14	6	6	102	100
Performance appraisals bring news that causes fret over job security, status, eligibility for promotion and bias of unfair rating.	22	22	48	47	23	23	9	9	102	100

From table no.1 above, 62 (61%) respondents strongly agreed that performance appraisal has a great impact on employee productivity, 38 (37%) agreed to it, 1 (1%) disagreed and 1(1%) strongly disagreed that performance appraisal has a great impact on employee productivity.

Based on the second question which states that performance appraisal has equal probability of having a bad impact on the institution as well as on employee performance, 12 (12%) strongly agreed, 28 (27%) respondent agreed, 40 (39%) disagreed while 22 (22%) strongly disagreed that performance appraisal has equal probability of having a bad impact on the institution as well as on employee performance.

The third question states that performance appraisals are used to measure employee job performance and to determine salary and wages increment, 45 (44%) of the respondent strongly agreed to it, 37 (36%) also agreed to it, 14 (14%) of respondent disagreed to it while 6 (6%) strongly disagreed to the fact that performance appraisal is used to measure employee job performance and to determine salary and wages increment.

Based on the fourth question which states that performance appraisal bring news that causes fret over job security, status, eligibility for promotion and bias of unfair rating, 22 (22%) respondent strongly agreed to it, 48 (47%) of the respondent agreed to it, 23 (23%) disagreed while 9 (9%) strongly disagreed to the fact that performance appraisal bring news that causes fret over job security, status, eligibility for promotion and bias of unfair rating.

HYPOTHESIS 1

There is no significant relationship between performance appraisal and employee productivity.

Table no. 2. Relationship between Performance Appraisals and Productivity

Questions	Positive	Negative	Total	Correlation coefficient (r)	Coefficient of determination (r squared)	Two tailed P value
Q1	462	3	465	-0.9994	0.9988	0.0006
Q2	172	102	274			
Q3	373	34	407			
Q4	302	55	357			

Source: Extracted from table 1. Data was analyzed using Pearson Correlation in testing the hypothesis using GraphPad InStat® software version 3.10

From the analysis, the result shows that the P value is 0.0006 which is considered extremely significant, which indicates that there is a relationship between performance appraisal and employee productivity. Therefore we accept the alternate hypothesis and reject the null hypothesis. This outcome is supported by Bhatti and Qureshi (2007) who observed that there is a positive relationship of job satisfaction with employee productivity. Mackey and Johnson (2000) also reveal that Performance Evaluation results are normally used to identify the strength and weaknesses of employees.

Table no. 3. Impact of Performance Criteria in Relation to Performance Evaluation and Employee Productivity

QUESTIONS	SA	%	A	%	D	%	SD	%	TOTAL	%
Performance criteria enhances effective assessment on employee performance	36	35	60	59	3	3	3	3	102	100
Supervisors/HOD's should undergo training so as to be conversant with the appraisal criteria	42	41	45	44	4	4	11	11	102	100
For performance appraiser systems to be effective, the focus of appraisers should be on performance variables instead of personal trait.	44	43	46	45	1	1	11	11	102	100
Supervisors will sometimes rate employees more favorably than that of their true performance in order to please the employees and avoid conflict	49	48	35	34	11	11	7	7	102	100

From table no. 3 we conclude that 36 (35%) strongly agreed to the fact that performance criteria enhances effective assessment on employee performance. 60 (59%) agreed to that fact, 3 (3%) respondent disagreed, while 3 (3%) strongly disagreed that performance criteria enhances effective assessment on employee performance.

Based on the sixth question, 42 (41%) strongly agreed that supervisors/HOD's should undergo training so as to be conversant with the appraisal criteria, 45 (44%) respondent agreed, 4 (4%) respondent disagreed, while 11 (11%) strongly disagreed to that fact.

Based on the seventh question which states that for performance appraisal systems to be effective, the focus of appraisers should be on performance variables instead of personal trait, 44 (43%) strongly agreed to it, 46 (45%) respondents also agreed, 1 (1%) respondent disagreed to it, while 11 (11%) strongly disagreed that for performance appraisal to be effective, the focus of appraisers should be on performance variables instead of personal trait.

Based on the eighth question which states that supervisors will sometimes rate employees more favorably than that of their true performance in order to please the employees and avoid conflict. 49 (48%) strongly agreed to it, 35 (34%) respondent agreed to it, 11 (11%) respondent disagreed while 7 (7%) respondent strongly disagreed to that fact.

HYPOTHESIS 2

H₁: There is a significant relationship existing between performance appraisal criteria and employee productivity.

Table no. 4. Relationship between Performance Appraisal Criteria and Productivity

QUESTION	POSITIVE	NEGATIVE	TOTAL	Correlation coefficient (r)	Coefficient of determination (r squared)	Two tailed P value
Q5	420	9	429	-0.9622	0.9259	0.0378
Q6	390	26	416			
Q7	404	23	427			
Q8	385	29	414			

Source: Extracted from table no. 3

From the analysis made, the result shows that the P value is 0.0378, which is less than 0.05 and is considered significant, which indicate that there is a significant relationship between performance appraisal criteria and employee productivity. Therefore we accept the alternate hypothesis and reject the null hypothesis. This outcome is supported by Lawrence (2014) which reveals that severity error occurs when individuals are given ratings that are lower than actual

performance warrants. Severe ratings may be assigned out of a dislike for an individual, perhaps due to personal bias.

Conclusion

Performance appraisal has helped greatly in the assessment of employees which can stand as a guide to the path of advancement. It is an important tool in an organization which helps in identification of the areas of strength and weakness. Organizations are expected to embrace performance appraisal exercise because it can help in indicating areas of training needs, performance improvement and succession planning and as a motivator.

Performance appraisal is a yardstick for employment decisions which helps organizations in determining promotions, terminations and transfer of employees, determining wages and salary administration.

A performance appraisal criterion which is seen as an evaluative statement indicates what is to be assessed and the required level of performance. It is very important that when assessing an employee, ensure the evidence provided by the employee is sufficient enough to show competence in all of the performance criteria. Supervisors should undergo training based on this.

Recommendations

Based on the conclusions drawn from the findings, it would be necessary to recommend what will help to solve the problems associated with the challenges faced in performance appraisal. The following are our recommendations:

- Performance appraisal, which is an annual exercise, should be properly carried out because it has a great impact on employee productivity/performance. It is what managers use to review and rate employees. It helps to identify and overcome the problems faced by the employees on his/her work. Employees should also know what is expected of them while carrying out their duties and this can be achieved if the employers let the employees know their various assignments. The employees should be informed about the importance of appraisals.

- The organization should provide a conducive working environment for the employees. That will go a long way to increase productivity.

- Performance appraisal should provide accurate and relevant ratings of an employee performance as compared to pre-established criteria. The supervisors who are to rate the employee during the appraisal exercise should go on training. The set criteria should be used. Workers should not be appraised based on their personal trait, but the performance variables should be considered.

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The Service Orientation and Employee's Customer Orientation in Public Services Organizations

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Abstract

This paper explores the relationships between service orientation and employees' customer orientation in public services organizations. First, we will review the relevant literature on service orientation and employee's customer orientation. Based on this theory, the research hypothesis is formulated. The research results will be followed by conclusions, limitations and future directions. At the construct level, we found positive direct relationships between service orientation and employees' customer orientation. The regression model of the service orientation dimensions revealed significant positive effects of customer treatment and service standards communication on employees' customer orientation, as well as the negative effects of service rewards.

Keywords: service orientation, employee customer orientation, public services, customer interactions, customer treatment

Introduction

The importance of organisational service orientation and employee customer orientation is largely recognised in services sector. Providing a good service to customers requires a focus on customers at

organizational level, changing the culture, systems and procedures, as well as the attitudes, skills and behaviours of employees and managers. Consequently, in this paper we will explore the relationships between service orientation and employees' customer orientation in public services organisations. The paper is organised as follow. First, we will review the relevant literature on service orientation and employee's customer orientation. Based on this theory, the research hypothesis is formulated. The research results will be followed by conclusions, limitations and future directions.

The Service Orientation Construct

The service orientation concept began to be developed in the 1990s literature on services marketing. Schneider (1990) highlighted the importance of organisational service orientation. Some theoretical studies have explored various issues of service orientation (Berry, Conant, and Parasuraman, 1991; Dabholkar, Thorpe and Rentz, 1996; Schneider, Wheeler and Cox, 1992). Johnson (1996) described the nature of organizational service climate and Benoy (1996) explored the relationship between organizational service climate and organizational performance.

The service orientation could be approached at individual and organisational level. At individual level it is considered a measure of employee personality traits, some people within organization being more service oriented than others. Service orientation measurement at organizational level could take two approaches. In the first perspective, the organization is analyzed in terms of certain parameters of structure, organisational climate and culture. In a second approach, the focus is on organisational strategy, analyzing how important is the customer service for the company's marketing strategy.

Individual's service orientation was defined by Hogan et al (1984, p. 167) as "a set of attitudes and behaviours that affect the quality of interaction between employees of an organisation and its customers". They developed a 92-item scale called service-orientation index. Service-oriented people are available to be helpful, caring, polite and cooperative. Individual attitudes and behaviours directly affect the nature and quality of services, and any interaction between the organization and its customers.

The organizational service orientation is based on a deep understanding of the very nature of the service. Be helpful require to

take care of one's needs, involving helping, giving and sharing. Services can be delivered only if the organization's employees are at appropriate points in the service process, and are willing and able to take care of customer needs (Berry, Parasuraman and Zeithaml, 1994). Lytle, Hom and Mokwa (1998) adopted an organisational perspective in measurement of the service orientation. This orientation require an organisational climate, policies, practices and procedures that creates, nurtures and rewards excellent service practices and behaviours that are deemed to satisfy customer expectations. Service orientation scale has a wider scope of generalization, both in the business sector, and the public service and non-profit organisations (Perryer, 2007). Service-oriented organizations consider excellence in providing services as a strategic priority, creating superior value, customer satisfaction, competitive advantage and profitability (Lytle, Hom and Mokwa, 1998).

Organisational orientation is a key factor in creating superior value for customers. The results of previous research indicate that certain organizational outcomes (e.g. profits, growth, customer satisfaction and loyalty) are directly related to service orientation (Heskett, Sasser and Schlesinger, 1997; Johnson, 1996; Rust, Zahorik and Keiningham, 1996; Schneider and Bowen, 1995). Therefore, it is essential for organisations to measure service orientation and practices as drivers of excellent services delivery. These practices adopted by organizations provide the capability to deliver high quality services, leading to higher profits, higher customer satisfaction and loyalty. The lack of understanding and inability to measure and manage an organisational service orientation can inhibit long-term organisational performance.

Lynn et al (2000) and Lytle, Hom and Mokwa (1998) developed and validated relevant measurement scales of organizational service orientation (SERV*OR). The multidimensional conceptualisation of the service orientation construct comprises ten key dimensions in creating and delivering an excellent service: (1) service vision; (2) servant leadership; (3) customer treatment; (4) employees empowerment; (5) service training; (6) service rewards; (7) service failures prevention; (8) service failure recovery; (9) service technology; and (10) service standards communications. These ten dimensions reflect the four key components of organisational service orientation: (1) service management practices, which include behaviours, management style and service vision spread throughout the organization; (2) practices in

meetings with customers, referring to employee-customer interaction, customer treatment and employees empowerment; (3) the practices of service, which refers to creation and delivery of services, prevention and failure recovery, use of advanced technologies to provide superior customer value and service standards communications that lead to an effective service system; (4) human resources management practices that relate to service-oriented training and reward systems.

Employee's Customer Orientation in Public Services Organisations

Public administration reform initiatives have led to the creation of organisational systems for measuring customer satisfaction and customer orientation, linking employee evaluation, reward systems and organisational performance indicators system (Paalberg, 2007). In public services organisations, the employee customer orientation is influenced by the diversity of customers who may have conflicting requirements, the employee's position within the organisational structure and the managerial customer orientation. Front-line employee is highly motivated to adopt customer-oriented behaviours (Redman and Snape, 2005). Employees who have limited customer contact can perceive a lower level of importance given to satisfying customer needs by their organisations. High level of managerial customer orientation is a sign of the importance given to the customer by the organisation, and an important predictor of success in implementing customer-oriented strategies (Jaworski and Kohli, 1993).

Value is created in the public sector in the supplier-customer interaction, employee performance being dependent on customer participation in service production. Delivering public services is an experiential process and transformation (Lengnick-Hall, 1996) in which the interaction between customer and service provider is inherent. Based on the concept of co-production, Ostrom (1996) highlighted the active participation of citizens in the process of public services delivery.

Customer interactions allow employees to understand the relationship between their job and organisational mission (Donovan et al, 2004). Customer interactions affect how employees in public service organizations use working time, and the likelihood that they will engage in full use of it (Brehm and Gates, 1997). Employees of public services are motivated by affective and normative values to serve the public (Perry and Wise, 1990). Job commitment is the key factor explaining

the efforts of employees in the public service sector (Lee and Olshfski, 2002), individuals being motivated by the opportunity to induce a significant difference in the lives of others or to influence a case that is committed (Grant, 2008).

Employee performance is dependent on the knowledge generated in their interactions with customers (Alford, 2002). The co-production of public services increases employee performance dependence of customer participation in this process and the sharing of knowledge during interactions (Paalberg, 2007). Employee will get customers information about their desires and preferences, as well as information about employee's own performance. Customers' allusions, facial expression, eye contact and verbal tone provide relevant information about the quality of public service experience (Du Gay and Salaman, 1992).

Customer orientation provides employee psychological, social and cognitive benefits (Kohli and Jaworski, 1990) which are positive related to employee performance. Lee, Cayer and Lan (2006) identified a positive relationship between customer orientation, job satisfaction and employee support in implementing organisational change programs. Employee customer orientation is positively correlated with organisational commitment, both in the business sector and in the public services (Redman and Snape, 2005). Improving the quality of public services is closely linked to the increasing importance on the quality of relationships with customers in designing a system for rewarding employees.

Research Hypothesis

Research on organizational climate revealed a positive impact on the employees' behaviour of a service climate (Schneider, 1990; Schneider and Bowen, 1985). The employee perceptions of customer satisfaction and service quality depend on the firm's concerns about the customer relations and the delivered service (Borucki and Burke, 1999; Johnson, 1996). Employees will adopt a customer orientation to the extent that they perceive that their work environment is focused on meeting customer needs. Motivating employees to adopt customer-oriented behaviours requires the development of an organisational climate that stimulates such behaviours and generates appropriate employee attitudes (Schneider and Chung, 1996).

The service orientation construct capture the employees perceptions about the organization's policies and practices regarding the achievement of service (Beatson, Lings and Gudergan, 2008), being regarded as organisational service climate (Kelley, 1992) that drive organization's policies and practices toward providing exceptional customer service (Lytle et al., 1998).

These service-oriented policies affect the attitudes and behaviours that employees adopt in interactions with customers. The customer perceptions of the organisation's service orientation will influence customer ratings for quality of service they receive. Therefore, if an organization has a high degree of service orientation, it is likely to deliver an excellent service. The customer's perceptions of organisation's service orientation will increase the likelihood that they trust the organization, develop a positive attitude and be satisfied in relationship with that organisation. Based on these arguments, we propose the following research hypothesis:

H1: A high level of service orientation has a positive effect on the employee customer orientation.

H2: A high level of servant leadership has a positive effect on the employee customer orientation.

H3: A high level of customer treatment has a positive effect on the employee customer orientation.

H4: A high level of employee empowerment has a positive effect on the employee customer orientation.

H5: A high level of service rewards has a positive effect on the employee customer orientation.

H6: A high level of service training has a positive effect on the employee customer orientation.

H7: A high level of service failure recovery has a positive effect on the employee customer orientation.

H8: A high level of service standards communication has a positive effect on the employee customer orientation.

Data collection and sample

Data were obtained through a questionnaire-based survey and sampling method used was convenience sampling. The sample consisted of 230 employees in organizations based in Timiș and Hunedoara counties that provides tax management services, local government services, health, pension and social security services. The

questionnaires were personally distributed to sample members to be completed and were retrieved directly from respondents. Of the 230 questionnaires distributed, we received 188 questionnaires, 174 being validated and used in data analysis. 112 respondents (64.36%) are from organizations offering tax administration services, 28 respondents (16.1%) from local government services organisations, 15 respondents (8.62%) from health care services and 19 respondents (10.92%) from pension and social security services. 153 respondents (87.9%) hold front-line positions, and the remaining 21 respondents (12.1%) positions in back-office. According to the latest studies completed, 85 respondents (48.85%) hold a bachelor degree, 61 respondents (35%) master degree and 28 (16.15%) had medium level education.

Results

Data processing was performed in SPSS 19. Each construct was analyzed in the following steps: reliability test of measurement scales (Cronbach's alpha); opportunity analysis of using factor analysis (Kaiser-Meyer-Olkin indicator and Bartlett test of sphericity); confirmatory factor analysis; test of the convergent and discriminant validity of each construct (Pearson correlation coefficient).

Employee customer orientation was measured using a 10-items scale adapted from Thomas, Soutar, and Ryan (2001) with a Cronbach's Alpha coefficient of 0.748. No variable significantly reduces the overall scale reliability. Kaiser-Meyer-Olkin indicator is 0.656, and Bartlett test of sphericity value is 382,188.

Table no. 1. Employee customer orientation

Items	Minimum	Maximum	Mean	Standard deviation	Cronbach's alpha if item deleted
Positive attitude toward customer	2,00	5,00	4,2471	0,69003	0,712
Memorising customers' names	2,00	5,00	3,9360	0,87958	0,741
Satisfaction with the customers' happiness	1,00	5,00	3,9422	0,88732	0,712
Pleasure to serve customers	2,00	5,00	4,0523	0,78184	0,719
Pleasure to rapid response to customers' demands	1,00	5,00	4,0936	0,77650	0,736
Understanding customers' message	2,00	5,00	4,1105	0,81255	0,733
Putting in customer's situation	1,00	5,00	4,1098	0,79575	0,725
Trying to help customers	1,00	5,00	4,1205	0,79996	0,722

Stimulating customers to present their needs	2,00	5,00	4,0756	0,74934	0,736
Problem-solving behaviour	2,00	5,00	4,1279	0,68904	0,748
Priority of customer's interest	1,00	5,00	4,2197	0,84789	0,729

To measure the service orientation construct we used the Lytle & Timmerman's (2006) conceptualisation in ten dimensions: service vision; servant leadership; customer treatment; employee empowerment; service reward; service training; service technology; service failure prevention; service recovery and standards communication. The scale used to measure the organisation's service vision has a Cronbach's alpha of 0.622.

Table no. 2. Service Vision

Items	Minimum	Maximum	Mean	Standard deviation	Cronbach's alpha if item deleted
Employees' commitment to service	2,00	5,00	4,2241	0,78372	0,560
Customer as opportunity to serve	2,00	5,00	3,9023	0,85118	0,443
Organization exists to serve customers	2,00	5,00	4,0231	0,88234	0,558

No variable does significantly reduce the scale reliability, KMO indicator value is 0.633, factor analysis being suitable, and Bartlett test value is 60,203 ($p=0.000$). Factor loadings of this variables were high enough (minimum 0.732), no variable being eliminated. All correlations are statistically significant, proving the convergent validity.

The Cronbach's alpha of the servant leadership scale was 0.843, no variable reducing the overall reliability.

Table no. 3. Servant leadership

Items	Minimum	Maximum	Mean	Standard deviation	Cronbach's alpha if item deleted
Top management communicate the importance of service	1,00	5,00	3,7267	0,99753	0,837
Management spends time with customers and employees	1,00	5,00	3,7035	0,96693	0,802
Management measure service quality	1,00	5,00	3,7151	0,90172	0,818
Management show care in achieving customer service	1,00	5,00	3,6301	1,00673	0,825

Management provides the necessary resources to excellent service	1,00	5,00	3,7267	0,97380	0,813
Management give input and leadership in creating quality service	1,00	5,00	3,8023	0,96512	0,810

The Kaiser-Meyer-Olkin indicator is 0.872, and Bartlett test value 350,696 ($p=0.000$). Item intercorrelations are statistically significant, factor analysis being suitable. The variables' factor loadings are high enough (> 0.5), and the Pearson correlations are statistically significant, indicating a high level of convergent validity.

The customer treatment scale's Cronbach's alpha is 0.631, no variable significantly reducing the overall reliability.

Table no. 4. Customer Treatment

Items	Minimum	Maximum	Mean	Standard deviation	Cronbach's alpha if item deleted
Employees take care of customers	1,00	5,00	3,8198	0,88328	0,557
Employees meet customer needs	2,00	5,00	3,8613	0,71800	0,551
Employees are friendly and courteous with customers	2,00	5,00	3,7427	0,90319	0,552
Employees reduce inconvenience for customers	1,00	5,00	3,9191	0,83828	0,588

The Kaiser-Meyer-Olkin is indicator 0.687 (>0.5), and Bartlett test value is 78,063 ($p=0.000$). The items' intercorrelations are statistically significant, the factor loadings were high enough (>0.640), and all correlations are statistically significant, the convergent validity being confirmed.

The employee empowerment scale's Cronbach's alpha is 0.677, the KMO indicator is 0.500, and Bartlett test value is 51.48 ($p=0.000$).

Table no. 5. Employee Empowerment

Items	Minimum	Maximum	Mean	Standard deviation	Cronbach's alpha if item deleted
Decisions made close to the customer	1,00	5,00	3,7299	0,93828	
Employees' freedom and authority in acting independently to provide excellent service	1,00	5,00	3,7558	0,94202	

The factor loadings were high enough (>0.5), the two variables being retained. The correlation being statistically significant, the scale has convergent validity.

The service rewards scale have a Cronbach's alpha of 0.787, KMO value of 0.500, and Bartlett test value of 92,915 (p=0.000).

Table no. 6. Service Rewards

Items	Minimum	Maximum	Mean	Standard deviation	Cronbach's alpha if item deleted
Incentives and rewards for service quality	1,00	5,00	3,6105	1,09465	
Organisational celebration of excellent service	1,00	5,00	3,7052	1,05093	

All factor loadings were >0.5, all correlations being statistically significant.

The service training scale have a Cronbach's alpha of 0.731, a Kaiser-Meyer-Olkin value of 0.500, and Bartlett's test of 68,318 (p=0.000).

Table no. 7. Service training

Items	Minimum	Maximum	Mean	Standard deviation	Cronbach's alpha if item deleted
Training in delivering high quality of service	1,00	5,00	3,8023	0,95904	
Customers encounters simulations	1,00	5,00	3,8092	0,92355	

The factor loadings were high enough (> 0.5), and all correlations are statistically significant.

The service technology scale presents a level of Cronbach's alpha of 0.435, indicating a scale with unacceptable reliability (George & Mallory, 2003). This dimension was eliminated from analysis.

Table no. 8. Service Technology

Items	Minimum	Maximum	Mean	Standard deviation	Cronbach's alpha if item deleted
Using state-of-the-art technologies	2,00	5,00	4,0520	0,74915	0,363
Technology is used to build a high quality of service	2,00	5,00	4,1047	0,70136	0,215
Using high-level technology to support the efforts of front line employees	2,00	5,00	4,0988	0,64581	0,421

The service failure prevention scale presents a level of Cronbach's alpha of 0.571, no variable significantly reducing the overall reliability of the scale.

Table no. 9. Service Failure Prevention

Items	Minimum	Maximum	Mean	Standard deviation	Cronbach's alpha if item deleted
Going out of current way to prevent customer problems	2,00	5,00	4,0409	0,74642	0,558
Preference to prevent customer problems	2,00	5,00	3,9827	0,74298	0,338
Active listen customers about their needs and requirements	2,00	5,00	4,0867	0,74592	0,499

Kaiser-Meyer-Olkin indicator was 0.594, Bartlett's test of sphericity value was 48,209 ($p=0.000$). The factor loadings were high enough (>0.669), and all correlations are statistically significant.

The service failure recovery scale has a Cronbach's alpha of 0.667, no variable reducing significantly the scale reliability. The Kaiser-Meyer-Olkin indicator is 0.618, and Bartlett's test of sphericity value is 148,427 ($p=0.000$). All factor loadings were high enough (the lowest value being 0.562).

Table no. 10. Service Failure Recovery

Items	Minimum	Maximum	Mean	Standard deviation	Cronbach's alpha if item deleted
Excellent customer complaint - handling system	1,00	5,00	3,9477	,81839	0,620
Problem-solving groups established to solve customer problems	1,00	5,00	3,9595	,87841	0,628
Follow-up service calls	1,00	5,00	3,8129	,85410	0,606
Giving each customer an explicit service guarantee	1,00	5,00	3,7919	,83704	0,559
Every employee knows what determines a good or bad service experience	1,00	5,00	3,9708	,87061	0,659

The Service standards communication scale has a Cronbach's alpha of 0.572.

Table no. 11. Service Standard Communications

Items	Minimum	Maximum	Mean	Standard deviation	Cronbach's alpha if item deleted
Using internal standards to pin-point failures before receiving complaints	2,00	5,00	4,1156	0,72211	0,642
Effort to explain customer research results to each employee	2,00	5,00	3,9422	0,69643	0,493
Every employee understands service standards	2,00	5,00	3,9649	0,76616	0,529
Objectives chain links every branch to corporate vision	2,00	5,00	4,1512	0,81675	0,455
Service performance measures are openly communicated with all employees	1,00	5,00	4,1337	0,87166	0,416

The first item was removed because it reduces the scale reliability, the Cronbach's alpha value becoming 0.642. The Kaiser-Meyer-Olkin indicator has a value of 0.615, and Bartlett test of sphericity has a value of 94,419 (p=0.000). The factor loadings were high enough (> 0.5), and all correlations are statistically significant.

Of these ten dimensions of service orientation, the service technology has been removed because an unacceptable level of Cronbach's alpha (0.435). The scale 9-item service orientation scale has a Cronbach's alpha of 0.841.

Table no. 12. Service Orientation

Items	Cronbach's alpha if item deleted
Service Vision	0,842
Servant leadership	0,822
Customer Treatment	0,824
Employee Empowerment	0,815
Service Rewards	0,817
Service training	0,806
Service Failure Prevention	0,841
Service Failure Recovery	0,818
Service standard Communications	0,828

The service vision dimension reduces the overall reliability of the service orientation scale, being eliminated. The intercorrelations among the eight remaining dimensions are statistically significant. However, the factor loading of service failure prevention is 0.463 (<0.5), this dimension being removed. After removing this dimension, the value of KMO indicator become 0.861, and Bartlett test of sphericity is 445.284 ($p=0.000$). The factor loadings of the seven variables were high enough (>0.638), all correlations being statistically significant and indicating the construct convergent validity.

Table no. 13. Results of hypotheses testing

Hypotheses	Independent variables	Standardized coefficients	t statistics	Significance	Result
H1	Service orientation	0,257	3,485	0,001	Accepted
H2	Servant leadership	0.123	1.452	.148	Rejected
H3	Customer Treatment	0.193	2.256	.025	Accepted
H4	Employee Empowerment	0.121	1.312	.191	Rejected
H5	Service Rewards	-0.372	-3.749	.000	Accepted
H6	Service training	-.082	-.836	.405	Rejected
H7	Service Failure Recovery	.092	.983	.327	Rejected
H8	Service standard Communications	.316	3.740	.000	Accepted

Dependent Variable: Employee's customer orientation

We used the simple linear regression equation to test the first research hypothesis, and a multiple linear regression model to test the

H2-H8 hypothesis. Table 13 presents the standardized coefficient of the regression function, the t-statistic and significance level for each hypothesis. The research hypothesis were accepted or rejected on the base of the significance level.

According to the first hypothesis, the service orientation have a positive and significant effect on employee customer orientation. Although this relationship was validated, the organisational service orientation explains only 6,66% of the variance of employee customer orientation. According to the H2-H8 hypothesis, between each service orientation dimension and employee customer orientation there are positive relationships. The regression model of the service orientation dimensions ($R^2=0,225$) revealed the significant and positive effects of customer treatment and service standards communication on employee customer orientation. While service rewards have a negative effect, the servant leadership, employee empowerment, service training and service failure recovery have no significant relationship with employee customer orientation.

Conclusion

The results of this research revealed a positive and direct relationship between organisational service orientation and employees' customer orientation. If public services employees perceive a high level of organisational service orientation, the likelihood of customer oriented behaviours adoption is higher, with positive effects on performance. Customer treatment and service standards communications are the most important components of service orientation because they have significant and positive effects on employees' customer orientation. An interesting finding relate to the negative effects of service rewards on customer orientation. In relation with behaviours of public services employees, this result is in line with previous research (Perry and Wise, 1990; Grant, 2008) that found the motivational role of the affective and normative values to serve the public and of the opportunity to induce a significant difference in the lives of others. This fact reconfirms the role of personality traits and self-motivation of employees in public services organisations.

The results of this research lead to several managerial recommendations. First, in recruitment and selection process a special attention must be done to potential employee's personality traits and self-motivation to serve. Because customer treatment is one of the most

important components of the service orientation, employees have to take care of customers, meet their needs, and be friendly and courteous. Reducing customer inconvenience will generate high level of satisfaction and high quality interactions. Top management should to develop programmes that best communicate the service standards. Every employee must understand service standards, service performance measures, and the main results of customer research projects. Third, the service reward system development is recommended, but it is not enough to motivate employees to adopt customer-oriented behaviours. Possibly, the service reward acts as a hygienic factor that prevent deviant behaviours.

The main limitation of this research is generated by the sampling procedure that was not probabilistic. The sample structure is not comprehensive, being focused on tax administration, other public services not being represented. We analysed only the relationships between organisational service orientation and employee customer orientation, the consequences on individual and organisational performance not being considered. Future research could provide new evidence in other public services sectors, e.g. education, health and local public government. The direct and mediated relationships between organisational service orientation, employee customer-oriented behaviour, organisational and individual performance could be interesting for future research.

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Influence of Culture on the Process of Managing Decisions Adoption

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Abstract

Different cultural environment requires a corresponding managerial environment. The process of managing decisions adoption is influenced by the values, attitudes, beliefs and behaviors of the employees.

Keywords: culture, decision, management, decisional process

Introduction

Decision adoption plays an important and central role in management. Herbert Simon, an important representative of the Management science, considers the decisional process be equal with management. So, according to Driver (1979), „we may say that the essence of life is free choice/process of decision adoption. To be deprived of choices means the loss of any meaning.”

The higher the management level is, the greater is the number and complexity of decisions. Decision adoption may be connected with different functions of management. Leadership means working out decisions that influence the whole organization, its divisions or departments or even the society as a whole.

If we approach motivation from decisional point of view, we notice that it becomes a set of choices done by the leader for influencing

the behaviour of his employees or mates (Adler, 2002, p.182). Similar to it, planning may be seen as a succession of decisions/setting up the vision and mission, establishment of targets, framing the strategical, tactical and operational plans.

One of the main problems the decision makers have to face is determined by the fact that they will act on the ground of inadequate or incomplete past information while the decisions have impact on future.

Together with globalizing extension, the people are more conscious of the global problems that appear in culture interactions (Podrug, 2011, p. 37). Success in the new economy means to have information about other cultures, about the impact of cultural values on organizations and behaviors. A different cultural environment requires a corresponding managerial behavior. The decisional patterns successfully put into practice in a certain cultural context may cause different effects or may be not productive in another culture.

Material and Methods

This paper comprises elements of the *interpretative and critical streams*, as various norms and practices in the field will be discussed in an interpretative manner (a neutral point of view is adopted), as well as critical one (involvement in a particular viewpoint). The research will be fundamental and its purpose will be a theoretical generalization after noticing the insufficiency of knowledge in respect to the *culture influence on decision adoption process*, as well as identifying certain facts, for which theorization was not suggested.

Literature review

1. Culture and decisional process

There are many works that debate the way the managers take decisions. Some draw the conclusion that the adoption of managerial decisions reflect a conscious and rational process used by managers to assess decisional alternatives on the ground of selected criteria.

According to Adler (2002, p.183), the contact with new cultures has created new problems in the moment the managers tried to use these rational and objective processes. Robert Theobold (quoted by Adler, 2002) noticed: „We all face greater and greater problems while we understand that different people create entire different visions about reality and there is no objective way of identifying which of them is correct”.

Another trend of thinking, sustained by Sigmund Freud, supported the irrational character of adopting human decisions, due to a leading force existing outside the conscious control of the person

Herbert Simon, in his administrative theory referring to decision working out, introduces the concept bounded rationality. According to it, the managers make choices on the ground of simplified situations and less on the whole reality.

Because the managers from different cultures understand the world in different ways, these subjective rationalities are different from one another.

Along the continuous irrational/rational axis, some management theorists consider that there exists the best alternative for adopting a decision, others think that the choice of the optimum decisional alternative is contingent to a certain situation. Taking into account the purpose of this paper, we will focus our attention on certain ways in which the adoption of managerial decision is contingent to cultural aspect. We will try to understand the way the best alternative depends on patterns of beliefs, attitudes, values, behaviours the employees are involved in.

Adoption of managerial decisions involves the following steps (Rue and Byars, 2007, p. 73; Simon, 1960):

- Recognition of the problem
- Looking for information
- Alternative setting up
- Choice
- Implementation

Identification of these steps puts some questions from the point of view of transcultural research (Adler, 2002):

- do managers from different cultures understand the problem in the same way?
- when they investigate a problem, do they gather the same type and quantity of information?
- do managers build the same type of solutions?
- do they use similar strategies for choosing the best decisional alternative?
- do managers implement the decisions in similar ways?

In table no.1 we present a synthesis concerning the influence the culture has on the way of adopting managerial decisions during each phase of decisional process.

Table no. 1. Cultural influence of decision adoption

Steps in decision adoption	Cultural variations	
Problem Recognition	<i>Solving the problem</i> We should change the situation	<i>Acceptance of situation</i> Certain situations should be accepted as such
Looking for information	<i>Collection of facts</i>	<i>Collecting ideas and possibilities</i>
Alternative setting up	<i>New alternatives, future directions</i> Example the grown ups can learn and change	<i>Alternatives directed towards past, present and future</i> Example the grown ups cannot change the matters considerably
Choice	<i>Personal adoption of decision</i> responsibility of decision adoption is deputed Decisions are quickly adopted Decision rule: true or false	<i>Group decision</i> senior managers often adopt decisions Decisions are adopted slowly Decision rule: I sit wrong or right
Implementation	<i>slow</i> It is managed from the top, one single person is responsible	<i>quick</i> Implies participation to all levels Group responsibility

Source: Adler, N. J. International Dimensions of Organizational Behavior, South Western, 2002, p.184

2. Culture and decisional process connection in different cultural contexts

According to Kumar and Yauger (1995), empirical research in the field of cultural differences in decision adopting process is marginalized as compared with other aspects of management studies.

Within the globalizing process and the increasing of the economical interdependence between countries, the national culture

becomes more and more important. (Podrug, Pavicič and Bratič). Under these circumstances, the decisional process makes the international manager choose an action course formed of several alternatives, and for making it efficient and effective, he must understand the influence the culture has on the style and process of decision adoption (Albaum et., al., 2010; Podrug, 2011; England, 1978; Adler, 2002; Whitely and England, 1980).

We have identified a set of papers in the specialized literature, meant to debate the culture influence on decision adoption, all the results being synthesized in Khairullah and Khairullah (2013).

According to Bass and Burger (1979), managers from western cultures approaches the decisional process on more rational elements, they take into account the solutions using objective information. Managers from Latin America adopt decisions based on subjective elements and feelings. Those from Belgium, Austria and Germany have a less tolerance for risk than their Dutch and Japanese mates. The managers from North America have the highest tolerance for risk.

Albaum et al. (2010) study the connection existing between management style and cultural values of the decision makers from the West Pacific countries. There have been identified clear cut distinctions between countries regarding their cultural orientation towards masculinity, individualism, avoiding incertitude and distance towards power. The Chinese, Vietnamese and Hong Kong managers reach quite high levels regarding masculinity, while those from New Zealand and Australia registered lower scores. The Philippines managers got the highest scores regarding individualism while those from China got low ones.

Chinta and Capar (2007) discovered that USA managers were more individualistic than the Chinese ones; the American managers recorded lower scores than the Chinese regarding distance to power, avoiding uncertainty and work ethics. American managers believe in self determination and have the feeling that they can control the situations, while those from Indonesia and Malaysia feel that they have little control over situations and believe that certain external forces/deities, fate or nature/determine the control of the situations. The Arab managers, according to their tradition, have the tendency of developing a consulting style in adopting decisions, but these consultations take place from a person to another one, not in groups, for avoiding a possible opposition.

In Europe, the great majorities of managers adopts decisions based on past experience and have in view to assess quality (Khairullah and Khairullah, 2013, p. 4). German managers are more focused on productivity and product or service quality than on watching the employees. Training in management area stresses the technical one, there exists a legal system named codetermination that determines the workers and managers discuss the major decisions. In accordance with Mihuț (2002, p. 86-87), one of the basic principles of the German management is the sharing management based on codetermination. The German multinationals having a majority German capital have the tendency to be centralized, autocratic and put an accent on hierarchy.

The Scandinavian countries use the codetermination, but they put more stress on the person importance within the organization and on the quality of the working conditions, these determining the existence of a decentralized and participating decisional process. Within Sweden participating, the decisional consensus may be achieved through codetermination of partners, on three levels:

- ✓ financial participation/acting as a share holder
- ✓ on the factory level, with representatives in administrative board
- ✓ on the level of the working place/committees for working teams

The decisional processes of the Japanese companies are more complex, long lasting and are used in strategically or tactical situations, (Istocescu, 2010, p. 199-200). The adoption of decisions through consensus is achieved by means of a scenario containing four steps:

1. wording the decisional suggestion
2. beginning the process of adoption of the decisions
3. starting the process of adopting the decision
4. putting into practice the decision

The concept of adopting the decision (ringiseido) is an important element of Japanese culture, used in group orientation and allows the members of it to participate to decision drawing up, still keeping their hierarchical connections.

Conclusion

Decision adoption is a system that reveals differences of cultural sensitivity, on the level of the role offered by manager to his co/workers, hierarchical distance and the involvement of the employees

in the development of the activities, male or feminine orientation. The national culture of the employees may play a central part in the process of adopting the decisions, both regarding the aspect of collecting and processing the data and of distributing the responsibilities.

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Formation of the Optimal Investment Portfolio as a Precondition for the Bank's Financial Security

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Abstract

This article analyses the definition of the bank's financial security and investment activities. It describes a few types of models of bank's risks management and the method CAPM, which is chosen for use. In support for the chosen CAPM method, we included the mathematical model that allows elaborating an optimal investment portfolio. The model stands at the basis of this method and a case study of one of Ukrainian banks.

Keywords: financial security, investment portfolio, risk, return on investment, variance, securities, covariance, yield.

Introduction

The experience of the developed states proves that the financial security of a bank is largely defined by approaches and forms of its investment activity.

The practice of investment activity in modern Ukrainian banks, even in the condition of high share of foreign capital, and therefore the possibility of leading world experience, unfortunately does not demonstrate the desired investment results. Such circumstances may be explained by objective national realities. However, ignoring advanced techniques to build attractive investment portfolios is able to both

deepen imperfections of investment activities of a bank and prevent effective risk management, threatening the financial security of the bank.

Risk taking is the basis of banking. Banks do well when risks taken by them are reasonable, under control and within their financial capabilities and competencies. Risk in investing activities occurs as a result of deviations of actual data on the evaluation of the current state and future development. These deviations can be both positive and negative. In the first case it goes about chance of receiving income, in the second – about the risk of loss. The relation between bank profitability and its risk (in simplified form) can be expressed as linear dependence.

However, if a bank seeks to ensure their financial security in general, and executing securities transactions, in particular, it is necessary to use risk management tools.

A lot of research has been dedicated to the issue of risk management and risk management of investment activity in particular [5, 2, 3], but those studies which examined risk measured it primarily in terms of integral component of the investment. If we consider risk as a factor that threatens the financial security of the banking activities, these studies have not dedicated attention to the management of investment risk for the banks financial security.

Therefore, the purpose of the article is to study the possibility and necessity of risk management that occurs in the process of investing to ensure the financial security of a bank, as well as demonstrating the theoretical and methodological steps of constructing the optimal investment portfolio of modern bank securities based on the approach of H. Markowitz, allowing to minimize the risk mentioned.

Case Study

The financial security of a bank is a state of that institution, which is characterized by a balance and resistance to external and internal threats (risks), its ability to achieve their goals and generate sufficient financial resources for sustainable development. Based on this definition, the bank's financial security can be ensured only in case of the balance of its financial resources in the implementation of its activities (operating, financial or investment).

The article studies the investment activity of a bank as one of the most risky, but at the same time the most profitable banking activity.

Therefore, the key to success in this business are effective risk management. There are many bank risk management methods, like: analysis and control gap, analysis and control durations.

The primary method of analysis is modeling. The main control methods are: neutralization of claims and liabilities; hedge of interest rate risk; the effective border; optimization of the portfolio structure by mathematical programming.

Given that almost all methods have been sufficiently studied and widely used in banking practice, the method of effective border has been studied in the article. This method is based on an application of defining the investment portfolio pricing model CAPM (Capital Asset Pricing Model) to the problem of interest rate risk analysis. Another name for this method is the method of average and deviation sample. Within the method there is considered the effectiveness of strategies depending on the associated risk. Under the strategy, in this case, it is necessary to understand the future cash flows generated by the current structure requirements and obligations and possible changes in the structure. As an indicator of the strategy efficiency there has been set mathematical expectation of the current or future value of cash flows, or other financial indicators, related to income and net worth. Standard deviation of expected performance is taken as an indicator of risk associated with a given strategy.

Prehistory occurrence of CAPM method was the discovery of H. Markowitz, who proposed a mathematical model of optimal investment portfolio, as well as methods of construction of such portfolios under certain conditions.

For the role of the facility to demonstrate the theoretical and methodological steps to construct the optimal modern bank securities investment portfolio, based on the approach of H. Markowitz, would best fit a bank that is actually engaged in investment activities (more or less successfully). Such bank is, for example, JSC "UkrSibbank".

H. Markowitz approach for JSC "UkrSibbank" will be treated as discrete, in which the beginning of the investment period is denoted as $t = 0$, and the end as $t = 1$. In this case, at the time $t = 0$, the investor must make a decision to purchase specific financial instruments that will stay in its portfolio by the time $t = 1$.

As the portfolio of JSC "UkrSibbank" is a set of its particular variety, its decision is equivalent to selecting the optimal portfolio from the set of possible portfolios.

The approach of H. Markowitz as for portfolio choice implies that JSC "UkrSibbank" tries to solve two problems: to maximize expected yield for a given level of risk and minimize the uncertainty (risk) for a given level of expected yield.

As the investment portfolio is a collection of various assets (financial instruments), its yield can be calculated as follows:

$$r_p = \frac{W_1 - W_0}{W_0} \quad (1)$$

where: W_0 – is the aggregate purchase price of all assets included in the portfolio at time $t = 0$;

W_1 - the total market value of the assets at the time $t = 1$ and, in addition, the total cash income from ownership of the asset from the moment $t = 0$ until $t = 1$.

It is necessary to note that JSC "UkrSibbank" has to decide on which portfolio to buy at the time $t = 0$. In doing so, it does not know what the intended figure of profitability for most diverse alternative portfolios will be. Thus, JSC "UkrSibbank" must consider yield, associated with any of these portfolios, a random variable. These portfolios have their characteristics, one of them - the expected (or average) yield, and the other - the standard deviation.

With a portfolio of JSC "UkrSibbank" with a large number of assets in the future, it is expected that the number of companies which will be known any good news about will be equal to the number of companies which will be announced any bad news. This means that the more diversified the portfolio is, the less the unsystematic (own) risk will be. Thus, diversification significantly reduces unsystematic risk.

Systemic risk is manifested in another situation. Thus, with the number of assets included in the portfolio, systematic (market) risk converges to the mean for all pairs of assets included in the portfolio.

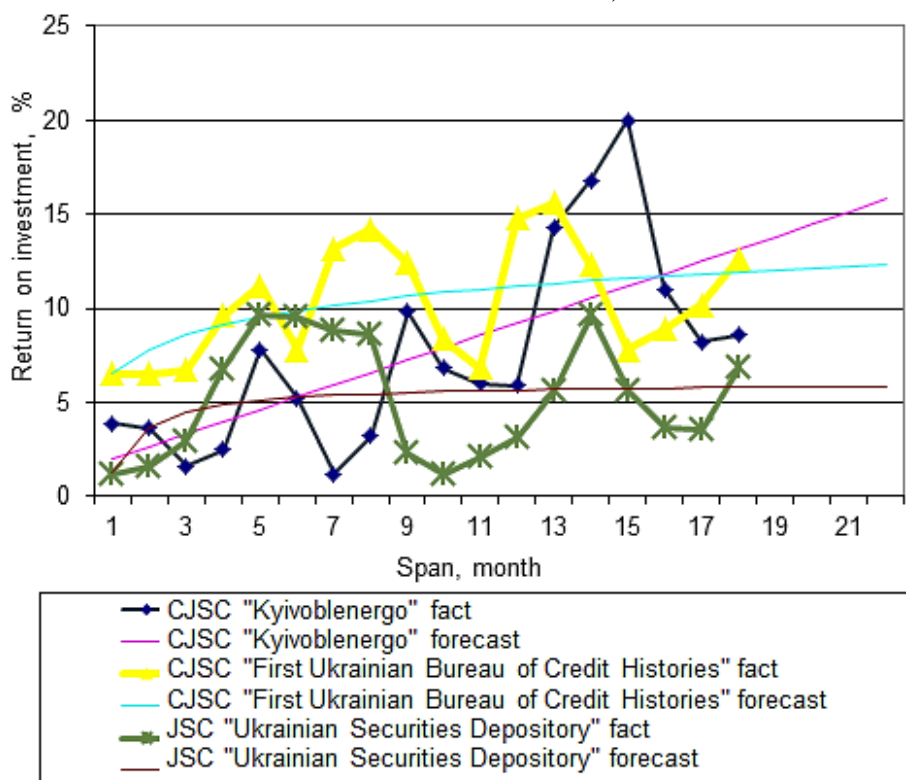
Thus, diversification allows averaging the systematic risk. This finding is important, as in the case of adverse or favorable economic outlook, most securities will not be paid or, respectively, paid. Despite the diversification of the portfolio, you can always expect that such market phenomena affect the profitability of the portfolio, especially as the market risk can not be eliminated through diversification.

For example, if you know only statistics on quoted yield securities, the further you can identify forward yield value by using various functions (logarithmic, linear or hyperbolic).

Expected values are not determined as the average, but as predicted extrapolation methods.

Estimated and actual value of the average return on assets for compiling a portfolio of securities of JSC "UkrSibbank" is shown in Figure no.1.

Fig. no. 1. Dynamics of six quoted yield securities (the forecast and actual values, drawn up according to the official website of JSC "UkrSibbank")



However, as noted above, any investment activity is related to risk. Therefore, there rises the question of assessing the risk level of JSC "UkrSibbank" securities.

To assess the risk of investments in securities there have been used indicators such as standard deviation and variance.

The standard deviation used as a risk assessment of the project, is also defined as a deviation from accepted values for trend forecasting.

Variance is a measure of deviation of the values of random variable distribution center. Larger values indicate greater dispersion deviation values of the random variable from distribution center.

Variance or distribution – is the mathematic expectation or mathematic expectation of a value raised to the second degree of deviation from its expected value (its expectation). So, variance is the measurement value of dispersion values of this variable, taking into account all its importance and their probability or weight.

Variance of discrete random variable is as follows:

$$\sigma^2 \equiv D(X) = E[(X - \mu)^2] = \sum_x (x - \mu)^2 p(x) \quad (2)$$

Where

$\sigma = \sqrt{\sigma^2}$ is called the standard deviation value of its average value;

D – the operator of a random variable variance.

Let X, Y be two random variables defined on the same probability space.

Then their covariance is defined as follows:

$$\text{cov}(X, Y) = E[(X - EX)(Y - EY)] \quad (3)$$

assuming that all expectations E on the right side are defined. Yield indices values, values of variance, covariance risk and two portfolios are shown in table no.1.

Table no. 1. Evaluation of the risk of available securities
At JSC "UkrSibbank"

A couple of portfolios under consideration		Yield	Variance (σ^2)	Covariance	σ (risk)
CJSC "Kyivoblenergo"	CJSC "First Ukrainian Bureau of Credit Histories"	59,24	57	-3,88	7,53
CJSC "First Ukrainian Bureau of Credit Histories"	JSC "Ukrainian Securities Depository"	48,73	27	11,54	5,17
JSC "Ukrainian Securities Depository"	CJSC "Kyivoblenergo"	23,26	32	6,41	5,67

Thus, if we know the portfolio yield and can calculate their riskiness, it becomes possible to determine an efficient set of portfolios (i.e. the set of not dominant portfolios that would let create the optimal structure). Under optimal investment portfolio structure in this case we can understand a set of financial instruments (securities) that would ensure such level of risk that would not create significant threats to the financial security of the bank.

The set of non-dominant portfolios, called effective solution, can be constructed by the solution of the general problem to minimize the risk, was first considered by H. Markowitz:

$$\sigma_{\alpha}^2 = \sum_{j=1}^n \sum_{i=1}^n \alpha_i \alpha_j \sigma_{ij} \rightarrow \min \quad (4)$$

where i – search index of the first pair of securities in the paired multiplication of the securities share and the covariance of securities included in the pair that are multiplied;

j – search index for the second in a pair of securities in doubles by multiplying the share of securities and the covariance of assets belonging to the couple multiplied;

n – number of securities in a portfolio;

α – share of portfolio securities in fractions of a unit;

σ_{ij} – covariance of securities included in the pair multiplied when $i \neq j$, of securities variance if $i = j$, under two constraints. The first constraint captures the desired rate of yield, and the second constraint normalizes the weights of the portfolio (without constraints on short position):

$$\sum_i \alpha_i E(r_i) - \bar{E}(\alpha) = 0;$$

$$\sum_i \alpha_i - 1 = 0.$$

The Lagrange objective function for the problem of minimizing risk at a fixed level of return is written as:

$$L = \sum_i \sum_j \alpha_i \alpha_j \sigma_{ij} + \lambda_1 \left(\sum_j \alpha_j E(r_j) - \bar{E}(\alpha) \right) + \lambda_2 \left(\sum_i \alpha_i - 1 \right) \quad (5)$$

The portfolio that minimizes the risk is, if we put $\partial L / \partial \alpha_i = \partial L / \partial \lambda_j = 0$ for all i and shares for $j = 1, 2$. These first order conditions define a system of equations, linear weighting factor for portfolio and Lagrange multipliers and therefore it can be solved using matrix methods (with the possibility of using standard software packages). Thus, the objective function for the problem with three types of shares is written as:

$$L = \alpha_1^2 \sigma_{11} + \alpha_2^2 \sigma_{22} + \alpha_3^2 \sigma_{33} + 2\alpha_1 \alpha_2 \sigma_{12} + 2\alpha_1 \alpha_3 \sigma_{13} + 2\alpha_2 \alpha_3 \sigma_{23} + (6)$$

$$+ \lambda_1 (\alpha_1 E_1 + \alpha_2 E_2 + \alpha_3 E_3 - \bar{E}) + \lambda_2 (\alpha_1 + \alpha_2 + \alpha_3 - 1)$$

After solving the Lagrange equation in the standard package of Microsoft Office Excel, you can find a set in which the coefficient of correlation are the number of securities listed in the investment portfolio of the company JSC "UkrSibbank". This solution determines the optimal portfolio of three companies' securities that implements the required yield with minimum variance.

The structure of the portfolio JSC "UkrSibbank" can be represented graphically through fig. no. 2.

The initial value for determining the optimal structure of the investment portfolio is to search for a break-even point (without risky yield). The risk-free rate of yield makes 45.1%. The risk for such yield is the smallest – 3.885 (Table no. 2).

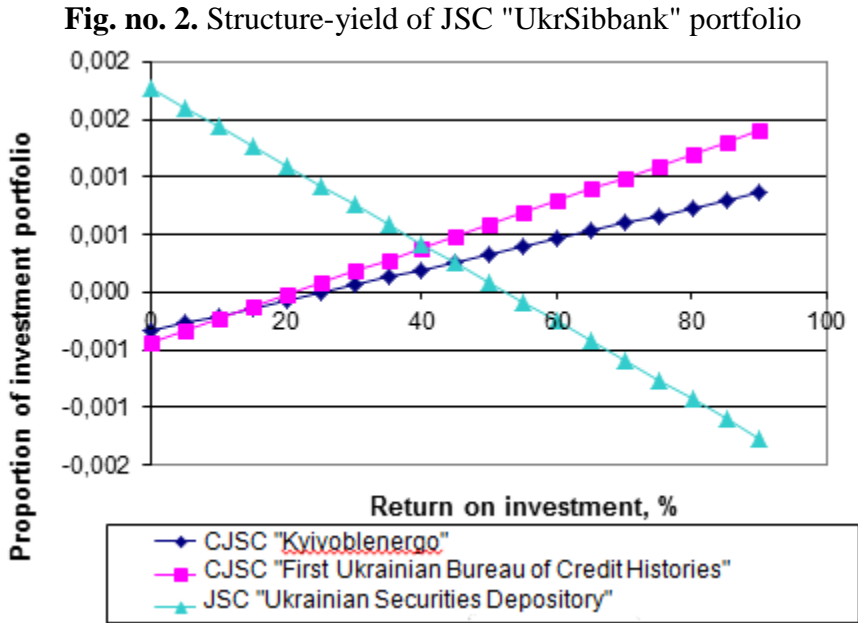


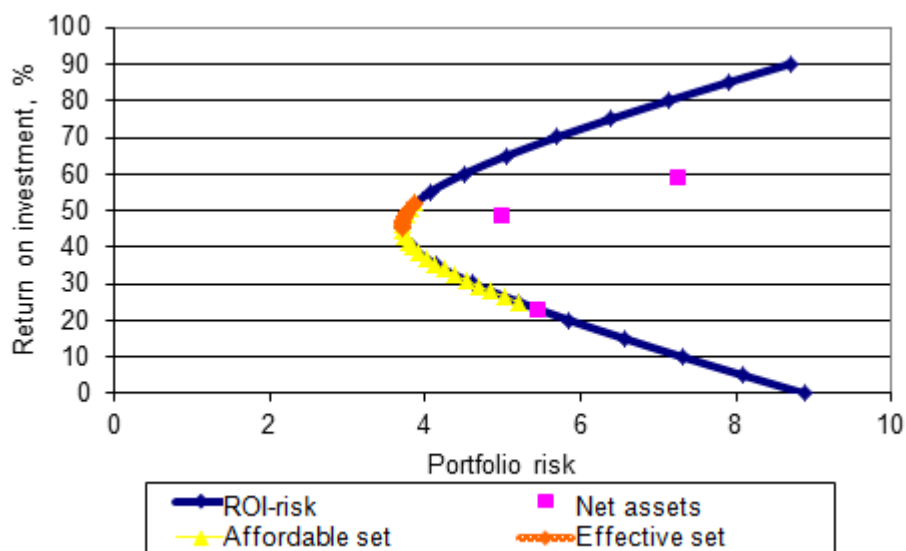
Table no. 2. Structure, risk and yield effective set portfolio JSC "UkrSibbank"

Portfolio structure	CJSC "Kyivoblenergo"	0,263	0,268	0,273	0,279	0,284	0,289	0,294	0,299	0,304	0,309	0,314	0,320	0,325	0,330	0,335	0,340	0,345	0,350	0,355
	CJSC "First Ukrainian Bureau of Credit Histories"	0,486	0,493	0,501	0,509	0,517	0,525	0,532	0,540	0,548	0,556	0,564	0,572	0,579	0,587	0,595	0,603	0,611	0,619	0,626
	JSC "Ukrainian Securities Depository"	0,251	0,238	0,225	0,212	0,199	0,187	0,174	0,161	0,148	0,135	0,122	0,109	0,096	0,083	0,070	0,057	0,044	0,031	0,018
Σ	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Portfolio risk σ	3,865	3,864	3,864	3,865	3,868	3,872	3,877	3,883	3,891	3,900	3,910	3,922	3,935	3,949	3,964	3,980	3,998	4,017	4,037	
Yield	45,1	45,5	45,9	46,3	46,6	47,0	47,4	47,8	48,2	48,6	48,9	49,3	49,7	50,1	50,5	50,9	51,2	51,6	52,0	

Varying the desired yield, we can build an affordable and efficient set of portfolios JSC "UkrSibbank".

Graphically determined without risk portfolio yield, affordable and effective set of securities JSC "UkrSibbank" is shown in the diagram (Fig. no. 3).

Fig. no. 3. Value of return and portfolio risk in different portfolios of JSC "UkrSibbank" securities



Following the outstanding securities effective set of JSC "UkrSibbank" the optimal structure can be chosen. Moreover, there is a choice as more risky and more profitable portfolio, and less risky, but also less profitable. The choice depends on the propensity management of JSC "UkrSibbank" to risk.

When choosing the optimal structure of the investment portfolio it should not be forgotten that risk management is not the only component that provides financial security of the bank. It should not be forgotten about the principle of comprehensiveness and consistency in providing financial security, because risk factors that threaten it may not only reduce the investment yield unpredictably, but also reduce the liquidity of the securities.

Conclusions

Financial security is a complex concept and its maintenance is only possible in complex analysis and control of the bank in order to prevent crises. Investment activity, thus, should be made only on the condition of financial security. It is therefore advisable to use different methods of managing investment risk of commercial banks, to which further research will be devoted to.

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Determinants of Stock Price Movements: Evidence from Chittagong Stock Exchange, Bangladesh

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Abstract

Stock market plays a vital role in the economic development of an economy. It bridges up between savers and real manufacturers by raising funds from investors to companies. This process was broken down due to the 2010-2011 stock market crash in Bangladesh. Though the determinants of stock price have been settled empirically, the current paper aims to reexamine the relationship between stock price, dividend and retained earnings of 29 listed banks of Chittagong Stock Exchange, in the post-crash period. Cross-sectional data were collected from secondary sources. Using linear regression method, the study found that both, dividend and retained earnings of sample banks have strong influence over the stock price, though there was moderate explanatory power of those variables. After reviewing the causes of crisis 2010-2011, this study suggests the following: to control price manipulation, to publish proper financial statement, regulate the dividend policy, to ensure sufficient

knowledge among investors, recruit technical expert and ensure proper settlement for transactions, prevent crises of stock market against speculation etc.

Keywords: Bangladesh, Chittagong Stock Exchange, dividend, retained earnings, share price.

Introduction

Bangladesh Stock Market faced a serious crash in 2010-2011. Economists and policy analysts identified several factors responsible for this crisis (Saha, 2012). Since Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) have been working in Bangladesh, stocks are therefore traded under those markets. Stock market crash was mainly realized by drastic fall in several indices published by DSE and CSE during late 2010 and early 2011. Many small investors lost their fund due to this crash. Empirically, some factors such as dividend, retained earnings, price earnings ratio, are identified as determinants of stock price; recent crisis did not perfectly reflect these factors in determining stock price in Bangladesh. The current study seeks to reexamine the stock price function in context of CSE and make comments on empirically tested factors after facing severe crisis.

The Chittagong Stock Exchange Limited was incorporated as a company on 1 April 1995, started its floor trading on 10 October in the same year from Chittagong City with the promise to create a state-of-the-art bourse in the country while this stock market launched its internet-based trading on 30 May 2004 (CSE website). Founder members of the proposed Chittagong Stock Exchange approached the Bangladesh Government in January 1995 and obtained the permission of the Securities and Exchange Commission on February 12, 1995 for establishing the country's second stock exchange. The Exchange comprised of twelve Board members, presided by Mr. Amir Khosru Mahmud Chowdhury (MP) and run by an independent secretariat from the very first day of its inception. CSE was formally opened by then Humble Prime Minister Begum Khaleda Zia on November 4, 1995. The main objectives of CSE are to develop a strong platform for the

entrepreneurs for raising capital, a transparent market ensuring investor protection, to provide fully automated trading system, ensure quick, easy settlement system, attract non-resident Bangladeshis to invest in Bangladesh Stock Market, to develop a high standard of commercial practice and a research cell for analysis the status of the market. CSE offers buying, selling and dealing in shares securities, bonds, debentures, government papers and any other instruments through brokers and dealers. It is also involved in disseminating information to investors by publishing monthly portfolio and other necessary publications. The exchange is also involved in research and development activities pertaining to capital market.

Currently, CSE is managing several indices such as CSE All Share Price Index (CASPI), CSE Selective Categories Index (CSCX), CSE-30 Index (CSE-30) and Sector-wise Indices. All the indices of the CSE are calculated and maintained following Laspyers Method, which was considered as the most transparent and scientific at the time of its inception. Now it is required to adopt a modern and internationally accepted calculation methodology to provide a more sensitive, investable, tradable and transparently managed Index. The enhanced CSE indices will provide a platform for a wider range of investable and appealing opportunities.

CSE All Share Price Index (CASPI): The only index the CSE has been maintaining since 10th October 1995 is a CASPI using Chained Paasche method. It faces question of clarity. This index was subject to unusual ups and downs and without a distinct base value. Therefore in need of a clean slate, CSE finds the date 1 January 2000 is the best date to start new Indices. An CASPI with new formula and base date 30th December 1999 (the last day of the year) and new base index of thousand (to mark the millennium) will replace the existing one and a completely new Selective Index incorporating 30 scrips with base date 30th December 1999 and base index 1000. After studying the index of a number of bourses, we have found the Laspyers Method to calculate index in a transparent and scientific way.

CSE Selective Index (CSE-30): At the beginning of the new millennium, a selective Index has been introduced, which is very popular in almost all the developed exchanges worldwide. It is to be

used as a benchmark of performance. The criterion is that the movement of the index fully represents the aggregate movement of the index's constituent assets and that the index's returns are realizable by an investor who has held a portfolio identical to the asset mix of the index. Selection of stocks for the benchmark index must represent the whole market. In addition, it guarantees that the constituent stocks have high percentage coverage of the market in terms of market value. This makes it difficult, if not possible for a few investors to manipulate the movement of the index.

CSE Selective Categories Index (CSCX): CSE launched a new index named CSCX comprised A, B & G category companies from 14th February 2004 to replace the earlier CSE Trade Volume Weighted Index. The Base Date of this index is 15th April 2001 (when A, B & Z category were introduced) and Base Value is set to 1000. The new index includes all, but not the Z category companies. This also excludes the companies/scripts which are debt securities, mutual funds, suspended for indefinite period and non-traded for preceding six months of review meeting. The index will be reviewed in the Index Committee Meeting after every six months like other two indices of CSE. The construction principle of this index is based on Laspeyres method like two other CSE indices, CASPI and CSE-30 Index. It may be mentioned here that the base value of these two indices was also set to 1000 with a base date 30th December 1999.

CSE Selective Index (CSE-50) and CSE Shari'ah Index (CSI): CSE launched two new Indices namely CSE-50 Index (Benchmark) and CSI on 12 October, 2014. CSE-50 has been developed by India Index Services & Products Limited (ISIL), as per the specifications and requirements of CSE.

As seen from the Table no. 1, based on total trade, CSE-30, CSCX, and CASPI, we can say that the market condition is improving during the period 2006-2010. From 2010 to 2012, all of the indices were falling down and recently major stock indices have been turning up, except trade variable. On the other hand, we could not show any trend in CSE-50 and CSI, as both of these indices were introduced very recently.

Table no. 1. Market Summary of CSE

<i>Date</i>	<i>Total Trade</i>	<i>CSE-30</i>	<i>CSCX</i>	<i>CASPI</i>	<i>CSE-50</i>	<i>CSI</i>
28-12-06	4,365	3,342.46	2,432.51	3,728.39	-	-
30-12-07	6,441	6,935.49	4,921.25	7,657.06	-	-
30-12-08	17,144	7,566.95	5,680.59	8,692.75	-	-
30-12-09	17,254	10,306.87	8,560.05	13,181.38	-	-
30-12-10	44,218	20,988.17	15,156.37	23,448.99	-	-
29-12-11	17,881	13,829.20	9,572.67	14,880.37	-	-
30-12-12	10,580	11,021.98	8,175.60	12,854.80	-	-
30-12-13	16,237	10,839.28	8,377.36	13,202.94	-	-
30-12-14	10,531	12,086.26	9,058.35	14,938.92	1,086.28	1,035.41

Fig. no. 1. Trends in Major Indices of CSE

By selecting more representative indices such as total trade, CASPI and CSE-30 for the closer period to the stock market crash (from the period of 2009 to 2012), it can be inferred from the figure no.1 that CSE has fall in serious depression after the crash. However, now a total of 289 companies including bank, cement, ceramic, energy, engineering & electrical, foods & allied, general insurance, ICT, leasing & finance, leather & footwear, life insurance, papers & printing, pharmaceuticals &

chemicals, services & property, telecommunication, textiles & clothing, corporate bond, mutual funds etc. are listed in CSE.

This paper is structured as follows: section two presents the research objectives, section three is a literature review, section four discusses the methodology used and section five the empirical results. Conclusions are in the last section.

Research Objectives

The prime objective of this study is to examine the determinants of market share price and to make comments on their functional relationships with the market price of common stocks trades in CSE, an emerging capital market of Bangladesh. The specific objectives are:

- To estimate the stock price function for some privatized commercial banks listed in CSE;
- To analyze the relationship between share price, dividend and retained earnings of those banks based on estimated parameters;
- To provide a viable directions for the stock market in general, and for the CSE in particular, so that the stock market can overcome the crisis in future.

Literature review

Present, past and future earnings of the company generally guide the shareholders' expectations of dividends and capital gains. The portion of earnings into dividends and retained earnings is taken into account by the investors. Two major hypotheses are basically developed to explain the determinants of share price: Dividend hypothesis and Retained earnings hypothesis. The dividend hypothesis attributes the explanation of share prices to the proportion of earnings that are distributed as dividends. Share price of a company with higher dividend payout would be higher. Even, if earnings remain the same, share price will increase as dividend payout increases. Retained earnings hypothesis, on the other hand, contends that higher share prices are consequences of higher retained earnings. Retained earnings being an important source of internal financing for business expansion effect share prices by their influence on future earnings.

Kumar and Mohan (1975) hypothesized that the market price of share is a function of dividends and retained earnings. The coefficients

they estimated for the two explanatory variables, dividends and retained earnings are more or less equally significant. They argued that the dividend hypothesis has a little superiority over the retained earnings in determining the share prices.

Uwuigbe, et al. (2012) built a model to show the effects of financial performance, dividend payout and financial leverage on the share price of listed firms operating in the Nigerian stock exchange market using the regression analysis method. The study concludes that firms' financial performance, dividend payouts and financial leverage are strong determinants of the market value of share prices in Nigeria.

Hussainey, et al. (2011) studied the impact of dividend policy on Stock prices. The results of their study show the positive relation between dividend yield and stock price changes and the negative relation between dividend payout ratio and stock price changes. Their results further indicated that the firms' earnings, growth rate, level of debt and size also cause the change in stock price of UK.

Baker and Powell (2012) used similar survey technique to take the opinion of Indonesian managers about the factors influencing dividend policy, dividend issues and explanations for paying dividends. The results of their survey shows that Indonesian managers consider stability of earnings and level of current and expected future earnings as the most important determinants of the dividend policy.

Naveed and Ramzan (2013) selected a sample of 15 banks from Karachi stock exchange (period 2008-2011). The analysis utilized the fixed effect regression model, the test includes regressing the dependent variable 'share price' and independent variables 'size', 'dividend yield', 'return on asset' and 'asset growth'. Results show that 'size' has a positive significant relationship with the share price, while the other variables (Dividend yield, Asset growth, Return on assets) have insignificant relationship.

Mustafa, et al. (2013), based on the monthly data from January 1992 to June 2009, investigated the relationship between money supply, interest rate and stock prices. Using error correction model, co-integration and granger causality test to check the relationship between money supply and share prices, the study suggests that there exists unidirectional association between share prices and supply of money. This study also found that the money supply is not the strong

determinant of stock prices and interest rates affect the share prices, which gives an idea about the monetary policy.

Nirmala, et al. (2011) identified the determinants of share prices in the Indian market. The study uses panel data pertaining to three sectors viz., auto, healthcare and public sector undertakings over the period 2000-2009 and employs the fully modified ordinary least squares method. The results indicate that the variables dividend, price-earnings ratio and leverage are significant determinants of share prices for all the sectors under consideration. Further, profitability is found to influence share prices only in the case of auto sector.

Islam, et al. (2014) compares the volatility of price between DSE and CSE. Result shows that CSE is more volatile than DSE and the general price is less volatile than CSE-30 and DSE-20. It implies that the top 20 and 30 securities influence the whole market. If the price of these securities increases, the price index increases. Ups and downs of the price of these securities in CSE are higher than that of DSE. Although investors are suffering from lack of information about the quality of securities, they take investment decision considering the general price index of two markets. Some time it may mislead the investor the differences of indexes of two markets.

Khan (2009) analyzed the empirical evidences which show that dividends, retained earnings and other determinants have dynamic relationship with the market share price. Findings also suggest that the overall impact of dividend on stock prices is comparatively better than that of retained earnings and expected dividends play an important role in the determination of stock prices whatever determinants, like lagged price earnings ratio or lagged price, are considered.

Research Methodology

Sample

A sample of 29 banks has been chosen for this study, all of the banks are listed in Chittagong Stock Exchange. Data have been collected from the following banks: AB Bank Limited, Al-Arafa Islami Bank Limited, Bank Asia Limited, BRAC Bank Limited, Dhaka Bank Limited, Duch Bangla Bank Limited, Eastern Bank Limited, EXIM Bank Limited, First Security Islami Bank Limited, IFIC Bank Limited,

Islami Bank Bangladesh Limited, Jamuna Bank Limited, Rupali Bank Limited, Mercantile Bank Limited, Mutual Trust Bank Limited, National Bank Limited, NCC Bank Limited, One Bank Limited, Prime Bank Limited, Pubali Bank Limited, Shah Jalal Islami Bank Limited, Social Islami Bank Limited, South East Bank Limited, Standard Bank Limited, City Bank Limited, Premier Bank Limited, Trust Bank Limited, United Commercial Bank Limited, Uttara Bank Limited etc.

Sources of Data

Cross-sectional data has been collected from secondary sources such as official website of CSE and annual reports of sample banks. Data has been collected for the period of 2013. Stock price was calculated from annual average stock price and it was collected from CSE website. Dividend and retained earnings were collected from banks' annual reports, where dividend represents cash dividend or stock dividend or combined. The reason behind choosing this year is that the Stock market experienced a crash in 2010-2011 in Bangladesh. To know the stock price determinants, we have chosen the post crash period for our study.

Dependent Variables, Independent Variable and Econometric Modeling

Generally, earnings of the company guide the shareholders expectations' of dividends and capital gains. Two basic hypotheses are predominant in this case: dividend hypothesis and retained earnings hypothesis. In this paper, we hypothesize that the market price of share is a function of dividends and retained earnings. Therefore, a multi-variables linear regression model was run under which Ordinary Least Squares (OLS) method has been applied to estimate the parameters, and the stock price has been regressed on dividend per share of stock and retained earnings.

Model Specification

For our simplicity, we will estimate the following linear stock price equation.

$$P_{it} = \alpha_0 + \alpha_1 D_{it} + \alpha_2 R_{it} + \varepsilon; \dots\dots\dots(i)$$

Where,

P_{it} = price of stock of i th bank at time t ;

D_{it} = dividend per share of stock of i th bank at time t

R_{it} = retained earnings of i th bank at time t and

ε = error term

Hypothesis

Based on the above model, the following hypotheses have been established.

Hypothesis 1: Share price does not depend upon the dividend

Hypothesis 2: Share price does not depend upon the retained earning

Since the number of observations lies below thirty ($n < 30$), t -test is the appropriate test statistic to test the null hypotheses (Kothari, 2008, p. 197).

$$t = \frac{\bar{X} - \mu}{\frac{\sigma}{\sqrt{n}}}; \text{ where } \bar{X} \text{ is the sample mean, } \mu \text{ is the population}$$

mean, σ is the population variance, and n represents the size of sample.

'Goodness of Fit' Test

To test the explanatory power of the equation, coefficient of determination (R square) has been calculated in this model.

Multicolleniarity Test

In this study, Pearson Correlation, Eigen Value (EV), Condition Index (CI), Variance Inflating Factor (VIF) was used to test the multicollinearity (Gujarati, et al. 2012, p. 358-359).

$$\text{Condition Number, } K = \frac{EV_{\max}}{EV_{\min}} \text{ and } CI = \sqrt{\frac{EV_{\max}}{EV_{\min}}} = \sqrt{k}$$

In case of $100 < k < 1000$, there is a moderate to strong multicollinearity and if $k > 1000$, there is a severe multicollinearity. Alternatively, CI lies in between 10 and 30, there is a moderate to strong multicollinearity.

The larger the value of VIF_j , the more collinear the variable X_j . If the VIF of a variable exceeds 10, the variable is said to be highly

collinear. In connection with this, Tolerance TOL_j is another measure of multicollinearity where the closer TOL_j is to zero, the greater the degree of collinearity of that with the other regressors.

Analysis of Data

Statistical Software for Social Sciences (SPSS) was applied to produce suitable results such as estimates, t-value and standard error of estimates and accordingly the results were analyzed.

Empirical Results

Multicollinearity

In the following table, the Pearson Correlation is discussed.

Table no. 2. Pearson Correlation

	Stock Price	Dividend per Share	Retained Earnings
Stock Price	1.000	0.669	-0.079
Dividend per Share	0.669	1.000	0.332
Retained Earnings	-0.079	0.332	1.000

From the Table no. 2, partial correlation between Stock price and dividend per share was found 0.669 and that between stock price and retained earnings was found -0.079. That is, the earlier two variables are positively correlated (though it is strongly correlated), and the later two variables are negatively correlated (and very poorly connected each other).

Table no. 3. Collinearity Test

Collinearity Diagnostic			Collinearity Statistics		
Dimension	Eigen Value (k)	Condition Index (CI)	Model	Tolerance	VIF
1	2.797	1.000	Constant	-	-
2	0.127	4.686	Dividend per share	.890	1.124
3	0.075	6.098	Retained earnings	.890	1.124

From the Table no. 3, it can be said that since the Eigen values falls below 100 and CI is less than 10, there is weak multicollinearity among explanatory variables. Also, having less than 10 VIF of each variable shows the poor connections among independent variables. The similar result also found from the Tolerance as it lies far from zero value.

Estimated Equation

Stock price behavior of the banks listed in CSE and its relation with dividends, retained earnings are analyzed. Actual data on variables in question are used for the estimation for the period of 2013 in this study. Data also take care of the short-term influences of transitory effects of the dependent and independent variables.

Equation (ii): Linear Relationship between Stock Price, Dividend per Share and Retained Earnings for Listed Banks in CSE for the Period 2013

$$P_t = 3.440 + 2.145D_t - 0.011R_t \dots\dots\dots(ii)$$

$$t \quad (0.508) \quad (5.595) \quad (-2.423)$$

$$S_e \quad (6.774) \quad (0.383) \quad (0.005)$$

$$R^2 = 0.549 \quad n = 29$$

From the above equation, it is seen that the relationship between stock price and dividend is positive, and we can say that a 1 Taka increase in dividend results 2.145 taka increase in stock price. On the other hand, retained earning is inversely related with stock price, i.e. a 1 Taka increase in retained earnings causes 0.011 Taka decrease in share price. Finally, constant term of the estimated equation shows that other factors excluded from this model have also a positive influence on the share price.

Testing Hypothesis

From the calculated t value, it can be inferred that the relation between share price and dividend is statistically significant. That is, we can reject null hypothesis at 1 percent level of significance. The relation between share price and retained earning is also statistically significant. That is, we can reject null hypothesis at 5 percent level of significance.

However, the constant term is statistically insignificant at even 1 percent level of significance.

Overall Explanatory Power

R-square equal to 0.549 means that more than 54 percent of variation in dependent variable is explained by dividend and retained earnings. This result proves that there is a moderate relation between share price and independent variables.

Conclusion

This study concludes that both dividend and retained earnings are strong determinants of stock price at significant level. But it can be inferred from the 'goodness of fit' test that other variables might have strong influence over the stock price. Based on our results, it should also suggest here that the concerned parties should be honest in dealing stock transactions.

The major findings of this study are:

Price manipulation: It has been observed that the share value of some profitable companies has been increased fictitiously some items that hampers the smooth operation of Stock market.

Improper Financial Statement: Many banks do not focus real position of the bank as some audit firms involve in corruption while preparing financial statement. As a result, the shareholders and investors do not have any idea about the position of those banks.

Irregularity in Dividend: Some banks do not hold Annual General Meeting (AGM) and eventually declare dividends that confused the shareholders about the financial positions of the bank.

Lack of knowledge: Like any other bank, people who invest or involved in capital market activities, have not sufficient knowledge about the market and product. Even, they do not know how to make a valuation of a share. As a result, they have to suffer losses.

Manipulations and Scams: The Environment around the capital market is full of rumors of scams and wrong dealings. Brokers are accused of manipulating prices. Banks are accused of miss-pricing their stocks of floating rumors and of misrepresentation of performance. It is impossible to determine the validity of the accusations.

Selection of Membership: Some members being the directors of listed companies of DSE, CSE look for their own interest using their internal information of share market.

Delays in Settlement: Financing procedures and delivery of securities sometimes take an unusual long time for which the money is blocked from nothing.

Market Crash: In the last century, the most significant stock market crashes occurred in USA in 1929 and 1987. The scenario of stock market crash in 1996 and those from the period 2010-2011 happened in Bangladesh are totally different from those crashes in USA. The number of BO account holders was only 300,000 and most of them were very new in the market. During the crash of 1996, paper shares used to be sold in front of DSE and it was not easy for investors to identify fake and original shares. The market was enough developed to gain confidence of investors. There was no automated trading system, surveillance was not enough strong and no circuit breakers, as well as international protections. The main reasons of stock market crises are imbalance of demand and supply of shares. Investors didn't have idea about financial report of listed securities or unfair audit report; buying shares based on rumor and without study, majority of general investors don't have knowledge about capital market, intervention of Bangladesh Bank, over expectation of general investor, liquidity crisis, role of market regulators and their employees etc. In fact, the military-backed government could not cope up with this situation due to their political illegitimacy.

Based on the above-mentioned findings, the following suggestions are formulated for a stable and better stock market:

Controlling Price manipulation: Concerned authority should introduce automated monitoring system that may control price manipulation, malpractices and inside trading.

Proper Financial Statement: Each company must have to publish the proper financial positions of the shareholder. As a result, most of the people or investors can acquire the financial positions of the companies.

Regulation in Dividend: The Company must hold Annual General Meeting (AGM) and clearly declare the dividend during the period.

Sufficient Knowledge: The people or investors must know the financial position, the valuation of share price, dividend and paid up capital etc of the company.

Appointment of Technical Expert: The technical experts have to be appointed for the system department, in order to minimize the work burden.

Proper settlement: Full computerized system should be introduced for the settlement of transactions.

Preventing crises of stock market: In order to prevent stock market crash, regulators should perform their job honestly and sincerely, SEC needs honest officials, insider trading should be prohibited, Omnibus should be converted to BO account, actions should be taken against those who were involved in this recent stock market crash, improving security laws and penalty for breaking those, balancing of demand and supply of shares, and follow-up the market and protect against any kind of manipulation.

Islamic Rules against Speculation: Instead of following trial and error method, Islamic norms and rules should voluntarily be followed by every player in the stock market to avoid *gharar* (uncertainty) and *jahala* (want of knowledge) (Tag el-Din, 2002). Stock market should also emphasize on the maximum price of share to be declared by the firm based on its actual position (Metwally, 1984). Professional knowledge over the non-professional experience in this regard should dominate to overcome those speculations though undesired.

Motivate to invest into Eco-friendly Share: Government, Stock market and Brokerage house should motivate investors to invest into shares and securities issued by environment friendly firms, though these firms does not offer maximum dividend or retained earnings.

Future Research

Enthusiastic research may find out the contribution of artificial speculation on the stock price by incorporating ‘rumor’ among investors, ‘speculative behavior’ by companies or gambler into the model in context of CSE or DSE or both.

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Common Agricultural Policy for the Period 2014- 2020 - A Solution for Agricultural Management

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Abstract

In the European Union, rural areas of major importance - both economically and socially, and therefore need to develop coherent common policy in the field. Common Agricultural Policy (CAP) is the oldest common policy and was designed as a partnership between farmers from the Community and the European Union, its main objective being to increase the productivity of the European agricultural sector, but also to support the rural development sustainable concept, which involved shift from economic dimension to the social and human welfare. In the paper we propose an analysis of CAP potential to help achieve these goals in the new EU multi-annual financial framework for 2014-2020.

Keywords: rural, development, land-law, management, policy.

Introduction

According to the OECD definition (Which defines rural areas according to population density criterion - see OECD, mapping Rural/Urban Areas Population density grids from 2010), about a fifth of the EU population lives in rural areas, which is almost half of the EU – 28, according to the latest statistics community (The Common Agricultural Policy and farming in Europe, Brussels, 2013). Currently, in the EU there are 12 million farmers - which are highly dependent on agriculture for supply - 6% of EU GDP generating also 46 million jobs.

The classification of NUTS3 regions of the European Union is classic, as the population density in rural areas: PR - predominantly rural regions, with more than 50% of the population in rural communities, IR intermediate regions with a population between 20 % - 50% located in rural areas and PU - predominantly urban regions, with more than 20% of the population in rural communities. In this context, the CAP as the main management tool for rural development in the European Union has a strategic importance, explaining that it has been allocated a large share of the EU budget, although funds have declined steadily in recent years (currently it stands at about 50%, versus 70% in the 80s).

Common Agricultural Policy - historical developments, new directions of development

In half a century of existence, P.A.C. changed significantly going from a policy based on subsidizing the production and protection of domestic markets to non-European producers, a policy that aims to stimulate production subsidy not but foster rural development and environmental protection. Currently P.A.C. is significantly reoriented to achieve three major goals: productivity, competitiveness and sustainability.

The European rural area is considered an economic sector disregarding emphasis on the social dimension and its environment. Subsequently, as shown in some theoretical approaches, the CAP

gradually incorporates the objective of sustainable development, which involves taking responsibility for the used natural resources and for the environmental protection.

By comparison between Romania and the EU, for the period 2002-2010, in terms of agricultural holdings (trends, average size, their number, etc.), we can say that Romania is characterized by:

- The highest number of farms in the EU (3.85 million farms);
- Romania holds 28.69% of the total number of farms in the EU;
- the average size of a farm in Romania in 2010 (3.45 ha) is much lower than in the EU (11.7 ha);
- the average size of a farm in Romania, from 2002 to 2010 increased slightly, from 3.3 to 3.5 ha;
- the rural population is still high share (about 45%);
- employment in agriculture is large and its weight compared to other sectors is 29.6% (in the EU is 5.6%). Large gap in labor productivity in the EU agriculture is due to several factors such as: low level of employment of available labor resources; low efficiency of work processes; level of technology to agricultural activities; low yields per hectare and per animal, etc.

Farmers in Romania have benefited in the pre-financing through SAPARD program (a financial instrument offered by the EU in order to assist in the pre-candidate countries in the field of agriculture and rural development). This funding has considered: reimbursement for purchases of livestock, provision of tractors, tools, machinery, equipment and hardware, the modernization of farms, orchards and vineyards recovery and diversification of economic activities in rural areas.

Table no. 1.

The evolution of the Common Agricultural Policy - milestones and targets

Period	Regulations	Objectives and goals
1958-1961	The Stresa Conference	The Establishment of the Common Agricultural Policy
1962-	The implementation	Uniformization of the agricultural products

1972	of the C.A.P. – agriculture being the single pillar	prices.
1973-1982	The "prudent price policy" period	Introducing the production quotas, which limited the right of producers to guarantee income based on a maximum level of production (originally for grain, dairy, sugar).
1983-1999	The Mac Sharry Reform	The price reduction generated the largest surpluses in particular at cereals, beef and butter.
2000-2001	Implementation of the second Pillar - Rural development measures	Measures regarding the products quality and production process, concerning the environment protection, multilateral development of rural areas - in an "umbrella" policy, the rural development policy, which became the second pillar of the CAP.
2002-2003	The Agricultural Policy Reform	This focus point of the new reform is "decoupling" (The Single Farm Payment-SFP) which aims to break the link between production and payment.
2004-2014	The New Common Agricultural Policy Reform	Under the new CAP reform, distribution support through direct payments will be more "fair" between Member States, namely the gap payments per hectare will be reduced gradually to average direct payments in the EU-27. Thus, it becomes possible to transfer amounts between the two pillars.

Source: author's contribution

With the adhesion into the European Union, in terms of agriculture and rural development, the principles of the Common Agricultural Policy (CAP) comprises for Romania a set of rules and measures aimed mainly to increase productivity, ensuring a fair standard of living for the rural population, stabilize agricultural markets,

safeguard supplies of food products, ensure consumer food goods at reasonable prices. (Moatăr and collab., 2013, p. 2849-2853).

The proposal for a Regulation of the European Parliament and of the Council established rules for direct payments to farmers under support schemes within the framework of the Common Agricultural Policy. CAP intended to offer to the European Commission, Proposals for Regulation like 2011/0280 which follow a policy of major importance, still relying on the two pillars of support (Pillar 1 and Pillar 2) with the following financial allocation, which represents 39% of the total EU budget. The bulk of the allocation is directed towards the two pillars (96.1%). This amount mostly lies on Pillar 1.

According to article 6 of the proposed Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes within PAC, it is estimated that Romania would return the allocations as follows:

Tabel no. 2

National ceiling allocated to Romania by the EU in 2014-2020

Thousand euros

Year	2014	2015	2016	2017	2018	2019	2020
Amount	1,472,005	1,692,450	1,895,075	1,939,357	1,939,357	1,939,357	1,939,357

Source: European Commission, Proposal for Regulation of the European Parliament and of the Council establishing rules for direct payments to farmers under support schemes under the CAP, 2011/0280 (COD), p. 62

Romania has a national ceiling, which will increase until 2017, and then maintained at the same value until 2020.

Common Agricultural Policy and the New Framework for the Community funding in the period 2014 - 2020

In February 2014, the European Commission through DG Agriculture & Rural Development published a report which summarizes

the main directions of development of this common policy between 2014 -2020, and the implications of national policies in the field.

According to the analysis published in the above mentioned report, PAC is a bridge between the EU citizens expect from agriculture and expectations of the farmers in countries facing economic and environmental challenges, as well as being an investment for the Community budget in a strategic sector, in terms of food security, environment and economic growth in rural areas.

To meet these expectations in the new context of financing, the funds allocated under the Common Agricultural Policy and rural development programs of the Member States will be mainly directed towards the following objectives:

- Increasing competitiveness of European agriculture on a global and national level;
- Conservation farming systems diversity in EU countries;
- Adaptation of the agricultural production at the new environmental challenges of climate change and protection of the natural resources.

In this context, it should be noted that in June 2013, the Community institutions have adopted a regulatory framework that outlines new directions for the development and reform of the CAP. New reform P.A.C. was modeled by a full public debate with citizens and the national community (Ciolac and colab., 2011, p.103-108), with the objective of enabling adaptation CAP to new challenges in terms of developing the rural sector in the EU in the medium and long term. Under the new direction of development and reform of the CAP during 2014-2020, it will focus on three pillars: ecology and efficiency in agriculture, ensuring healthy food and revitalization of rural communities.

Implications of the new context of the CAP funding for Romania

The CAP budget allocated in the period 2014-2020 amounts of 373 billion euros for the 28 Member States and to Romania has allocated funds of 17.5 billion, more than in the previous budget year 2007-2013 (13.8 billion euros). These additional funds will be fully

exploited by the Romanian farmers, particularly through the direct payments system. The total funds for Romania increased to Pillar II - Rural Development with 13.5%.

Ensuring food security

To achieve this, new ways of financing the CAP supplement funds aim to strengthen the position of farmers in the food chain and ensure their better protection against price volatility. This new context of funding could be harnessed and the Romanian farmers expect fairer distribution of direct payments between Member States, between regions and farmers, different agricultural practices and rural areas of the European Union.

Also, the new provisions of CAP regulations stipulate that the Community will provide farmers the best prices in the market for their products. Professional and inter-professional organizations will have new opportunities to be able to increase efficiency, and they will be supported to increase direct sales to consumers.

Under the new funding framework in the period 2014-2020 will be promoted mutual funds and ensure farm income, but also a new reserve for crises that will provide immediate support to farmers in the event of an economic crisis, an recession weather-related or other type of crisis. The crisis fund will be of 400 million annually.

Revitalization of rural areas

The new regulations of the CAP aim to increase the number of farmers in the European Union, the attractiveness of the area for young people. In this context, young farmers under 40 years in Romania will be eligible for additional financial support from 25% in the first five years of operation.

He also provided funds to boost employment and entrepreneurship by supporting rural development in other sectors besides the food sector, for example, food processing and tourism areas. (Stanciu, 2005, p. 677 – 682).

Table no. 3

The new structure of the system of direct payments in the CAP during 2014-2020

Support schemes simplified	Additional funding for natural constraints
Growth from 10% to 15%	Growth up to 5%
Payment schemes for young farmers	
Growth up to 25% in the first five years	
Green Scheme Payment	
Mandatory share of 30% of total direct payments	
Basic payment scheme	
Increase by 5%, but up to a ceiling of 150,000 euros	

Source: EC - "Overview of CAP Reform 2014 -2020"
12/10/2013

It should be noted that to ensure a better distribution of financial support to stimulate growth and employment, the new provisions of the CAP stipulates that only active farmers will receive payments, and people working in less favored areas qualify for additional funds, as well as small farmers whose support scheme will be simplified.

The new funding framework of CAP also provides greater flexibility in the system and introduce direct payments scheme, "green" payment, which facilitate the financing of agricultural activities complying with environmental requirements.

Moreover, Member States have the possibility of better targeting of payment schemes, through so-called "optional scheme" and the "payments redistributed" by these tools can be supported by farmers. Between 2014 -2020, in P.A.C. will be admitted and "simplified support scheme" for "small farmers", so to facilitate access to finance and reduce the "burden" that are faced administrative.

Ecology and efficiency in agriculture

In the view of the CAP reform, the future of European agriculture is defined under two major trends: clean and efficient.

To achieve these two goals, the new funding framework - in the period 2014-2020 - will encourage a more efficient use of natural resources for climate and biodiversity protection in this context being provided to allocate 30% of direct payments and 30% of funds for rural development of sustainable production. They also provided specific benefits for organic farming. (Moatăr and collab., 2013, p. 2849-2853).

The reform adopted in June 2013 states that 30% of the direct aid to farmers will be linked to effective agricultural practices to protect biodiversity, soil quality and the environment, in general.

The new funding framework provides a doubling of funds for research, innovation and knowledge sharing, including a new European Innovation Partnership, which will encourage closer collaboration between researchers and farmers, and helping them to increase its production using fewer resources for more effective results. Between 2014 -2020, through CAP, it will be allocated 4.5 billion EUR for agricultural research in order to lay the foundations for sustainable growth strategies of agricultural production and its adaptation to the expectations of EU consumers.

Conclusions

The new structure of direct payments, but also by other support measures dedicated to farmers in the EU Common Agricultural Policy may, during the 2014 -2020 period, be a way to enhance the economic potential of the rural area in the EU, encouraging both - agricultural production competitive quality and increased quality of life in this sector.

The P.A.C. objective to support farmers in EU countries is vital for the sustainability of rural areas given that, although now, more and more of them came to be supported by factors outside agriculture by diversifying their socioeconomic structure, however, in - a large part of the community, agriculture remains a key driving element of rural development. In these circumstances, the new funding framework of the CAP aims to support the vitality and economic potential of rural areas in the EU, by encouraging the creation of a competitive and dynamic farming sector, attractive to all farmers.

The new payment system allowed farmers to adopt production decisions based on market signals rather than on policy intervention.

In the period 2014 -2020, mutual funds remain an important tool in the development of agriculture in the Community, which works very well in areas where farmers are organized as a union or agricultural organization.

The structure of these organizations, these funds may be beyond the protection of the interests of farmers against the authorities, can support their interests in relation to the market, they can be a useful tool in terms of young farmers in rural areas.

Direct payments help maintain agricultural activities throughout the EU thus guaranteeing a minimum income stability for farmers. They allow, thus ensuring long-term viability of farms and protects them against price fluctuations.

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Algerian National Culture and TQM

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Abstract

The literature on total quality management confirmed that the national culture has an effect on total quality management implementation. The aim of this study is to compare the Algerian national culture and the TQM culture. The results indicated that not all the national culture dimensions are appropriate for TQM implementation in the Algerian context: the collectivism dimension is appropriate, the power distance and uncertainty avoidance dimensions are not appropriate.

Keywords: Total Quality Management, National Culture, Hofstede model, Algeria

Introduction

TQM is a managerial system widely implemented in the world, and also a cultural phenomenon. Many firms failed the introduction of TQM, because their managers focus on the technical or managerial aspects of this system and neglected the most important aspect, which is the cultural one

TQM implementation is a challenge, because it requires change in the manner that people within firm think and act (Sousa-Poza et al, 2001). The organizational culture change is affected by the national

culture of the country, so the TQM introduction can be easy if the national culture is appropriate and it can be a hard task if the national culture of the country is inappropriate.

Despite the number of publications on TQM, little studies has been carried out on national culture. There is a great need for research providing information about TQM culture and national culture.

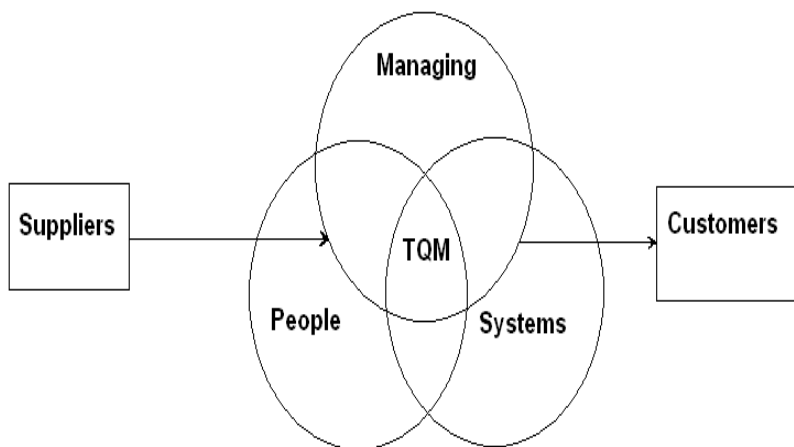
The national culture issue is not explored in the Algerian context. This study aims to compare the Algerian national culture and the TQM culture.

Total quality management

“Total quality management is the culture of an organization committed to customer satisfaction through continuous improvement. This culture varies both from one country to another and between different industries, but has certain essential principles which can be implemented to secure greater market share, increased profits and reduced cost”. (Kanji and Yui, 1997).

Total quality management is about integrating the technical system with the social system in order to build a quality culture through the adoption of managerial processes which provide a focus on customers and employees needs (Figure no.1).

Figure no. 1: TQM components



Source: Pike and Barnes (1996). *TQM in action a practical approach to continuous performance improvement*, Chapman & Hall

Lau and Anderson (1998) extracted the common elements of TQM (Table no.1)

Table no. 1: Major elements of TQM

<i>Total</i>	<i>Quality</i>	<i>Management</i>
<ul style="list-style-type: none"> - Require employee participation. - Everyone must develop a sense of quality ownership. - Involve every level and function of the company. - Apply systems thinking. 	<ul style="list-style-type: none"> - Customer (internal and external) driven. - Emphasis on continuous improvement. - Technical issues: training for skills and knowledge. - Human issues: encourage innovation. 	<ul style="list-style-type: none"> - Require commitment from top management. - Establish purposes and values for the company. - Leadership is critical. - Make appropriate change in organization culture.

Source: Lau and Anderson (1998), A three dimensional perspective of total quality management. *The International Journal of Quality & Reliability Management* 15(1): p. 85-98.

National culture

Hofstede (1991) defines national culture as the collective programming of the mind that distinguishes members of one society from another. Hofstede (1980) identified four factors in which culture of countries differ (Table no. 2) .The four factors are:

- Power distance.
- Collectivism-individualism.
- Masculinity-femininity.
- Uncertainty avoidance.

Table no. 2: National culture dimensions

<i>Small power distance</i>	<i>Large power distance</i>
<ul style="list-style-type: none"> - Hierarchy in organizations constitutes an inequality of roles, established for convenience. - Decentralization is popular. - Subordinates expect to be 	<ul style="list-style-type: none"> - Hierarchy in organizations reflects an existential inequality between higher-ups and lower-downs. - Centralization is popular. - Subordinates expect to be

consulted. - The ideal boss is a resourceful democrat.	told what to do. - The ideal boss is a benevolent autocrat or good father.
<i>Collectivist</i> - Relationship between employer and employee is perceived in moral terms, like a family link. - Management is management of groups. - Relationship prevails over task.	<i>Individualist</i> - Relationship between employer and employee is a contract supposed to be based on mutual advantage. - Management is management of individuals. - Task prevails over relationship.
<i>Feminine</i> - Managers use intuition and strive for consensus. - Focus on equality, solidarity and quality of work life. - Resolution of conflicts by negotiations and compromises.	<i>Masculine</i> - Managers expected to be decisive and assertive. - Focus on equity, competition among colleagues and performance. - Resolution of conflicts by fighting them out.
<i>Weak uncertainty avoidance</i> - There should not be more rules than strictly necessary. - Tolerance of deviant ideas and behaviour. - Motivation by achievement.	<i>Strong uncertainty avoidance</i> - Emotional need for rules, even if these will never work. - Suppression of deviant ideas and behaviour. - Motivation by security.

Source: Largosen, S. (2002), Quality management in Europe: a cultural perspective. *The TQM Magazine* 14(5): p. 275-283.

The organizational culture change is affected by the national culture of the country, therefore the TQM introduction can be easy if the national culture is appropriate and it can be a hard task if the national culture of the country is inappropriate (Figure no. 2).

Figure no. 2: National culture and TQM

The national cultural dimensions that are appropriate for the TQM culture are low power distance, high collectivism and low uncertainty avoidance (Chin and Pun, 2002; Kumar and Sankaran, 2007; Largsen, 2002; Tata and Prasad, 1998; Saha and Hardie, 2005; Yen *et al.*, 2002).

Algerian national culture

Through a study of survey data about the national culture of people in over 70 countries around the world, Hofstede (1980, 1991) produced culture charts that characterize people in different countries. The Algerian national culture chart is not available in Hofstede works. The unique study on Algeria is the study of Mercure *et al* (1997). Results of this study indicated that the culture dimensions scores are:

- Power distance 5.36/10
- Collectivism 7.12/10
- Uncertainty avoidance 8.6/10

The Algerian national cultural dimensions are medium power distance, high collectivism and high uncertainty avoidance.

As concluded above, there are three cultural requirements for successful TQM implementation: TQM prefers low power distance, high collectivism and low uncertainty avoidance (Table no. 3). Therefore, the Algerian national culture dimensions are not all appropriate for TQM implementation in the Algerian context: the collectivism dimension is appropriate, the power distance and uncertainty avoidance dimensions are not appropriate.

Table no. 3: National culture and TQM culture

<i>National culture dimension</i>	<i>TQM culture</i>	<i>Algerian culture</i>
Power distance	<i>Low</i>	<i>Medium</i>
Collectivism	<i>High</i>	<i>High</i>
Uncertainty avoidance	<i>Low</i>	<i>High</i>

TQM implementation does not require a redesign of the country's national culture, rather it requires adherence to its principles and techniques (Juran, 1993). TQM has been applied successfully in culturally diverse national settings and the history of these applications suggest that over time, TQM takes on some of the host country's values, rather than attempting to change them (Ngowi, 2000). Dobbins (1995) suggested that companies must adapt the TQM process to the host country culture. In the Algerian cultural context, TQM implementation in organizations is not impossible, but it's difficult to install, because it requires a large amount of change.

Conclusion

This study compared Algerian national culture and TQM culture. The results indicated that not all the national culture dimensions are appropriate for TQM implementation in the Algerian context: the collectivism dimension is appropriate, the power distance and uncertainty avoidance dimensions are not appropriate.

In the Algerian cultural context, TQM implementation in organizations is not impossible, but it's difficult to install, because it requires a large amount of change.

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The Financial Communication and the Accounting - Audit - Valuation Trinomial

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Abstract

At this time, financial communication faces various obstacles concerning the homogenization of communication types. Moreover, due to globalization, communication on capital markets confronts with a very visible changing process. Thus, people from different parts of the world managed to pass over language barriers but still face the ones in the financial communication field. It is well known that most financial decisions are based on the information from the financial statements. But, both the form and the conceptual language used in order to elaborate these financial statements present numerous conflict marks. In order to attenuate these conflict marks, the IASB, having as main target the financial reporting homogenization, elaborated the IFRS. At this time, Romania also faces economic, politic, social and cultural irreversible processes, of great interest for accounting: the growth of number and economic power of multinational companies; the economic globalization, especially of the financial markets; the growth of capitalization and the appearance and development of new financial products.

Keywords: financial communication, accounting, audit, valuation, standards

Introduction

The only solution in order to achieve these targets is the Romanian accounting system harmonization to the Acquis demands and, implicitly, the effective applying of the IFRS. But, at the “conciliation table” should be invited all the producers and users of financial information.

Even if the IASB assembles most of the financial information users’ categories, the role of Romanian formalizers remains essential concerning the convergence and regulation of the accounting profession.

Gratifying is the fact that they realized the necessity of alignment to the Acquis norms concerning the financial reporting. Once they chose this way, there is no turning back. As it follows, by the adopted norms, they were made significant contributions to the international framework assimilation.

The Accounting - Audit - Valuation Trinomial

The chosen order of these terms is not random, because the order itself dictates the usual flow of financial information from producers to users. (Feleagă, Malciu, 2006)

Thus, the accounting information is elaborated taking into consideration the strategies and policies admitted by law and adopted by the entity. This fact generates the concept of “creative accounting”.

Whereas the accounting treatment used by the entity in order to elaborate the financial statements involves numerous valences of calculating and interpreting, it is necessary a certification of the accounting information quality in order to eliminate or even attenuate the effects of creative accounting.

A pertinent conclusion concerning both, the accounting engineering and the appearing errors or the informational system’s deficiencies, could be formulated only by financial auditors as if the SNA 200 mentions: “the objective of the financial statements’ audit aims the expressing of auditor’s opinion on the fact that the financial statements of the company are elaborated, in all their significant aspects, in accordance to the established requests.”

At their turn, the investors, the creditors or other users of accounting information appeal to the connected services of another category of specialists, namely the valuers. They use the information from the financial statements, elaborated by the entity and approved by an independent auditor in order to make economic and financial analyses which aim the company's valuation in market terms.

Both the profession of auditor and the profession of valuator are subjected, as the profession of accountant, to the harmonization to the international standards process. (Domnişoru, 2011)

Thus, by the National Audit Standards (SNA) and the National Valuation Standards (SEV) it is desired an alignment to the legacy European framework regarding the financial statements' audit and the companies' valuation.

At national level, the audit profession was settled by OMF 75/1999, regarding the financial audit activity. The 44 audit standards harmonized to the International Standards of Audit (ISA) establish the general framework for auditing the financial statements, the auditors' responsibility, the audit planning, the risks valuation, the audit samples' selection and references to the auditor's conclusions and to the financial statements' reporting.

In what concerns the relation accounting - valuation, the bound proves itself very tight because most of the issues that specialists face within elaborating the financial statements are directly connected to the financial structures' valuation.

For sure, the valuation issue in the accounting field raises numerous question marks regarding the valuation basis or the valuation methodology itself.

In what follows, we are going to point some aspects regarding the value concept both from the companies' valuation and the accounting point of view.

The International Valuation Standards Committee (IVSC) tries to give a most accurate definition for the "market value" concept, considered by valuers as being the fair value of financial structures from the balance sheet.

By these standards is delimited a set of alternative valuation bases, there are referring to the valuation report, there are established valuation norms, useful for the financial reporting or for the loans guarantee or there are proposed practices for valuating different financial structures, as the mobile goods or properties' valuation.

The Romanian normalisers managed to synthesize in the National Valuation Standards (SEV), both the section of conceptualising the valuation demarche and the practical part of such a profession.

An important reference point in the process of reforming the actual accounting system is the approach of the “fair value” concept in the accounting activity, very well defined in the SEV.

This concept could have numerous forms, concerning the way of calculating it, because of the frequent opinion divergences that appear among various accounting information users.

Therefore, a valuator prefers the “market value” of an asset if there is a market on which that asset can be sold¹.

But a manager chooses for a fair value in order to reflect the economic potential of the analysed asset and namely the value of use, determined by actualising the future benefits obtained by using the asset, valued as part of the holding company’s activity.

As it follows, the financial statements format must be established in accordance with all the participants to the general activity of the entity. In what concerns the background of financial statements, the solution for the entity’s economic activity accurate image could be efficient only the “deregulation” process is a successful one.

Also, against the numerous differences that exist between the norms of IAS and FAS, the actual modifications describe a homogenization trend of the international accounting framework.

Conclusions

All of these confirm the necessity of a new direction for the Romanian accounting system in order to accomplish the needs of the accounting information users.

Even if, by the new regulations in this field, our country moves away more and more from the spirit of IASB conceptual framework, we keep the hope of a new step on which the Romanian normalisers to choose a rather economic approach, caused by fiscal pressure, in order to lead to an extensive informing.

Even if their mission looks even difficult a “cause - effect” analysing could offer viable solutions for the problems the accountants of our country face with.

¹ Issue treated by IAS 16.

It is also true the fact that any law is subjective, but being established clear and concise application norms, based on previous simulations, it could be created an efficient applying framework.

Moreover, a financial reporting improvement should not be based on delivering big quantities of information, but rather on less quantitative and high quality information.

Even if the elaborating of the financial statements is dictated by the provisions of the European Directives, it should also take into consideration the specific of the national economy, the specific of the social actors' necessities, the own financial culture and, not at last, the political factor influence, that puts an enormous pressure on the accounting profession, by a big pollution with abundant fiscal elements.

Moreover, it was abandoned the rallying to the IAS, that propose flexible solutions concerning the financial statements' format and concerning the accounting policies and strategies, being replaced with the provisions of European Directives, much more rigid.

The mission of Romanian normalisers concerning the harmonization of the Romanian accounting framework to the international one is not easy at all, but we consider opportune an approach to the ideas of IASB and, in the same time, to the innovations brought by FASB.

Even if a unification of the UE countries on this field is desirable, the European Directives provisions don't seem appropriate for this fact. The IASB projects look much more appropriate in order to come true this ideal.

Very important opinions on the international accounting convergence have the valutors and the financial auditors by their legal representative, namely the ANEVAR (The National Association of Authorised Valutors from Romania) and namely CAFR (The Chamber of Financial Auditors from Romania). Also, we should not forget the union representatives and the bank creditors.

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Complementarity of Foreign Aid and Domestic Savings as Drivers of Economic Growth: Evidence from WAMZ¹ Countries

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Abstract

This study examined the impact of foreign aid and domestic savings on economic growth in the WAMZ countries, while including control variables: domestic investment, labour force, trade openness, financial liberalization and foreign direct investment. Panel Data Analysis and GMM were compared for the period 1980 and 2012. The paper found that economic growth obviously deteriorates with foreign aid and hence does not complement the role of saving on economic growth of the WAMZ countries. Savings on the other hand was found to be positively significant in increasing economic growth in the sub-region. Labour force and financial liberation (M2) and FDI exhibit economic growth. A policy implication of the result is that the countries in the West African Monetary Zone

¹ West Africa Monetary zone (WAMZ) comprises of Ghana, Nigeria, Guinea, Sierra Leone, Liberia and The Gambia.

should be wary in soliciting for foreign aid. If foreign aids become expedient, then it should be channeled to productive ventures.

Keywords: Foreign aid, Savings, Economic growth, and GMM.

Introduction

The pattern of economic growth in WAMZ countries has been very unstable in the last couple of decades. Consistent economic contraction characterized most of the countries in the sub-region between the periods 1970 to 2012. The scenario is evidenced by negative growth rate in the period, an indication of economic recession or depression in these countries. Although the economic growth of the three largest economies in the sub-region, Ghana, Nigeria and Sierra Leone have improved in the last decade, same cannot be said about the rest countries. It becomes expedient therefore, to consider the possible growth drivers that can reverse the economic contraction and instability of the WAMZ countries.

Saving is one of the economic growth drivers - an important precondition for economic growth, macroeconomic balance and the maintenance of financial and price stability (Arawomo, 2012). Gale and Sablehause (1999) defined savings as output of resources which have been unconsumed in current year and available for future period. Accordingly, a relatively low level of domestic saving could limit growth and makes the country much more vulnerable than it would otherwise be to international capital shifts. There has been a marked divergence in the level of saving rates across the world in the last few decades. While countries in East Asia, Europe and America saved as much as 30%, disappointingly, the average saving rate in Africa is around 16%. More worrisome is that the average saving rate of countries in WAMZ is below 11% (Adewuyi et al 2010).

Foreign aids come handy to augment domestic saving, especially in sub-regions like WAMZ that have low saving rates. The expectation is that aid would stimulate social and economic reforms by providing funds for development projects such as infrastructure, technologies, education and health among others and, hence, increase the rate of investment, which will lead to a higher growth rate (Shields, 2007). The effectiveness of foreign aids in enhancing economic growth has been

subjected to empirical test. Burnside and Dollar (2000) for instance reported ineffectiveness of aids for 56 developing countries and attributed this to the lack of good policy environment. Foreign aid is expected to be more effective in countries with good macroeconomic policies, than with bad macroeconomic policies.

Despite the existence of growing literature on the effects of aid, saving and growth, theoretical and empirical work on the subject is yet to produce a consensus. There are two major strands in the literature. First, proponents of foreign aid assert that overseas capital inflow is necessary for economic growth in the less developed countries. They claim that there exist a positive relationship between aid and economic growth because it complements domestic resources and also supplements domestic savings. (Chenery and Strout (1966); Papanek (1973); Gulati (1975); Gupta (1975); Over (1975); Levy (1988); Islam (1992, Fayissa and El-Kaissy, 1999)). The second proponents are related to the emergence of the view that external capital exerts significant negative effects on the economic growth of recipient countries. According to this view, foreign aid is fully consumed and substitutes rather than compliments domestic resources. The following empirical literature on the aid-savings nexus seems to ascertain the savings displacement hypothesis (Griffin (1970); Griffin and Enos (1970); Weisskoff (1972); Boone (1994); (1996); Easterly (1999); Gupta and Islam (1983)).

The pertinent questions practitioners and policy makers seek to discover is: What is the impact of aid-saving nexus on growth in WAMZ? Does foreign aid complements or displaces savings? Does foreign aid increases economic output? If so, at what level should foreign aid be sought for? These among other questions are the major thrust of this paper. Although some studies have examined the relationship between foreign aid, saving and economic growth, both in the developed and developing countries, yet there is still a dearth of research for the sub-Saharan Africa countries and WAMZ, in particular. Moreover, the study differs from the few done for African countries by comparing the static and dynamic panel analyses. This study primarily focused on aid, saving and growth nexus in WAMZ starting from 1980 to 2012.

This paper is structured into six main sections. In section 2, the review of the previous study was provided, while in section 3, some stylized facts on the growth rate, foreign aid and savings in WAMZ

countries are discussed. Section 4 provides a brief review of the existing literature. Section 5 addressed the theoretical framework and methodology of the study, while section 5 presented and discussed the empirical results. The last section of the paper concluded with some policy implications.

Literature review

Review of Previous Studies

A number of studies have examined the relationship between foreign aids, domestic savings and economic growth. This particular area of research has drawn the attention of researchers over the recent years. However, most of the studies in this area have examined the role of aid on economic growth without taken cognizance of the complementarity of saving and aids as determinants of growth. A summary of the findings of major studies is provided in this section.

Gomanee et al (2002) examined the impact of aid on growth using a sample of 25 Sub-Saharan African countries over the period 1970 to 1997. Findings show that foreign aid has a significant positive effect on economic growth. The study identified investment as the most significant transmission mechanism through which aids impact on growth. They concluded that Africa's poor growth record needs to be attributed to factors, other than aid ineffectiveness.

Ouattara (2006) analyzed the effects of aid flows on key fiscal aggregates in Senegal. It utilizes data over the period 1970-2000 and primarily focuses on the interaction between aid and debt. The result showed that approximately 41% of Senegal's debt and 20% of the government's resources are devoted to debt servicing. The study suggested that debt reduction could become a more successful policy tool than obtaining additional loans. Salisu (2007) examined aid, macroeconomic policy environment and growth in sub-Saharan Africa, using a panel regression model covering twenty Sub-Saharan African countries. His estimation was done with OLS and TSLS over a period of 1970 to 2001. His empirical finding showed that a sound macroeconomic environment is sine qua non for the effective contribution of aid to sustainable growth.

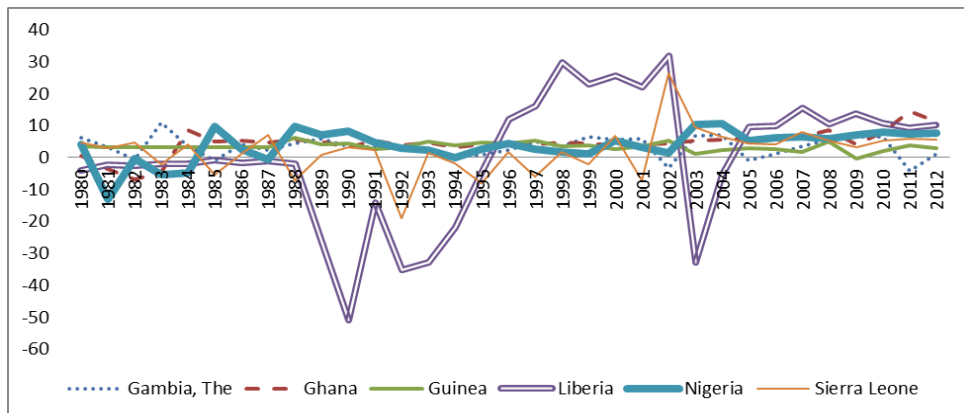
Fasanya and Onakoya (2012) analyzed the impact of foreign aid on economic growth in Nigeria for the period 1970-2010. The empirical analyses rely on the neo-classical approach. Empirical finding shows that aid flows has significant impact on economic growth in Nigeria.

Yakama (2013) re-examined foreign aid led growth in West Africa. The study concluded that panel co-integration results indicate a long run relationship between aid and growth in the whole panel. There is evidence of unidirectional causality from foreign aid to economic growth, and from economic growth to foreign aid and there are cases where both variables are independent.

Pattern of Economic Growth, Saving Rate and Foreign Aid in WAMZ Countries

The pattern of economic growth of WAMZ countries has been very unstable in the last couple of decades. Consistent economic contraction characterized most of the countries in WAMZ between the periods 1970 to 2012, evidenced by a negative growth rate. This is an indication of economic recession or depression in these countries.

Fig. no. 1: Real Growth Rate of GDP per capita (annual %) in WAMZ Countries

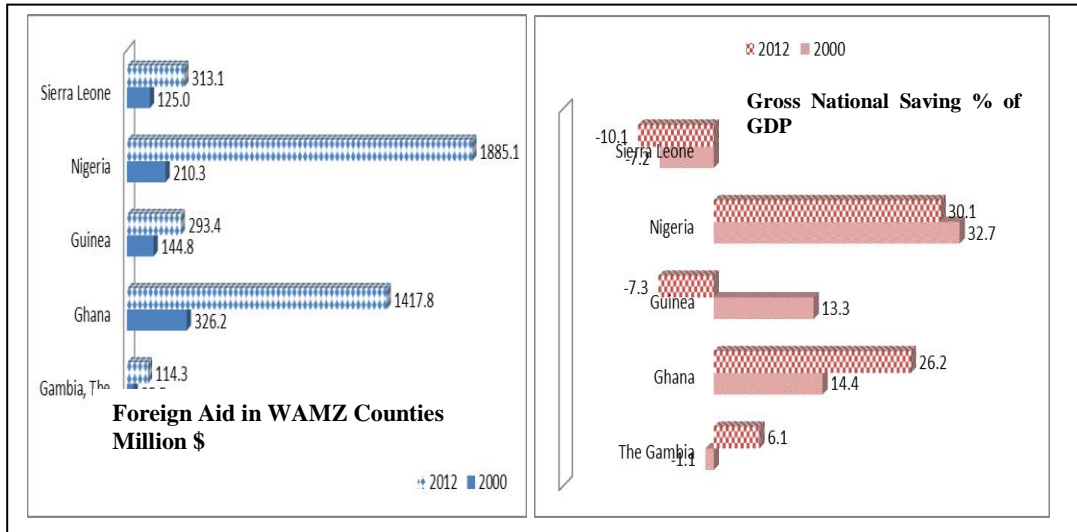


Depicted in figure no. 1, based on available data from World Development Indicators is the annual growth rate of GDP per capital between 1970 and 2012. Gambia recorded negative growth rate in about 22 years, while in 2012, the country’s economy still stinks by 6.9%. The same scenario is the case of Liberia, as the country’s economy declined in most of the period because of the civil war. For Ghana, Nigeria and Sierra Leone, similar economic growth pattern was observed between 1970 and 2000, the negative economic growth witnessed by these

countries in the period changed around 2000, and they have been having consistent growth rate in the last decade.

There are consistent increases in the foreign aids received by the WAMZ countries during the studied period, especially 2000-2012, as shown in figure no. 2. Substantial growth in the aids received by Nigeria and Ghana is quite noticeable. While the rate of saving of Ghana and Gambia got improved in the same period, those of Sierra Leone, Guinea and Nigeria declined.

Fig. no. 2: Foreign Aids and Saving Rate in WAMZ Countries



Theoretical Framework and Methodology

Theoretical Framework

Following the above review of literature, we have employed standard production function approach from the earlier studies (Islam, 1992; Gupta and Islam, 1983; Husain, 1992; Ahmed and Hamdani, 2003; Burke et al, 2006; Khan and Ahmed, 2007, among others). The initial step in the process is the specification of an explicit Cobb-Douglas production function of usual form, as follow:

$$Y = F(w) \quad (1)$$

Where Y is the real GDP, F is the transformation rule associating Y and w is the vector of explanatory inputs. Assuming a multiplicative aid-trade augmented production function and that capital (K), Labour (L), foreign aid (A) and exports (X) εq , Equation (1) becomes

$$Y = \varphi K^\alpha L^\beta A^\delta X^\gamma e^\mu \tag{2}$$

Where u is the normally distributed random error term. The inclusion of exports in the conventional production function may be justified on two grounds. First, exports allow countries to specialise in the production of such commodities in which they have comparative advantage. Exports growth facilitates the exploitation of scale economies, allows for increased capacity utilisation and encourages efficiency through specialisation in accordance with the principles of comparative advantage. Second, the export sector is assumed to generate positive externalities, such as relaxing foreign exchange constraints and the introduction of technology and knowledge. It is also assumed that with the given level of capital and labour, the larger the size of the export sector, the larger the gross value of production. (Rana and Dowling, 1990). The inclusion of foreign aid in the conventional production function can also be found in Tyler (1981), Feder (1982), Gounder (2001), Amavilah (1998) and Burke, et al. (2006) among others. Following Burke, et al. (2006), Ahmed and Hamdani (2003) we break total capital stock (K) into domestic capital (k_d) and foreign capital (k_f) i.e. $K = k_d + k_f$. Now, the Equation (2) becomes:

$$Y = \varphi K_d^\alpha K_f^\beta L^\beta A^\delta X^\gamma e^\mu \tag{3}$$

The log-linear form of equation (3) can be given as

$$\log Y = \log \varphi + \alpha \log k_d + \beta \log k_f + \beta \log L + \delta \log A + \gamma \log X + \mu \tag{4}$$

Where u is the random variable, which capture the impact of other variables not included in the model.

The inclusion of Equation (4) implies that economic policies, particularly foreign capital which are determined by external policy which influence the efficiency of the production process. Since the data for domestic capital stock and foreign capital stock are not available,

therefore we employ the use of domestic investment as a share of GDP and foreign investment share of GDP, as proxy for the domestic capital and foreign capital, respectively.

Methodology

Model Specification

In line with the work of Islam (1992) and Gupta and Islam (1983) we specify equation (5) as our estimable model, while controlling for openness and financial liberalization.

$$GDPGR_{it} = \alpha_0 + \alpha_1 INV_{it} + \alpha_2 LAB_{it} + \alpha_3 AID_{it} + \alpha_4 SAV_{it} + \alpha_5 OPEN_{it} + \alpha_6 M2_{it} + \alpha_7 FDI_{it} + \mu_{it} \quad (5)$$

Where $GDPGR$ is the growth rate of real gross domestic product, INV is the domestic investment as proportion of GDP, LAB is the natural log of labour force (age 15-64 years), AID is the official development aid as a share of GDP, SAV is the domestic saving as share of GDP, $OPEN$ is the openness to trade (total trade divided by the GDP), $M2$ is the broad money supply as share of GDP, FDI is the foreign direct investment as share of GDP and u_i is the error term, while $I = 1 \dots N$ represents the 5 countries that are selected for the study. Data used for this study, 1970 to 2012, was sourced from World Development Indicators (WDI) 2013. In terms of apriori expectation, INV , AID , $OPEN$, SAV LAB and FDI $M2$ are expected to have positive impact on output of the economy (i.e. the coefficient of these variables should be greater than zero).

Estimation Technique

In the study, a regional based panel data set was used. The Generalised Method of Moments technique was applied to the equation. This arose from the possibility of endogeneity between economic growth and saving, as alluded to by Loayza et al, (1999). That is an increase in the growth of GDP per capita may lead to increase in saving; also an increase in saving may lead to an increase of growth of GDP per capita. This situation can cause the estimated coefficients with OLS method to be biased. The existence of such causality would result in a correlation between the control variables and error term, which violates the assumptions of a linear regression model. It is in this case difficult to assess the effect of an individual variable and to isolate its influence on

saving. Estimation of such a model would lead to simultaneity bias. However, for robustness of the results, the fixed effects and random effects were equally estimated and compared with the GMM.

Empirical Analysis

The fixed and random effects models were merely estimated for robust check, since we have suspected the possibility of endogeneity. Their results, compared with that of the GMM estimates are grossly less-efficient and therefore not reported. The Durbin (score) (1954) and Wu (1974) - Hausman (1977) endogeneity test were conducted to ascertain the presence of endogeneity. The result presented in Table no. 1 suggested that the variables were endogenous. This necessitates the use of GMM method to estimate our model in order to avoid spurious and biased result. Also contained in Table no. 1 is the Wald test; it showed that the model is meaningful and jointly significant. In addition, the Sargan test statistic confirmed the suitability of the instruments used. Variance Inflation Factor (VIF) was used to detect the existence of multicollinearity, i.e. whether one predictor variable is correlated with the others. The VIF shows how much the variance of the estimated coefficients is being inflated by multicollinearity. The results presented in Table no.1 indicate that data in overall model is adequate for the estimation purpose. It shows that all the VIFs are lower than 10, which implies that there is no correlation between any of the explanatory variables.

All the variables are correctly signed, except foreign aid, that is the hypothesized positive significant linear relationship between economic growth and the repressors in the equation cannot be rejected at the 5% level of significance. Negative significant impact of foreign aid indicates that it reduces the growth of countries in the sub-regions. The negative significant impact of foreign aid and positive significant impact of saving on economic growth in the sub-region is an indicative of the fact that foreign aid does not play the complementary role expected in the countries. The result does not support the proponents that aid has positive impact on the economic growth of the developing countries (Papenek, 1973, Levy, 1987 and Islam, 1992, Boone 1995, Fayissa and El- Kaissy, 1999).

Table no. 1: Results of Fixed OLS and Second Stage Least Square

Variable	Pooled OLS	Fixed Effects	Random Effects	General Methods of Moment		
	Coefficient	Coefficient	Coefficient	Coefficient	VIF	Toleranc
<i>C</i>	12.0980**	10.8591**	10.7695**	10.5933**	2.3	0.43
<i>INV</i>	0.5053**	0.3134	0.1304**	0.5132**	2.4	0.41
<i>LAB</i>	0.9256	1.0912	1.6506	0.8657	3.1	0.31
<i>AID</i>	-0.1955*	-0.2166	-0.4196*	-0.1715**	2.7	0.37
<i>OPEN</i>	0.0312	0.0091	0.6723	0.0801***	2.2	0.44
<i>SAV</i>	0.0051**	0.6721	0.7837	0.0049**	2.4	0.41
<i>M2</i>	0.0079	0.0071**	0.0187	0.0072	3.0	0.33
<i>FDI</i>	0.0020	0.0162	0.0092	0.0019	2.1	0.47
Adj R-	0.64	45.63	0.62			
Wald				0.71		
F-	81.0					
Hausma	-	9.25	-	-		
LaGrang	-	-	1.92	-		
Durbin				Chi =		
Wu-				F = 5.2112		
Sargan				13.11		

Note: ***, **, * represent 1%, 5% and respectively 10% level of significance

The impact of trade openness on economic growth is also positive and significant at 5% level. This result shows that trade openness allow WAMZ countries to allocate resources efficiently. Financial liberalization (M2) Labour force (LAB) and Foreign Direct Investment (FDI) were insignificant. This implies that their influence on economic growth in WAMZ countries is not effective.

Conclusion and Policy Implications

This study examined the complementary roles of foreign aid and savings on economic growth of WAMZ countries, using data from 1980 through 2012. The model was estimated using both, the panel data analysis and GMM for robustness. Empirical finding showed that while

the impact of foreign aid is negative and significant, saving has positive and significant impact on economic growth in the WAMZ countries. Hence, aid does not complementary role of saving in impacting on growth in the WAMZ countries. The only limitation to this study is limiting the number of control variable used to explain economic growth to investment, labour, openness, money supply and FDI, where as other important growth determinants excluded are credit facilities, infrastructure and governance variables. This could be taken up by authors that seek to take it over.

A policy implication of the result is that the countries in the West African Monetary Zone should be wary in soliciting for foreign aid as it would significantly reduce their economic growth. The countries would need to disentangle the channels through which aid matters for productivity and efficiency. Also, WAMZ countries should increase their domestic investment as it would benefit the country's economy, and therefore dependency on foreign investment should remain limited. Arising from the empirical results, a key policy recommendation is that governments of the WAMZ countries should adopt strategies, policies and measures which would raise the absorptive capacity of the economy that can adequately translate savings into investment.

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Communication Management in Organizations. A Case of Private Companies in Western Romania

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Abstract

Communication is a cultural expression. Behaviour in organizations is the result of social mentalities. Organizational culture is directly proportional to the level of communication. Optimal management strategies take account of institutional communication, social values and collective representations. Strategic communicative methods are needed to support the development of effective managers at all levels of business.

Keywords: managerial communication, organizational culture, mentalities

Introduction

The act of management was one of the oldest forms of work organization within human society. If initially management meant to impose one's will and to administer some goods according to subjective rules and regulations, managing nowadays involves influencing the work of subordinates to achieve success in an activity (management is an art). As science it requires to comply with certain laws and theories to achieve a predetermined purpose M. Zlate, C. Zlate (1982). In addition, to the explicit text of management and leading, there is an institutional context transposed in the internal environment of the

organization that reflects the culture of the organization. Gerald Cole defines organizational culture as "the dominant pattern of beliefs and values held by the organization" (Cole, 2004). Gheorghe Ionescu gives a comprehensive definition of the term, describing it as a "system of values, symbols, rituals and practices" supported by members of the organization (2001). Culture becomes an analogous perception to all levels of the organization, this aspect constituting the "shared aspect of culture" (Ibid). Moreover, the concept of *organizational culture* seems to be descriptive, reflecting the way in which members of the organization register the existence of the organization, eluding the estimated appearance. In short, organizational culture projects itself based on the goals and aims of the organization (Cole, 2004). In the organizational culture one cannot find narrow ideational products, private or insular, but a constellation of discovered, negotiated or collectively adopted beliefs, certainties or values. The organizational culture indicates the axiological system of meanings, protocols and methods approved by the members of the organization, a mainly normative system within the organizational entourage, where horizontal and vertical communication, with the internal or external environment, has a decisive role. Between culture and organizational communication there is a direct relationship of interdependence which reflects itself over all kinds of manifestation, functioning and expression of institutional activities.

But what is *communication*? What is its nature? What are the functions of communication? Through a syntagmatic approach, *communication* means the transmission of information or signals, a system of signification. Some authors (Carl Hovland, Irving Janis and Harold Kelley) understand *communication* as "a process by which an individual (the communicator) transmits stimuli (usually verbal ones) in order to change the behaviour of other individuals (the audience)" (Dinu, 2000). Another definition, given by Louis Forsdale, insists on the nature of entities involved in the communication process as well as on the preponderantly integrating role of the act of communication: "communication is the process by which a system is established, maintained and changed through common signals (shared), acting according to rules" (ibid). In the DeAgostini Encyclopedia of Philosophy and Humanities we find the following definition of communication: "the transmission of information through verbal and non-verbal instruments" (Drago, M., Boroli, A., Melchiorre, V., (eds).

2000). Gheorghe Ionescu (2001) defines communication as "an interpersonal process of sending and receiving symbols with messages attached to them". As a work definition, we can say that through communication we understand the *process of signification used in a relational and intentional context between parties*.

What is organizational communication? In the spirit of a sociological definition, through organizational communication we describe the transmission of stimuli (verbal, nonverbal and para-verbal) by an entity (living being or machine) and their reception and decoding by another entity in the organizational activity, a process which is possible through the assistance of a set of techniques and tools which enable information sharing. Thus we have a sequence of steps in which the act of communication takes place. This act of communication lies in the existence of a sender and a recipient, the existence of an environment which enables communication and some methods and tools which facilitate information sharing. Finally, the whole process of information transmission from the sender to the recipient occurs within an organizational activity. The major role and the reason organizational communication exists are inextricably linked to improving the organizational activity. Communication performs several major functions within any type of organization. Therefore, an organization that invests time and effort in improving the processes of communication has a great advantage in front of an organization which is deficient in terms of communication. The functions of organizational communication are:

- *The integrative function*: the act of communication, as observed by Forsdale, establishes a system that is maintained and modified by means of certain common shared signals;
- *The informative function*: the act of communication, an act of transmitting information, has a central role in the process of organizational information;
- *The "democratic" function*: the act of communication involves the existence of certain interpersonal relationships where openness and the ability to receive as much information from as many sources are key and vital elements. A good manager is a good communicator and a good listener.

To communicate well is one of the most difficult, sensitive and useful attributes of the managing function. As in the process of interpersonal communication, one who has something to say should take

into account the desired impact and his communicational strategy. When you develop a strategy for organizational communication, the manager, at least in theory, should consider the following aspects (Cornescu, V., Marinescu, P., Curteanu, D., Thomas, S.):

- One-way communication, namely both-ways communication. It refers to a communicative strategy that gives the recipient a chance to send information to the sender on how the delivered message was received.
- The «open door» policy. It is a strategy meant to open channels of communication. It's an opportunity for employees to have a dialogue with their supervisor when various uncertainties arise in the organizational activity. This open door policy should however take into account several aspects, so as not to prove superfluous: the confidence of employees in their superiors; the actual accessibility of the employees to their superiors; the danger of sublimating the chain of command (the hierarchy of authority);
- Verbal or written communication. Here we consider the advantages of each type of communication separately. Situations are assessed as: sending written information to each person or to a group of people; oral transmission of information to each person or to a group of people. One should calculate aspects such as: time available, the importance of the message which will be transmitted, the degree of responsiveness of the recipient, the sender's ability to communicate in writing or orally;
- Using an informal network. Communication through informal means can be advantageous, but carries risks. The advantages derive from lack of rigidity and mechanical character of communication process, which can create an environment in which the sender and receiver communicate beyond bureaucratic restraints. The risks arise if the sender is a poor speaker or the audience does not have an interest in the message reception.

All these functions and explicitly, theoretical processes, in connection with the duties that an effective manager has to fulfil in the organizational life, largely indicate a degree of institutional flexibility and adaptability to the external environment, both of the organization as a real structure and of the management as a leading function. However, the elements of institutional identity and identification – the organizational culture, the institutional image, communication within

the organizations – represent a formative effect comprising specificities and cultural historically civilizing policies which often have characteristics and attributes of a national type.

In Romania, the establishment of communism in the period after the World War II led to a total ignorance of the science of management for period of almost two decades. It was a period of decline in terms of management theory and practice. Managers were appointed directors without a management plan and were forced by the party to strengthen the ideological beliefs of production and productivity due to geopolitical limitations: quality was diminished compared to quantity, assets were characteristics of less efficient constructions in terms of profitability, but great consumers of human resources and energy. In education and research the concerns for management were seriously reduced and, in terms of content, they were strongly marked by the communist doctrine, making them political through the well-known tenets and principles regarding the superiority of the socialist property over the private property, the leading role of the Communist Party, the battle of the classes etc. Most of the concerns were related to the macro-social management based on the principles of the Marxist political economy, while company management is almost non-existing, except for fragile imports from the Soviet Union on the organization of businesses. After 1966, due to the numerous businesses in which great investment effort was made, the need for a rigorous management especially at the microeconomic level was strongly felt. Under the pressure of the need of practice in the context of a certain opening of Romania to the West, several actions in terms of practice, scientific research and education in management and organization are taken. Regarding education, scientific research and management in Romania in the last two decades and a half, until the events of 1989, the following specifications are required:

a) In terms of theory and practice there is a considerable diffusion of management knowledge, in which a large proportion of management concepts and tools from developed countries can be found.

b) The management courses and the scientific research were marked by precepts of the communist doctrine, less in terms of instrumentation and more in the interpretation and use of concepts.

c) The practice of enterprise management has been strongly influenced by its manifestation in an economic system of a communist type, super-centralized, where the political and administrative-clerical elements often prevailed over economic ones. The restrictions and

mechanisms of the amplified communist approach, led from the perspective of Ceausescu to a gradual reduction of functionality and efficiency of management systems used in the Romanian economy in the ninth decade.

d) Between the theory and practice of enterprise management there is a gap which gradually increased, the latter being mostly affected by Ceausescu's communist system.

The year 1990 marked the beginning of radical changes in this field. In the past years, the management education and research almost entirely removed the malformations and limitations of the communist period. Most of the concepts and tools of management at the firm level were reconsidered in the light of the factors and conditions of market economy. Efforts are made to assimilate the latest novelties in management and adapting them to the current conditions of transition to a market economy. On the pragmatic level of company management progress is noticeably slower. Transforming state enterprises in trading companies is not yet accompanied by fundamental changes in their management. The mentality of the management and executive staff is changing slowly and without all the depth required. The effort to build the elements of management is present at appreciable levels in most businesses especially in the executive management. Under the pressure of these factors as under the pressure of market economy, we will see substantial changes in management of companies and businesses in the coming years. These pressures are the key to their survival. The crisis "owner authority" and of "management authority" that manifest amid an economic and mentality crisis (organizational culture) are the main causes that generate the slow progress in the management practice in former state enterprises. The manner and speed of solving these two crises will mark a decisive functionality and profitability of these types of companies. Somewhat better is the management situation of small and medium firms set up by private entrepreneurs. Their strong motivation for action and profit is positively reflected in their management. However, the use of modern management elements is still low. For this group of firms, too substantial progress will be required in the coming years, because there are superior prerequisites represented by the absence of the owner and the management, as well as by their significantly lower complexity and size. As a consequence of the investigations made, we can identify ten management roles, which can be grouped in three categories, listed below (Lock, (eds.). 2001):

- a) The interpersonal roles regarding the way in which the manager interacts with people, the relationships he/she has with others;
- b) The informational roles regarding the way in which a manager changes (collects, disseminates) and processes data;
- c) The decisional roles that relate to how a manager uses the information in the decision making process.

The issue concerning interpersonal relations and informational roles is essential for our society, which is continuously changing. It values the interaction between managers and employees assigning a regional and national dimension to the manner they have been trained. The pole on “Communication auditing within private companies from the Western part of Romania” was applied between August 27th and October 5th 2014 on a representative sample of 59 small companies from twelve cities. There had been used eight questions which aimed to reveal the managers` and employees` attitude towards communication in the company they come from (T. Rotariu, P. Iluț, 1997).

Methodology

The objectives of the empirical study (inquiry through questionnaire)

- Validation of inquiry data
- Identifying the managers` and employees` attitude towards communication
- Acknowledging how people relate in small private companies.

The study sample: the questionnaire was sent by regular post to a number of 131 companies along with an explanatory letter about the objectives of this study, 10 sets of questionnaires and a stamped envelope to return the sets by post from the following cities: Arad, Timișoara, Oradea, Reșița, Caransebeș, Jimbolia, Salonta, Chișinău-Criș, Sântana, Orșova, Săcueni, Satu-Mare.

Method of data collection: the questionnaire was sent by regular post to a number of 131 companies along with an explanatory letter about the objectives of this study, 10 sets of questionnaires and a stamped envelope to return the sets by post. Answers returned from 59 companies

The questionnaire (Culic, 2004) contained a number of seven questions regarding knowledge of the following issues:

- How is relating viewed within organizations in terms of communication during decision making process;
- Ways of task transmission;
- The frequency of information and debate meetings in connection with frequent or unusual problems.

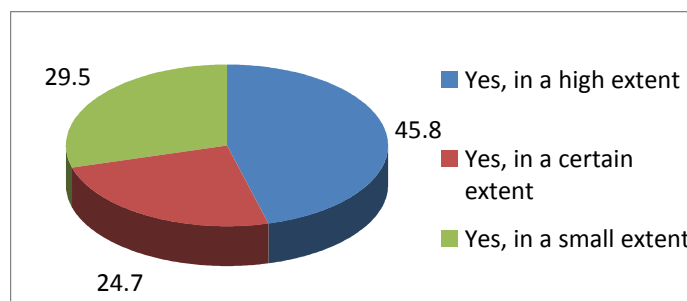
The questions were designed as closed questions and the multiple choice tasks referred to auditing relating and communication within organizations. The questionnaires attempted to highlight the manner of communication used in communicating and completion of work tasks.

General results

Throughout this study we have tried to identify the frequent or less frequent use of communication in the decision making process, the manner work tasks are communicated and completed, the relationship between employees in critical situations. We present the results of our study on the dimensions that we consider relevant. The topics are the following: *Appreciation of the manner communication is used in the organization the subject belongs to; The manner of communicating work tasks; Completion of work tasks; The frequency of meetings within the organization; Valorization of subjects within the organization, The tone of direct discussions.*

Appreciation of the manner communication is used in the organization the subject belongs to. The first question was asked to see whether subjects believe that communication is effective in the organization they work in

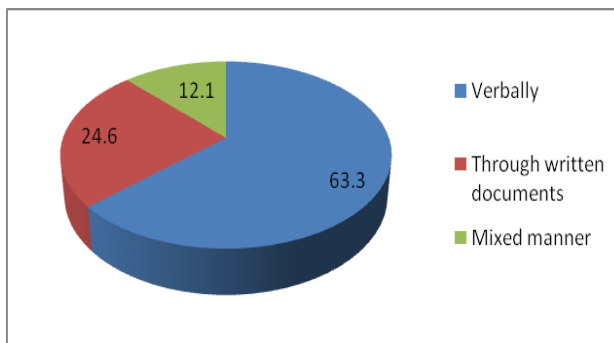
Fig. no. 1. Effective communication within organizations—subjects` answers (%)



It is worth mentioning the high percentage (70.5%) of respondents who consider that communication is highly effective in their organization. This first question is a control question and by it means we have tried to notice the respondents' positive intentions. However, there are a significant percentage of respondents (29.5%) who admit right from the start that communication is effective in a small extent in the company they belong to.

The manner of communicating work tasks. The second question referred to the manner work tasks are communicated in the organization and 63.3% stated that they are communicated verbally, 24.6% mentioned written communication and only 12.1% referred to mixed strategies.

Fig. no. 2. Communicating work tasks in the organization– subjects' answers (%)



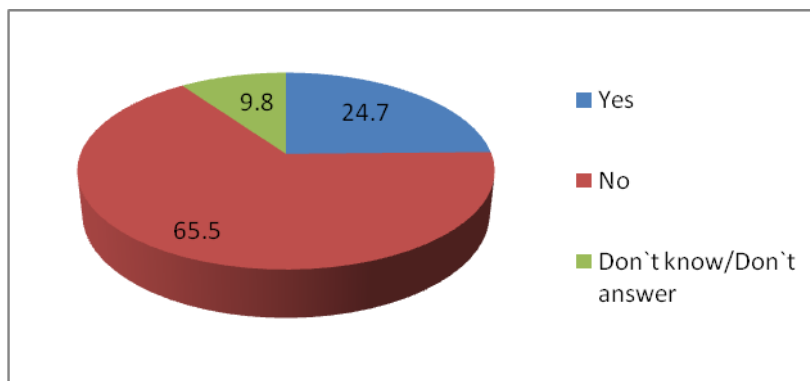
Completion of work tasks. The third question referred to how critical situations emerged from work tasks is managed. Most subjects (54.5%) state that they ask their managers to find solutions when they face a critical situation. 32.4% seek for their work mates' help and 13.1% don't ask for anyone's help. Noticeable is the percentage of those who don't ask for anyone's help and try to solve their problems subjectively or they don't solve them at all, as they please.

The off meetings within the organization. The fourth question tried to discover the frequency of periodical information meetings for medium and long-term objectives without referring to on-the-spot ones.

A significant percentage, namely 77.4% of respondents state that information meetings on the future of the company don't have a certain frequency; 22.6% attend meetings at least monthly.

Valorization of subjects within the organization. The fifth question focused on the importance each employee has within the organization she/he belongs to. The answers reveal a less secure attitude towards their work place since 65.5% of respondents don't feel important for their company; 24.3% feel they are important and 10.2% don't know or don't want to answer.

Fig. no. 3. Valorization of subjects within organization – subjects' answers (%)



Decision making as mutual process. The sixth question was an attempt to analyze the decision making process within the investigated society. Thus, 18.3% of subjects are questioned about the strategic decisions which the organization has to take, 78.5% are not questioned and 3.2% don't know or don't want to answer.

The tone of direct discussion. The seventh question attempted to observe the usage of a higher tone towards the employees from time to time. 67.3% admit that higher tone is sometimes used, 28.4% state that higher tone is not used in their organization and 4.3% don't know or don't want to answer.

Conclusion

The conclusions of this study draw out attention on some significant facts related to institutional communication in small companies. Since more than a quarter of employees signaled the lack of effective communication in their companies, the conclusion is that institutional communication faces certain drawbacks. The same attitude

is revealed by the fact that most employees seek for their managers' help in completing more difficult work tasks rather than their peers'. Lack of group communication and of horizontal communication reveals poor communication.

The management of societies under our investigation seems mainly authoritarian. The manager benefits from great freedom which is a characteristic of the authoritarian style. Employees are not questioned about their perception of the future of societies on medium and long term; most of them don't feel as part of the organizational structure; they aren't even invited to periodical information meetings; the decision making process is solely the manager's task. Consequently, an eclogue negative culture emerges. Employees run away from responsibilities, only a small percentage are willing to take risks and feel insecure of their work place. The fear of failure is high and authoritarian management style is frequently used; crisis situations require the usage of paternal anachronistic strategies such a higher tone in manager-employee relationship. The managers' attitude can also be the consequence of neo-communist culture from Romania, of guided and normative mentalities which are the characteristic of members of the unique party. They have developed a central economy which is divided today into isolated and insignificant chunks in terms of relating and communication.

To sum up, we can state that a company with less consistent communication or with systematically ignored communication is improper in the current context. Its ability to survive in the contemporary world can be questioned. We are facing times when an uninformed entity or an uninvolved entity in communication acts is considered marginal, ex-centric and insular. The reevaluation of organizational values is a projective strategy whose productivity can be achieved along with the fulfillment of its institutional goals.

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Concentration and Consolidation of the Romanian Bank System in the Reform and Transition Period to the Market Economy

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Abstract

The countries from Central and Eastern Europe that have at their basis the Soviet Union mode based on a planned economy, centralized, without modern bank institution, were submitted to a process of bank consolidation in the period of 1990-2000. Romania is also among these countries submitted to a diverse process of bank reform. This paper proposes to analyze the period of restructuring of the Romanian bank system, the way in which the process of bank reform was made, which is aligned to the other countries in the process of transitions and which determined the delay of this process, but also a decreased efficiency of the bank system and the loss of its role of engine of the enterprise restructuring. The bank system from Romania was developed during many years of transitions, period characterized by an unstable macroeconomic environment, bank management without a discipline in the activity developed, the increase of the portfolio of low performance credits, the consolidation of the bank system was made by the intrusion of the foreign capital was made by

investments of greenfield type, by the bank privatization, that began after 1997, by the taking over of some existent banks by other large banks.

Keywords: concentration, consolidation, bank system, reform, transition.

Introduction

The architecture of the banks system from Romania, until the 89's was elaborated after the Soviet Union bank system model, planned excessively centralized. The first element from this system is the National Bank that accomplished a role of Central Bank and of Commercial Bank, performing operations of discount and credit for the population (Barisitz, 2009). This are nine decimals of the socialist machine, reflected in the national accountancy, accounts for the production and distribution of assets on national level and represents "the framework of the socialist society".

The bank concentration in Romania in this period reached maximum quotas, there were beside BNR another 3 commercial banks and the Savings bank. Also there were four foreign banks that had authorization to function and to accomplish a reduced number of foreign currency operations: Manufacturers Hanover Trust, Societe Generale, Banque Franco-Roumaine and Frankfurt Bucharest Bank. Beside these, there were also 860 credit cooperatives and more than 6000 mutual aid funds (Spiridon, Bichi and Dragulin, 2005). This bank system eliminated the competition between the banks, because they developed their activity and acted only in very strict and well limited duties.

The characteristics and evolution of the bank concentration and consolidation in the period of restructuring the bank sector and of the transition to the market economy

The beginning point in starting the reform of the bank institutions from these countries was the transformation of the institutional environment by creating a dual system composed on the first degree of a Central Bank that functions by the principles of the market economy and to eliminate the directives of the unique plan, whose attributions are those traditional one of an authentic Central Bank, namely the surveillance and monitoring of the bank institutions, the monetary and exchange policy. The second degree are the

Commercial Banks newly created taken from the portfolio of the Central Banks with the role of mono bank in a planned economy, and also the other state banks, banks with private capital, foreign joint-venture banks (Bonin, Hasan and Wachtel, 2009).

Thus, in Hungary from the portfolio of the Central Bank of mono bank type were founded three commercial banks, in Poland nine commercial banks, in Czech Republic two banks and in Romania was created a single Romanian Commercial Bank.

The main objective followed in the Romanian bank reform was the creating of a modern and functional bank system adapted to some international standards that contribute to the development and stability of the Romanian economy (Caprio and Ross, 1992).

The reform of the Romanian bank system developed between 1990-2003 can be divided in two phases, phases that have as basis the type of measures taken in this period (Isărescu, 2003):

Period 1990-1997 that presupposes the rebuilding of the bank system from Romania and the introduction of the main legislative documents that are at its basis.

In the first years of the period of transition after 1989 was registered a delay in the development of the Romanian bank system, delay that took place against the slow evolution of the macroeconomic processes. Apart from the other countries in the period of transition the reform of the bank system in Romania is characterized by “an initial stock of problems from the system and from the real economy” (Spiridon, Bichi and Dragulin, 2005)

Year 1990, the year that marked the transfer to the market economy, is the year when it took place de facto also the reform of the Romanian bank system, process accomplished from the institutional and functional point of view, that presupposes the harmonization of the old system, its replacing with a new system composed of two grades, adapted to the bank systems of the European union countries. This system has as components the Central Bank and the commercial banks, is a modern bank system composed of bank institutions, monetary and with foreign currencies with well limited duties. The system of commercial banks was created firstly by the separation of the Romanian Commercial Bank from the National Bank, but also by the development of the existent bank institution and the creating of some banks with state, private or mixed national capital, but also by the allowing of the access to foreign banks in the Romanian bank system. At the end of

year 1990, there were in Romanian 12 banks, of which 7 Romanian juridical persons and 5 branches of some foreign banks. It is observed in this period a domination of the state banks “whose activity was most often affected by the interference of the politics” and the solution for the protection of these banks was: “assuring of a healthy corporative governance offered by privatization” (Isărescu, 2003).

We can observe the modifications registered in the Romanian bank system in the last years. If in 1990 in Romania there were banks with majority foreign capital, in 1997 there were 13 banks with majority foreign capital and 10 branches of some foreign banks. The number of banks from the system increases thus from 12 banks in 1990 to 43 in 1997. The birth in the bank market from Romania of the banks with majority foreign capital was possible due to the encouragement by the Romanian authorities to enter in the bank market of foreign investors and foreign investments. During the socialisms, the foreign banks opened branches in the Romanian bank system and the banks from Romania had the possibility to open branches outside the country. This approach of the National Bank of Romania regarding the assuring of the access of foreign banks was one of the most liberal applied in the countries in transition, Hungary allowed the opening of branches by the foreign banks in 1997, Poland in 1999.

The foreign banks hall-marked during the years on the bank activity from Romania that had a positive effect on the Romanian bank system development were an important factor of the economic development, contributing to the “reforming of the bank system and to the economic growth as a whole” (Văduva, 2012).

Table no. 1. Bank concentration

<i>Indicator</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>
<i>Percentage in total assets</i>							
<i>CR4-the first four banks</i>	83	76	76	69	64	66	61
<i>CR3- the first three banks</i>	71	67	70	57	57	59	52

Source: The annual report BNR 1997, p.101

It can be observed in this period the high degree of concentration in the bank system. Even if the number of existent banks on the bank market from Romania increased almost eight times in this period, the bank system is dominated by four great bank institutions with state capital: BCR, BRD, Agricultural Bank and Bancorex that had a percentage of 83% of the total assets. The degree of bank concentration decreases gradually due to the low performance credits existent in the portfolio of these banks, reaching to 61% in total assets in 1997. The state banks: The Romanian Commercial Bank, The Agricultural Bank, The Romanian Bank for Development, Bancpost and Eximbank owned 2/3 of the total assets (Berea, 2001). Also, the percentage of the first three banks from the system, BCR, Agricultural Bank and Bancorex decreases in total assets from 71% in 1991 to 57% in 1995, respectively 52% in 1997. In order to reduce the systemic risk that threatened the bank system in this period, it was needed of a decreasing of the degree of bank concentration, a high degree of concentration not being a benefic element for the Romanian bank system.

Period 1998-2003 was characterized by the process of drainage and consolidation of the bank system and by the continuous improvement of the bank legislation

The bank legislation from Romania was improved continuously following the demands imposed by the European Union in order for our country to adhere to the structures of the Union. In 1998, the normative environment for regulation of the bank activity was modified and completed by the bank law no. 58/1998 and the BNR statute was modified and completed by the law no. 101/1998, also it was introduced the law regarding the procedure of bankruptcy of the banks. These laws accumulate the experience achieved by our country from the internal and international point of view and the experience of some external consultants from the member countries that contributed to their elaboration.

As Staikouras and Koutsomanoli-Fillipaki (2006) affirmed, the simplest measure of the concentration of market is the number of bank institutions existent on the market, because this method of evaluation transmits the number of options available for the consumers. We can observe that the number of banks in 1998 reached the maximum limit of 45 and then it decreased in 2003 to a number of 38 banks. This decrease is due in great part to the process of bank drainage and consolidation, accomplished by the merge of banks in this period, but also by the

liquidation of some insolvable banks (Spiridon, Bichi and Dragulin, 2005).

In this period we can see an increase of the number of foreign banks from a number of 16 in 1997 to 21 in 2003. The National Bank of Romania supported during this period the intrusion of foreign capital on the Romanian market, because it was wanted these banks to contribute to the intensification of the competition on the bank market, improving the offer of products and services, so that in a competitive environment the Romanian banks would be as efficient as possible.

Table no. 2. The evolution of the percentage of the five banks in total assets and of the a Herfindahl-Hirschman index in period 1998-2003

<i>Indicator</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
<i>Percentage in total assets</i>	68	66,7	65,5	66,1	62,8	63,9
<i>CR5-the first five banks</i>						
<i>Herfindahl Hirschman index</i>	-	1296	1375	1427	1381	1264

Source: accomplished by the author on the basis of the data from the Annual reports of BNR 1998-2003, <http://bnro.ro/Publicatii-periodice-204.aspx>

The bank market from Romania had as leaders in December 1998 four great banks with majority state capital (Bancorex, BRD, BCR and Agricultural Bank). They owned 62% of the total assets of the bank system, CEC had 9,8%, having the 3rd place in the bank system. The first five banks from the bank system had in 1998 a percentage of 68%.

The percentage of the first five banks in total assets decreases to 66,7% in 1999 and in 2000 the percentage of the main five banks in total assets was 65,5%, decreasing compared to the previous year, that underlines an increase of competition in the bank system. The first five banks are the Commercial Romanian Bank, The Romanian Bank for Development- Groupe Societe Generale, CEC Bank, ABN AMRO Bank Romania SA and ING NV SA. The Herfindahl-Hirschman index registered a value of 1375 in increase compared to the previous year when it had a value of 1296.

In 2001, the percentage of the first five banks in total assets is 66,1%. These banks are the Commercial Romanian Bank, The Romanian Bank for Development- Groupe Societe Generale, CEC

Bank, ABN AMRO Bank Romania SA and ING NV SA. The Herfindahl-Hirschman index had a value of 1427 that presents an increase of the degree of concentration in the bank system against the process of drainage and restructuring of the bank system.

The dominant characteristic of the bank system in this period is its concentration, five banks (the Commercial Romanian Bank, The Romanian Bank for Development- Groupe Societe Generale, Raiffeisen Bank, CEC, ABN AMRO Bank) had a dominant position at the end of 2003, with a percentage of 63,9% of the total assets. The Herfindahl-Hirschman index had a value of 1264, decreasing compared to 2004.

Due to the increase of competition in the bank system, the level of concentration suffers modifications, that will impose the change of the plan of action of the small and average banks by mergers and acquisitions, so that they would adapt the demands regarding the capital. An alternative for the maintenance of these banks is the concentration on products specialized or on certain segments of clients.

The finishing of the process of drainage and restructuring of the bank system in 2003 had a cost of over 3 billions equivalent USD for the Romanian country, namely 10% of the GDP (Ilie, 2003). BNR continue the action to create a modern and competitive bank system, able to inspire the trust of the population. Also, BNR continued to take measures to increase the quality of the surveillance of the bank activity, actions that lead to the creating of a viable bank system. Year 2003 is the year when are felt the results of the process of drainage and consolidation of the bank system which began in 1999-2000. On macroeconomic level are registered favorable evolutions and the bank system became a balanced one.

The main difficulties of the process of reform and transition to the market economy

As Corrigan affirms (1982) in (Berea, 2001), a great number of occidental economists consider that the banks have an important role in the development of the bank system, because they are the ones that create the structure of the market economy, they are real tanks of the economic development and of the process of bank reform. Banks are necessary to be developed according to the restructuring of the economic activity as “the adjustments on the macro economic level should be accomplished together with the restructuring on the micro economic level” (Lăzărescu, 1998). In the period of transition to the

market economy, the banks were in the property of the state and had as objective the maintenance of the state enterprises, which determined the approval of credits that became with low performance, so that the resources were not allocated on principles of profitability and sustained a real economy that should have been also restructured, economy that registered deficits of functioning on the macroeconomic and microeconomic level. This is a consequence of the fact that the politics accomplished on macroeconomic level were not doubled by adequate measures of reform on microeconomic level, thus the adapting of the bank legislation was not enough because on microeconomic level the restructuring and the privatization were not accomplished in the same time, which determined the access to financial resources of some enterprises that were in difficulty already. We can affirm that in this period the restructuring of the bank system “brought forward the rhythm of the real economy restructuring, so that the banks developed a reticent attitude towards the lending of the economy”, attitude that came from the great number of low performance credits from the portfolio (Isărescu, 2003). In 1998, the low performance credits registered 52, 6 percent of the total of the non governmental credit, while in 2009, 54, 8 percent, this impeding the bank system to be the promoter of a healthy economic growth. Also, these registered at the end of 1999 a percentage of over 58% of the total portfolio of credits and 253% reported to its own capitals, impossible to be recovered by intensified or recapitalized activities, the specialists of the National Bank considering that the impossibility of recovery of at least 50% can lead to a “virtual bankruptcy” of the bank system (BNR, 1999).

The necessity of restructuring and drainage of the bank system was stringent because a group of 7 banks considered as problematic had a percentage of over 80% of the total low performance credits. The restructuring of these banks was necessary in order to assure the good process of the national economy, the funds used for the performance of these restructuring were from public or private sources (BNR, 1998).

Barisitz (2009) sustains that in Romania, as in other countries in transition, the first step was the relief of the National Bank of the activities with cash, creating a bank system on two levels, the liberalization of the bank authorization in the bank system in order to increase the competition. Also, the portfolio of low performance credits taken by the old centralized system and those accumulated in the periods of transition determined measures as their transfer to a “hospital

bank or bad bank” or to an agency of recovery of debts and their replacing with state titles. In case of Romania, they were transferred to AVAB.

We can affirm that the role of the banks in the period of transition to the market economy is very important, because they are established in an “important link of the financial system whose performance will offer an efficient tool of appreciation of the health condition of the economy in its ensemble” and the volume of the existent financial availabilities from the circulation in an economy is a characteristic of the economy development in its ensemble (Ilie, 2003).

The problems of the banks in this period came from the real sector due to the absence of the separation between the macroeconomic and microeconomic field, the absence of the financial stability; they also were the result of a very instable macroeconomic environment, recession being a predominant element and the decisions taken on the economic level are very incoherent, this leading to a deterioration of the bank assets. The main difficulty with which Romania was confronted in this period was inflation, in some period this was hyperinflation, having as causes the inconsistency in applying some monetary and fiscal-budgetary politics, the delay in development of some reforms in the real economy, in its ensemble. Also, this is due to some inconsistencies between the National Bank and the government, in many cases BNR tried “to patch” some decisions adopted by the government (Căpraru, 2006).

The aggravation of the economic situation determined also the deterioration of the financial performances of the enterprises, the placing of their credits in the category of low performance credits and the guarantees related to these credits couldn’t be exploited because there was no market able to make possible this operation.

As D. Bădulescu also affirmed, the success of the structural reforms depends in great measure of the economic stability. The “experience accumulated in the last decade encourages the opinion that the best successes were obtained by those economies in transition that succeeded, simultaneously, the stabilization and applied corresponding measures of reform” (Fisher and Sahay in Bădulescu, 2007). In Romania, the delay of the reforms was the factor “that lead to the continuous accumulation of some quasi-fiscal deficits, materialized either in directed credits accomplished from the emission of the central

bank, or in the accumulation of low performance credits in the banks portfolio or in losses of the enterprises” (Isărescu, 2003).

Together with the macro-economic factors, the lack of consistency of the legislation and the lack of discipline in the financial and contractual problems is another factor that contributed to the increase of difficulties for the creating of the process of bank reform. Until 1999 the legislation regarding the bank bankruptcy and the bank surveillance was very permissive, the sanctions being mild. Were given credits, some were not reimbursed and there were also situations when a debtor with bad faith benefited of defense in front of the creditor, was advantaged even when he lost a trail, he was not punished for his deeds. Beside the necessity of improving the legislation and the judicial background that would facilitate the solving of the conflicts and the corresponding functioning of this system, it was necessary an institution that would have as object of activity the collecting of the information about the credits owned by a debtor, physical or juridical person, in the bank system and a system of rating useful in the credit analysis. Compared to Hungary, who is the first country that introduced a new bank legislation in 1992, which aligned the bank system to the international standards of accountancy and a law against bankruptcy, and compared to Poland where there as an electronic system of bank surveillance and a legislation against bankruptcy, Romania and other countries who “introduced afterwards these indispensable elements passed through the process of bank restructuring and privatization much later” (Bonin, Hasan and Wachtel, 2008). In 1999, once the system of early warning and the procedure of classification of the banks were introduced, these gaps of legislation were eliminated.

In the period 1990 and 1993, the Romanian bank system was seen as a source of subventions of the national economy, of the enterprises from the state sector, these becoming practically “a box of unpaid debts” (Croitoru, Russu and Târhoacă, 2004). The rate of the market interest was really negative, this creating the premises of the bank un-capitalization. The quality of the bank portfolios was affected by the week performance of the credit, by the lack of restructuring and of privatization, because in this period the state that was the owner of the bank institution was giving credits to the state that was the owner of the enterprise, creating thus the premises of the appearance of low performance credits. In the absence of a liberalization of the economic life “the pressure on the central bank and of the bank system generally

becomes a constant characteristic of the way the system functions, which, also is manifested by a wide spread demands of cheap credits” (Dăianu, 1993). The postponing of the banks privatization following the slow dynamics of the enterprises’ restructuring delayed the creating of a competitive bank system and the loss of the role of the bank system as a tank of the economy restructuring. The beginning of the bank privatization process was provided for year 1995, BRD being the first bank that was privatized, the methods of privatization agreed being public, bidding with agreed investors, direct negotiation, being allowed the access of the investors from the country and from abroad.

Due to this postponing of the bank privatization in the period 1994-1996 the banks were used as tools of preferential financing of the energetic sector, to this contributed also “the fact that the banks were seen only as a source of money and not as a tool of economy efficiency” (Isărescu, 2003). In most of the countries in transition, except Hungary, governments were very cautious when they facilitated the access of the foreign investors due to the fact that they considered that foreign banks would be interested in the discharge of capitals and would want to sustain the crediting and thus the revival of the economy. (Bonin, Hasan and Wachtel, 2008)

Due to the delay of privatization of the bank institutions, the bank sector was dominated by the state institutions, the percentage of the private institutions and of the Greenfield institutions was pretty low. This favored the appearance of some “agent banks” or “pocket banks” that functioned as financial department of these institutions, and used by the state to give credits to some state institutions (Barisitz, 2009).

The early reforms accomplished in the countries as Poland or Hungary generated much lower costs than the reforms accomplished in Romania, Czech Republic or Slovakia, where these reforms were postponed and the expenses for restructuring of the banks were much higher. The privatization of bank institutions must be the most successful strategy, because the taking over of the bank institution by foreign investors is a viable premise for creating competitive institutions in that field.

Managers and shareholders of banks had a low quality and the crediting policies accomplished by them pendulated from incompetence to bank fraud and reached to the decapitalization of the banks, especially those with social capital in lei.

The repeated decreasing of Romania's rating determined the limiting of the possibility to benefit from certain external financing.

Even if the National Bank of Romania was involved in solving the situation of the low performance credits, these banks benefited of the increase of efficiency, because in 2000 the level of expenses with the employees' salaries in this group of banks represented over 55% of the salary expenses from the entire system, while the income brought by them were of 36-37% (Spiridon, Bichi and Dragulin, 2005)

The bankruptcy of the banks Dacia Felix, Credit Bank, Bankcoop, Banca Albina and Bancorex affected the trust of the population in the bank system, even if a great part of the losses were covered by the national authorities by their transfer to AVAB and the issuance of the state titles and by the payment of some sums of money by the Fund of Guarantee of the Deposits. As Dragne, Matei and Trancă (2012) affirmed, these bankruptcies were due also to the offences from the financial bank environment, offences that were determined by a social environment that has at its basis many factors, among which we recall: the permissive economic environment for some financial institutions, the defective judicial environment, the corrupt political environment, the adverse control and the fraudulent management of the credit institutions. The permissive economic environment existent in this period favored the appearance of some bank institutions that had as objective a fast enriching. The defective juridical environment created the conditions for accomplishing of some illegal business, speculative and corrupt political environment, favored some unhealthy legislative initiatives, eroding the economic environment and lead to a consolidation of their position in the disadvantage of the national economy. The lack of control in the bank institutions encourage and amplify the fraud, but also the mistaken accountancy, some mistaken decisions of management due to the desire to obtain as fast as possible an immense profit.

Conclusion

We can observe that the way in which the reform of the bank system from Romania was accomplished is aligned to the model from the other countries from Central and Eastern Europe. Thus, also in Romania the problem of low performance credits was solved by the National Bank of Romania, also the new participants in the bank system where authorized in conditions of prudence, was created the system of

guarantee for the deposits, institutions that collect the exposure of the debtors in the bank system as the Central of the bank risks and the Office of credit, was accomplished a cautious liberalization of the capital account. But apart from other countries as Hungary and Poland, these institutions were created much later, and the process of privatization begun very late, in 1998, which determined a decreased efficiency of the bank system and the loss of its role of engine of the enterprise restructuring.

We consider that the optics of the Romanian state in this period to look at the bank institutions only as a source of funds for certain sectors of the economy is totally wrong, the role of the banks in the economy is that of an engine of the economic development. In order to assure a complete success of the reform of the bank system, the first step that should have been made was the privatization of the economic sector, privatization that facilitate “the free, voluntary exchange with prices agreed by both participants to the exchange of the right of property” (Spiridon, Bichi and Dragulin, 2005). We could say that the privatization of the bank leads to the increase of the bank efficiency when the governments renounce completely to the control on the bank institution, allows the strategic investors and the foreign banks to participate to the process of privatization without limiting the competition (Clarke, Cull and Shirley, 2005).

The need and importance of the reform process in Romania is underlined by many Romanian researchers as Berea (2001) who said that the process of financial bank reform in the period of transition is a necessary phenomenon, because it assures “the elimination of the vacuum” inherited from the old system and assures the creating of some institutions according to the purposes of market economy. As C. Rotaru also affirmed, the restructuring of the bank system, part of the process of reform, is more than a necessity imposed by the parameters of the market economy, because the reconnecting of the Romanian economy to the international economic structures is a financial process, the fluxes of this process being accomplished through banks (Rotaru, 2000).

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The Influence of Multigenerational Workforce in Effective Informal Team Learning

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Abstract

The urgency of this research arises from the convergence of two dynamics that are transforming the workplace and impacting organization performance. The first is multigenerational workforce work side by side in the same organization even in the same team. The second is informal learning, a major mode of learning in an organization. Therefore, this paper aims to explore the influence of generational background of Baby Boomers, Generation X and Generation Y in relation to informal team learning in the Indonesian business environment. Both, qualitative and quantitative studies were conducted with 21 interviewees and 184 survey respondents representing a total of 191 multigenerational teams participating in this research. The findings suggest that generational background influence informal learner and effective informal team learning, but have no direct impact on team climate. Understanding generational differences will enable individuals to learn informally and create a conducive team climate that will lead to effective informal team learning.

Keywords: effective informal learning, informal team learning, informal learner, multigenerational workforce, team learning

Introduction

Multigenerational workforce learn together

Baby boomers, generation X and generation Y hold different values, desires, ambitions and working styles. Conflict between them influences low productivity, job dissatisfaction, absences, resignation, that may cause increased cost, high staff turnover and lower performance (Bennett et al, 2012). The largest potential conflict in multigenerational workforce is between boomers and generation Y (Yers). They are parents and children that have daily arguments at home. At work, for instance, using smartphone in a meeting might be multitasking for Yers, but seems disengaged or rude for boomers. Another conflict is generation X (Xers) who are fed up of being stuck in the middle between boomers who refuse to retire and Yers who are treated far better than they were (Economist, 2013)

Informal learning is part of business. Research shows that informal learning is about 70 to 80% of the total learning in an organization (Marsick and Watkins, 1990; Cross, 2007). Informal learners will explore many things by themselves. In the future, formalized structured training may not be necessary, except for the most technical or legal aspects (Conlon, 2004).

However, if a company does not have formal training program and only relies on informal training, it can make employees feel helpless and directionless (Conlon, 2004). For that reason, informal learning will not replace formal learning, but complement it. Informal learning itself is defined as learning through interaction with others, through the learning value of the job and through networks (Van der Klink et al, 2014). Informal learning happens every day in non-educational settings, while formal learning includes learning activities organized by the organization such as workshop and sharing sessions.

Those two business challenges also occur in Indonesia. As multi generational workforces take place, they should be managed consciously in order to create synergy. Since learning influence organizational performance in which most of it is informal, informal learning should be done effectively.

Who are baby boomers, generation X and generation Y?

A concept of generation was introduced by Mannheim's 1923 essay "The Problem of Generations", which provided theoretical treatment over generation and became a sociological phenomenon (Pilcher, 1994). According Mannheim's essay, generation is a group of people typically by birth years that experienced the same major historical and sociological events.

That historical background shaped the work values of each generation's (O'Bannon, 2001), their attitudes, motivations and beliefs (Helyer and Lee, 2012). The changes of work values affected the dramatic changes in economic, social, technological and political conditions. (Hui-Chun et al, 2003). In the workplace, the work value differences influence interdependence level, consensus decision-making and collaboration (Sirias et al, 2007).

Currently there are three generations in the workplace. Most sources identify baby boomers as people born in 1946-1964, Generation X born in 1965-1980 and Generation Y born in 1981-2000. Although the authors defined the characteristics of each generation below, the generation in this study is limited to the group of age of workers.

Baby boomers. This generation is named as Baby Boomer because of the birth rate increased dramatically after World War II, where the living standard got better (O'Bannon, 2001; Helyer and Lee, 2012). Most of boomers have begun to retire, but almost half of them plan to work beyond the pension age (Helyer and Lee, 2012).

Growing up in an era of unprecedented economic growth and stability, boomers are loyal with one organization (Hui-Chun et al, 2003) and workaholics (Schultz and Schultz, 2009). In that era, there were not many companies existing thus they have no choice than to be loyal to a company. This makes boomers reluctant to teach younger generations, as they tend to be afraid of losing their jobs (Chan, 2010).

Boomers are optimistic about health and wellbeing, personal gratification, personal growth, team players, relationship focused, work involvement and service orientated, but they are technologically challenged, process ahead result, reluctant to disagree with peers, self-centred, and not budget minded (Bennett et al, 2012). Boomers are not raising children anymore, but are more focused on himself and partner in retirement.

Generation X. The name of "generation X" was first introduced in British society by Douglas Coupland in 1992 (Kuyken, 2012). Born

between 1965 up to 1980, Xers are now in age range of 30 to mid-40s. They are the majority of workforce now and many corporate leaders are Xers.

They started to work in 1990s where there were many changes in economics, culture and work life (Chan, 2010). Therefore, Xers always look for an opportunity, are not as loyal as boomers, competitive and familiar with corporate downsizing. Xers will have on average six to seven positions in their lifetime (O'Bannon, 2001).

As most of Xers did not have enough attention from parents when they were children because their parents were so busy working, Xers used to handle many things by themselves (Hui-Chun et al, 2003). This situation made Xers want a balanced life between professional work and personal life (Beutell and Wittig-Berman, 2008). Currently most of Xers have teenaged children and they want to give more attention to them, not repeating what their parents did. For that reason, Xers prefer a balanced life and job satisfaction than money, recognition and promotion (Hui-Chun et al, 2003). Xers are creative people and they need freedom to do their job. They want less control, need authority to make decision and include in managing change. Since they want a balanced life, Xers enjoy working from home. They will work well from home still accomplishing all tasks, thus organizations should support them with technology for mobile work (Chan, 2010).

Generation Y. Millennial of Yers were born after 1980. They were children of boomers. They grew up with various instant things; no wonder if they want anything fast and instant. They also grew up with more technology, internet and social media. Hence, Yers are portrayed as being technology savvy. Since they live in a globalization era, they have multicultural friends from both online and offline, so they can easily interact with people from different race and background.

When Yers started to work, there were many organizations available, so they can choose the most comfortable place to work. But they are not as loyal as earlier generation because they prioritize on their personal life and work only for make a living. Yers are very appreciative about life and they also greatly appreciate family and friends (Chan, 2010). For that reason, they want to always have connection to their family and friends. This made them so close with the social media.

A study did by Schultz and Schultz (2009) showed that Yers tend to self-oriented and need continuous feedback, appreciation and reward

from their leader. Growing up in instant world, Yers want to have success in a short time, but they also want a job is flexible, requires creativity, nice colleagues and give a big impact to the world.

How baby boomers, generation X and generation Y influence informal team learning?

Informal learning. Informal learning is defined as experiential, non-routine or may be incidental, mostly related with tacit knowledge and people are not always consciously aware of it (Marsick and Watkins, 1990). Having a discussion with a colleague next to our cubicle, meeting to discuss a strategy for approaching a new client in a café, and chat about a solution for a project in a messenger application are some of informal learning activities in workplace. Reading, visits, meeting, auditing and having conversation are some examples of informal learning methods (Gear et al, 1994 in Cheetham and Chivers, 2001).

Illeris (2003, on Bjork et al, 2013) states that learning in the workplace must be seen as, both individual and social process, comprising both regular daily learning and more complex personal development. Therefore there are two critical variables in creating effective informal team learning: informal learner and team climate. Informal learner includes indicators of an individual to learn informally, both by himself and in his team. Team climate needs indicators that enables team member to learn informally together. It includes certain behaviour and support system to create team climate.

Previous research about informal learning among hospital nurses done by Bjork et al (2013), among teachers by McNally et al (2009), and among social workers by Gola (2009), showed that informal learning is highly valued for newly qualified employees regardless of generational background. Informal learning helps new employees to understand their tasks, team and organization in a short time.

Informal learner. However Marsick and Watkins (1990) studied that there is no formula that guarantees learning, whether formalised or not. They can only suggest three personal characteristics to enhance team learning: Proactivity (to take an initiative or an action in a situation), critical reflection (to reflect based on underlying assumptions) and creativity (to think out of the box).

Chivers (2006) in his research about informal learning among professionals in the UK found important behaviours of individuals who

learn informally. First of all, an individual should not be shy; otherwise he will lose the opportunity to learn from others. Other desired behaviours are to collaborate with others in learning, share what has been learned, compare experiences for learning purpose, reflect regularly on recent experiences, codify and articulate lessons learned. More over, individuals can learn well in a team when eager to obtain knowledge from peers and experienced colleagues, make mental links between their informal learning experiences and any relevant theory or principles, formulate their own theories, discuss learning process and its improvement with relevant colleague, take stock of what they have learned and facilitate learning of other colleagues (not just new employees).

Prugsamatz (2010) found that employees are motivated to learn for various reasons. It can be from himself such as his urge to accomplish the tasks (intrinsic) or from outside (extrinsic) such as from leader or established system. He also stated that competence, trustworthiness, co-orientation and individual dynamism, which are important for an individual to learn in a team.

Related to generational differences, a study did in Gajah Mada University in Yogyakarta, Indonesia, about lecturers and students showed that lecturers and researchers who are baby boomers have high sensitivity to information. Xers who are used to technology can easily accessed the information using media, although they have no emotional attachment to technology. And Yers who mostly are university students can easily use technology, for learning but they are sometimes not patient to find the information. That study also showed that individuals that able to use technology would be more productive (Atmi, 2014).

Team Climate. Li et al in Marsick (2009) identified barriers of knowledge building besides the leader are learning culture or team climate, lack of appropriate systems, technology and human interaction. In this study, we define appropriate system as office layout and human capital system.

The study done by Bennett et al (2012) show that organization should provide spaces for sharing knowledge within the workplace. Joy and Haynes' (2011) research about office layout showed that a team-based area is the most popular choice for all generations to share knowledge and the second most popular place is the office lounge. However, some boomers still prefer to have discussions in a bookable meeting room. Steel case Inc. (2009) studied that boomers need private

space separated with collaboration spaces. And they prefer a centralized knowledge centre, while Xers prefer personal flexible mobile workstations and open accessible team areas. Yers can work anywhere. Yers prefer fun, open and collaborative space, plug and play tech environment, no boundaries or hierarchy.

The other important support system is the human capital system. Human capital system and leadership were found to be significantly and positively related to team knowledge sharing especially for tacit knowledge sharing (Chuang et al, 2013). One human capital system is the reward and incentive system. The reluctance of boomers to share knowledge can be resolved by an incentive and reward system (Chan, 2010) and this system is also interesting to Xers and Yers (Fawazi, 2012).

A study that explored informal learning among hospital nurses done by Bjork et al (2013) showed that a young nurse will learn fast by increasing his responsibility and by being guided in complicated nursing situation by the more experienced nurses.

Related to generation differences, since most of the valuable knowledge of boomers is composed of tacit knowledge, it needs a recipient who is willing to acquire new knowledge (Kuyken, 2012). Therefore, mentoring is the common knowledge sharing process from boomers to Xers and Yers. On the other side, Xers and Yers should open their mind, respect older people and want to learn from them.

Having the multigenerational workforce working side by side raises challenges, but also brings opportunities that can be effectively utilized to address the changing and uncertain skills needs of the knowledge economy (Helyer and Lee, 2012). Some companies already anticipated this condition by mentoring scheme from older employees to younger staff at Coca-Cola and older generations can also learn from younger generations at Cisco.

Technology can become a link between individuals to generate informal learning (Marsick, 2009). It enables people to use, share, store, and create knowledge, both by himself and with others, through a collaboration system.

More than the supported system mentioned above, important preconditions for sharing of tacit knowledge is a culture with shared values, care, trust, autonomy, openness, innovation surplus of time and information, and variation of work (Bjork et al, 2013). Another researcher, Prugsamatz (2010) observed that trust, interpersonal

communication, team expertise and empowerment are dimensions to create team dynamics for learning.

Effective informal team learning. Team effectiveness is defined as performance and employee satisfaction (Gladstein, 1984). Performance and satisfaction are as a cycle, because if a team performs well then another team member will be satisfied and it will trigger them to perform better later on. A few years later, Hackman (1990) defined team effectiveness as performance, behaviour and attitude. Performance is measured through quality, quantity and delivery timeliness of a task or a project. Behaviour is the ability of team member to improve their capability continuously. Attitude is individual satisfaction in being in a team. Performance, behaviour and attitude are also as a cycle, because if a team can perform well, team member will feel satisfy in being in a team and they will want to improve their capability for more complex tasks. This will result in better performance.

Developing a model for multigenerational informal learning

Taking the above factors in to account as explained in the previous section, an informal learning model for multigenerational team was built. Figure no. 1 shows the conceptual framework that was used in our study. Based on previous research, we already know that informal learning influence team climate and team climate influence effective informal team learning. Therefore in this study, the author focused to study the influence generation differences on those three variables. The following hypotheses will be tested using mixed method, both qualitative and quantitative study.

H1: Generation background will have a direct and positive effect on informal learner.

H2: Generation background will have a direct and positive effect on team climate.

H3: Generation background will have a direct and positive effect on effective informal team learning.

Methods

Qualitative Study

This study used mixed method starting with a qualitative study, then a quantitative one. The qualitative study was to test the conceptual framework by interviewing people and observing people's behaviour directly. It was done at a medium-size consulting firm in Jakarta,

Indonesia that deliver training, consulting and assessment services. A consulting firm was chosen because they deal with knowledge in every activity. Their products itself are also knowledge. There are 138 employees in 12 work units or team. Seven of those teams are multigenerational teams. 21 people were selected from those seven teams, shown in table no. 1.

Fig. no. 1. Conceptual framework

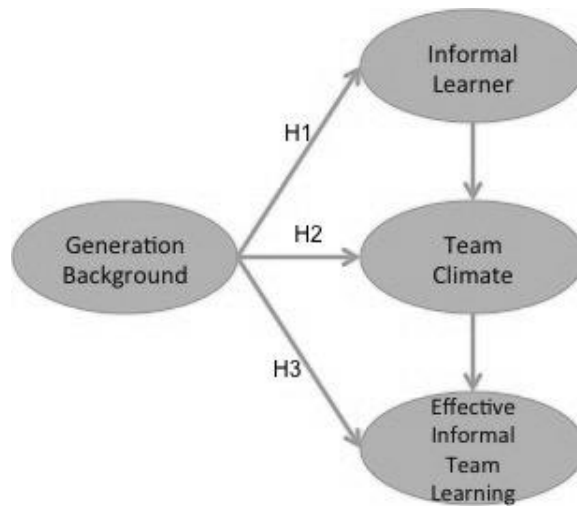


Table no. 1. Socio-demography characteristics of interviewees (N=21)

	Categories	N	%
Generation	Baby Boomers	6	29%
	Generation X	8	38%
	Generation Y	7	33%
Work experience	1-5 years	4	19%
	6-10 years	3	14%
	11-15 years	8	38%
	16-20 years	3	14%
	> 21 years	3	14%
Leader position	Team leader	5	24%
	Team member	16	76%

Quantitative Study

Quantitative study was done to test the research model developed in the qualitative study. Both online and offline questionnaires were administered to collect data from respondents. Beforehand the questionnaire was tested on ten persons, randomly selected, to check the clarity and relevance.

The respondents were the public training program participants during December 2014, held by the consulting firm where we did the qualitative study. From eight batches of training program, 184 respondents representing 184 multigenerational teams participated in this survey shows in table no. 2. They are employees in Jakarta from staff up to senior manager level. Based on industrial background, 52 percent of the respondents work in service industries like bank, financial institution, goods distributors, telecommunication provider, software developer, public services and non-profit organization and 48 percent work in manufacturing industries, fast moving consumer goods, pharmaceutical manufacture, automotive spare parts manufacture, oil and gas, property.

Table no. 2. Socio-demography characteristics of respondents (N=184)

	Categories	N	%
Generation	Baby Boomers	13	7
	Generation X	101	55
	Generation Y	68	37
Work experience	1-5 years	29	16
	6-10 years	50	27
	11-15 years	46	25
	16-20 years	40	22
	> 21 years	17	9
Leader position	Team leader	105	57
	Team member	79	43

Results

Qualitative Study

The interview results were analysed using NVIVO 10 software. The conceptual model was accepted in regards to generational influence, informal learner and team climate. Informal learner also influenced team climate, and both, informal learner and team climate

had a direct influence on effective informal team learning.

This qualitative study also resulted in indicators for each latent variable. The indicators mentioned in the literature study above were asked to the interviewees and their responses were clustered based on the frequency and importance. The indicators produced in qualitative study are shown in table no. 2 and a detailed explanation of each latent variable is as follows:

Generation background. Generation influenced the ability of individuals to learn informally such as respecting each other, communication and technology adaptability. Brilliant young generation should respect baby boomers like they respect their parents. On the other side, boomers should also respect to Yers though they might have different behaviours and preferences to boomers i.e. they are so closed to gadget and social media.

Communication is important for building a relationship. The way each individual will communicate affects the relationship itself. Although different generations have their own communication preferences, such as boomers preferring to communicate face-to-face while Yers can communicate well through social media, each generation should understand other preferences and tolerate them. Moreover, since technology is very powerful in sharing and storing knowledge, all generations especially baby boomers, should adapt to using it.

An interesting finding is that Xers actually looks like chameleons. Xers can easily adapt to both Yers and boomers. This fact is supported by Kuyken (2012) mentioned that Xers can adapt quickly to any new circumstances. One of the interviewee who is the product manager of leadership product also mentioned the flexibility of Xers.

Informal learner. The indicators that mentioned during the interview were quite a lot. There were six indicators as shown in figure no. 2: trustworthy, open minded, eager to learn and share knowledge, take initiative, adaptability and innovative. The authors noticed that these indicators seemed too ideal for a person. However, since this qualitative study aimed to explore and it will be tested further in quantitative study, we put them in as indicators of informal learner.

Since informal learning is a learning process done by an individual and between people, there are some required indicators: first, he should be a trustworthy person. If people trust him, they want to share knowledge to him, and they trust the information given by him. Trustworthiness is developed when a person commits to what he said

and is accountable for what he did.

As a learner, he should be eager to learn many things, both, by self-learning and from others. Related to generation, a younger learner should respect the senior worker and want to learn from them. On the other side, the senior that has a lot of expertise and experience should share their knowledge to the younger through mentoring program. A good learner knows where and how to find knowledge, know if the knowledge is valid, know how to link one knowledge to others and is able to summarize knowledge to make it more understandable. A learner also needs to open his mind, accept others' opinions and unusual ideas. There might seem an extreme idea, but a learner must understand it first before rejects an idea. He also needs to be open with many resources out there. More, he should able to take initiatives. For instance, if he has a problem, he should proactively solve it first before asking help from others. He also needs to take the initiative to learn by himself instead of depending on others. This closely relates to innovation and each an informal learner should able to see the things that can be improved in his team. It can be a better business process or developing a new product.

Last, a learner should be able to adapt to his team situation and to change. If he knew the majority of his team was Yers, he should understand Yers' behaviours and preferences and adapt to them in order to be able to communicate to them.

Team climate. Factors that influence the climate of a team are trust, openness, willing to learn/share knowledge, supported system and facilities. Trust is the basis of the relationship. Team members should trust each other to create a comfort atmosphere in which to learn.

People feel comfortable to share his knowledge when there is openness in a team. It commonly started by open and transparent behaviour from the leader. In an open situation, people will not be afraid to speak, to share opinions and to learn.

To create learning atmosphere, people in a team also need to learn and share knowledge each other. People like to learn especially that related to the job and from many sources i.e. seniors, other colleagues, and from media. They do not keep the valuable information by themselves, but share it to their colleagues. And they share it voluntarily and spontaneously, not as ordered or being forced.

The habitat also needs to be supported by system and facilities. Availability of technology for sharing, storing and using knowledge is

necessary. Facilities should also support informal learning process using an open-space work layout, personal development plan and mentoring program. A reward system such as recognition for a person that innovate a new product will also support informal learning. More, mentoring program is one of the powerful tools to create learning flow from the senior to the junior.

However those supported facilities, open and trust situation will not be useful if team members do not used it in learning and sharing. Therefore, team leaders and all the team members should have habits of learning and sharing knowledge.

Effective informal team learning. The majority of the interviewees do not relate the informal team learning to team performance because most of the team did not achieve the target and had a low performance at that time. Though they feel the impact of informal learning when they accomplishing their tasks. They could finish it faster than just relied on formal training or planned sharing sessions.

Interviewees also said that their capability was enhanced if they learned informally continuously. Self-learning and informal mentoring are the most powerful informal learning sessions for them. More over, they also have more connections, both form internal and external organization, that are very useful to accomplish the tasks.

Quantitative Study

The author used Partial Least Squares (PLS) method to process the data. PLS is chosen because the research objective is theory development and prediction and the research goal is to identify the key driver construct or indicators (Hair et al, 2011). Sample size was also relatively low compared to the indicators tested. According to Hair et al (2011), PLS minimum sample size should be equal to the larger of the following: ten time's largest number of latent variables or ten times largest number of structural paths or hypotheses. Since there are four latent variables and six hypotheses in this study, 184 samples are enough.

Table No. 3. Latent variables measurement result

Latent Variables	AVE	Composite Reliability	R Square	Cronbach's Alpha
Generational Background	0.899	0.947	-	0.870
Informal Learner	0.629	0.836	0.383	0.891
Team Climate	0.566	0.838	0.315	0.705
Effective Informal Team Learning	0.795	0.921	0.251	0.744

Afterwards we ran the responses through Smart PLS 2 software. The result in table no. 3 showed that all of the Cronbach's alphas are between 0.7 and 0.9. It means this study is reliable. All of composite reliability values are higher than 0.70 and all of the average variance extracted (AVE) are higher than 0.50. It means that this result is valid because composite reliability values should higher than 0.70 and AVE values should higher than 0.50. However R square values of 0.25 for endogenous latent variables in the structural model that result in this study is described as weak (Hair et al, 2011).

Generation differences influence the informal learner. Individuals' background affected their quality of learning. It is showed by the t-value 6.328 that means Hypothesis 1 was accepted. However generations' differences did not have direct influence to team climate that indicated by t-value was only 1.166. Since it is lower than 1.96, Hypothesis 2 was rejected. Critical t-statistics for a two-tailed test are 1.96 for significant level of 5 percent.

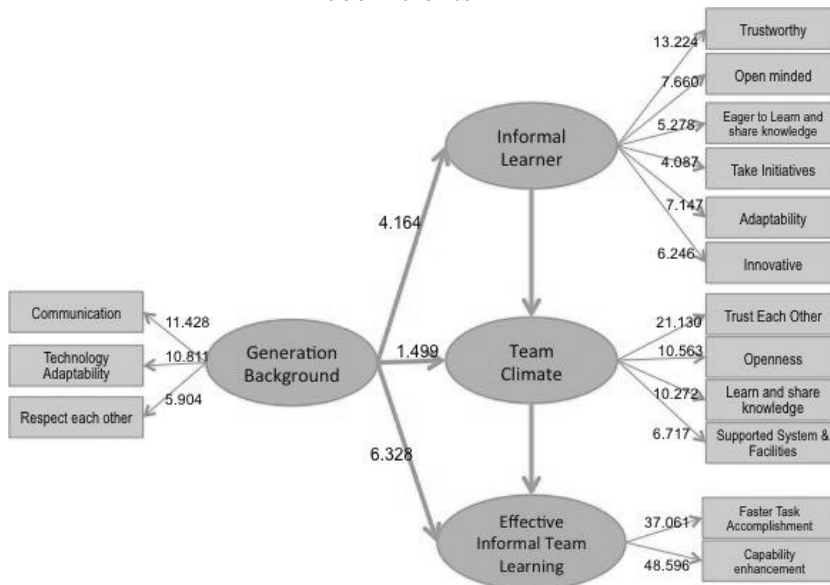
Generational background indeed directs influences effective informal team learning. The t-value was 3.097 so Hypothesis 3 was accepted. This finding was aligned with Haynes (2011) that mentioned that transferring knowledge from older to younger employees requires careful consideration including the interaction place.

Table no. 4. Hypotheses test of Path Coefficients (Mean, STDEV, T-values)

Hypotheses	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)	Result
H1	0.619	0.627	0.097	0.097	6.328	Accepted
H2	0.206	0.213	0.142	0.142	1.166*	Rejected
H3	0.498	0.526	0.160	0.161	3.097	Accepted

The indicators that developed in qualitative study were tested in quantitative study. All of them were valid and accepted in the model. The outer study showed that indicators that influence generation background to informal learner were respecting each other, communication and technology adaptability. The indicators for informal learner are trustworthy, open minded, eager to learn and share knowledge, take initiatives, adaptability and innovative. For team climate, the indicators of trust each other, openness, learn and share knowledge and supported system and facilities are also accepted. Last, in effective informal team learning variable, the indicators of faster task accomplishment and capability enhancement are also accepted.

Fig. no. 2. Final research model with indicator loading and path coefficients



Discussion

Generational differences indeed influence informal team learning and it will not become a challenge if people respect each other, communication goes smoothly and people adapt to technology for learning purposes. Generation background also influences informal learner. Different generation will learn informally in a different way and it will not hamper the learning process if an individual as informal learner is trustworthy, open minded, eager to learn and share knowledge, take initiatives, adapt to changes and innovative.

However, generation differences are not significantly influence team climate. The more diverse generation in a team does not mean the team climate will become more or less conducive. Team climate that is suitable for informal learning will be created if team members trust each other, open each other, willing to learn and share knowledge and have supported system and facilities.

Generation differences also influence effective informal team learning. Their background did not preclude people to learn informally, but help the team to accomplish the task faster and enhance the capability. And effective informal learning regardless of the generation difference helps team in accomplishing the task faster and capability enhancement.

One possible limitation of this study is the fact that respondents are employees in Jakarta, Indonesia that may have different points of view and values from people in other areas. And the qualitative study was limited to a consulting firm that might have different viewpoints from employees in other industries.

Kuyken (2012) in his literature study shows the approach of “community of knowledge within the same generation” can help organization for practicing knowledge sharing. Nevertheless, we cannot retain boomers not to retire nor reject younger people not to enter the workplace. It is the cycle of employees. And this study showed that generation differences do not hinder informal learning process. Multigenerational team can do informal learning effectively if they have good informal learner and supported team climate.

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