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DEVELOPING ENTREPRENEURIAL CAPACITIES AND MINDSETS OF YOUTHS AND UNDERGRADUATES THROUGH ENTREPRENEURSHIP EDUCATION IN NIGERIA

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Abstract

The truism that entrepreneurship has attracted much importance and prominence in developing and developed nations and has therefore engendered a quantum leap in stimuli for entrepreneurship education cannot be over-emphasized. With the advent of the enterprise culture there has been widespread concurrence that entrepreneurship which is about enterprising behaviour and new venture creation so as to create and extract values is the engine that drives the economy of most nations. Thus entrepreneurship education is the structured formal conveyance of entrepreneurial knowledge. This paper noted that this development is a consequence of a variety of interrelated changes in the national and international economy.

Keywords:

Entrepreneurship, Entrepreneurial, Entrepreneurship Education, Mindset,

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Youths, Undergraduates.

1. *Introduction*

Entrepreneurship is the ability to create and build something from practically nothing. It is initiating, doing, achieving and building an enterprise or organization, rather than just watching, analyzing, or describing one. It is the knack for sensing an opportunity where others see chaos, contradiction and confusion. It is the ability to build a "founding team" to complement your own skills and talents. It is the know-how to find, marshal and control resources (often owned by others) and to make sure you don't run out of money when you need it most. Finally, it is the willingness to take calculated risks, both personal and financial, and then do everything possible to get the odds in your favour. Entrepreneurship education is critical for developing entrepreneurial skills, attitudes and behaviours that are the basis for economic growth. Access and exposure to entrepreneurship within educational systems at all levels are important as they are the outreach to target audiences outside of traditional educational systems. With the publication of Birch's (1979) findings on the role of new small businesses in the creation of employment opportunities in the USA, and the advent of governments in America and Great Britain that focused on reducing the level of state intervention and increasing individual responsibility, governments around the world became interested in the creation of cultures that would promote enterprise and create new ventures. Subsequently, education systems have been charged, in varying degrees, with bringing this about. Nowhere has this been demonstrated more clearly than in the UK. In 1997, the National Committee of Inquiry into Higher Education (1997: 201) recommended universities to consider the scope for encouraging entrepreneurship through innovative approaches to programme design', and by 2000 business and entrepreneurial development had been listed as one of four strategic goals for British universities (Universities UK, 2000)Entrepreneurship is widely recognised in the U.S. Approximately 5.6 million Americans under the age 34 are attempting to start their own ventures (Tulgan, 1999, Cited in Kuratko 2005:578-579). Another interesting fact is that "One third of new entrepreneurs is younger than age 30, more than 60% of 18year olds say they want to start their o wn business, and nearly 80% of would-be entrepreneurs in the U.S. are between the ages 18 and 34!" (Tulgan, 1999, Cited in Kuratko 2005:578-579). Although the facts stated above are for the U.S which helps show its large impact around the world, the U.K also focuses greatly on the role of entrepreneurship in today's society. By making entrepreneurship education available to young people and adults alike, we are preparing the next wave of entrepreneurs to enable them to lead and shape our institutions, businesses and local communities. So the real challenge is to build inter-disciplinary approaches, making entrepreneurship education accessible to all students, creating teams for the development and exploitation of business ideas, mixing students from economic and business studies with students from other faculties and with different backgrounds. Currently the teaching of entrepreneurship is not yet sufficiently integrated in higher education institutions' curricula. Available data show that the majority of entrepreneurship courses are offered in business and economic studies. The diffusion of entrepreneurship is particularly weak in some of the Member States that joined the EU in and after 2004. However, it is questionable whether Business Schools are the most appropriate place to teach entrepreneurship, innovative and viable business

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ideas are more likely to arise from technical, scientific and creative studies. The demand for learning about entrepreneurship is increasing. However, there is a shortage of human resources and funding for this type of education; therefore it is not possible to meet this demand fully. Action-oriented teaching is labour-intensive and costly, and requires specific training. However, the benefits of entrepreneurship education are not limited to start-ups, innovative ventures and new jobs. Entrepreneurship refers to an individual's ability to turn ideas into action and is therefore a key competence for all, helping young people to be more creative and self-confident in whatever they undertake.

2. Conceptual Framework

The concept of entrepreneurship was first established in the 1700s, and the meaning has evolved ever since. Many simply equate it with starting one's own business. The concept of entrepreneurship has been around as long as man existed. Entrepreneurship is a common vocabulary to many people today, a topic that occupies a prominent position on the research agenda of scholars from variety of backgrounds and disciplines including economics, sociology, political science, and psychology since the concept was established in early 1770s (Hinddle & Gillin, 1992; Hebert & Link, 1988). It is a subject that has elicited a lot of interest of people from all walks of life and occupations including scholars, educators, researchers and policy makers. Kirzner (1973, 1979) explains the concept of entrepreneurship in terms of "alertness to opportunity"; the discovery of knowledge previously unknown. According to him entrepreneurial discoveries are realizations of ex-post errors made by market participants. The existence of error provides scope for profit opportunities that actors can realize. Therefore, in entrepreneurship, an entrepreneur responds to opportunities rather than creating them. For Krizner, a competitive market and entrepreneurship are inseparable; the competitive process is in essence entrepreneurial. According to Timmons (1989), entrepreneurship is the ability to create and build something from practically 'nothing'. Fundamentally this is a human, creative act: the application of energy to initiate and build an enterprise. This undertaking requires a willingness to take calculated risks, both personal and financial and doing everything possible to avoid failure. Those involved in this process must possess the know-how to find, marshal and control resources (Kuratko & Hodgetts, 1989). The foregoing review found out that many terms have often been used to define entrepreneurship; innovativeness, flexibility, dynamism, risk-taking, creativity, value creation, uniqueness and growthorientation (Stevenson & Gumpert, 1991); all giving an explanation to the concept of entrepreneurship. The different terms and phrases used by deferent persons to define entrepreneurship manifest its diverse and wide-scoped nature. Arising thereof, entrepreneurship can be defined as the process of constantly scanning the environment, identifying business opportunities, marshalling resources to implement those opportunities and finally launching an enterprise that grows by making profit. Therefore, entrepreneurship denotes the activities of entrepreneurs: the prime movers of the entrepreneurship process. The concept of entrepreneurship cannot be complete without talking of entrepreneurs – individuals who give entrepreneurship sense and version.

Entrepreneurship is an activity that is action-oriented. It is a world of immense creativity and innovation inhabited by entrepreneurs, the individuals who innovate, take risk and create value in form of new products and services. The conceptual framework for reflections on teaching entrepreneurship and

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developing entrepreneurial capacities and paradigm shift should enable us to reflect on how we plan courses for potential entrepreneurs. The courses should help students to cope better with the practical problems of starting a business. We should also reflect on how other courses can assist the learning processes of people who more generally want to develop their ability to act, create and enjoy the uncertainty and complexity of life when it is best (Gibb, 2002; Spinosa et al., 1997). At higher education level, the primary purpose of entrepreneurship education should be to develop entrepreneurial capacities and mindsets. Educational concepts make presuppositions about the nature of reality and that which constitutes legitimate academic study. Further, an entrepreneur is an innovator who recognizes and seizes opportunities, coverts those opportunities into workable ideas, adds value through money, time, effort and skills, assumes the risks of the competitive market place to implement these ideas and realizes the rewards from these efforts. According to Bygrave and Hofer (1991), entrepreneurship researchers are hampered by the lack of a common conceptual framework for the concept entrepreneurship. The lack of consensus on the meaning of this term makes it imperative that researchers provide a clear statement of their meaning when they use it. Bygrave and Hofer1991), offer such a meaning by considering the process of entrepreneurship rather than defining the term "entrepreneur."

In their work, the entrepreneurial process "involves all the functions, activities, and action associated with the perceiving of opportunities and the creation of organizations to pursue them" In this context, entrepreneurship education programmes can have different objectives, such as:

a) developing entrepreneurial drive among students (raising awareness and motivation);

b) training students in the skills they need to set up a business and manage its growth;

c) developing the entrepreneurial ability to identify and exploit opportunities. Graduates' start-up is one of a range of possible outcomes.

Graduates' start-up is one of a range of possible outcomes. In this study, the focus is on searching for a new angle for conceptualizing problems of entrepreneurship education rather than providing a completely new perspective by employing educational pedagogy and didactics. This challenges us to open up not only the concepts as such, but also the differences in conceptual understanding of pedagogy and didactics in the field of education and to reflect these differences in the ideas of entrepreneurship education.

3. *Literature Review*

Education is the acquisition of knowledge, the aggregate of all processes through which a person develops ability, attitudes and other forms of behavior with positive values in the Society in which he lives. Fafumva (1991) describes education as all efforts, conscious and direct, incidental and indirect, made by a given society to accomplish certain objectives that are considered desirable in terms of the individual's own needs as the needs of the society where that education is based. But Erder (1966) regards it as a manpower industry producing the knowledge and skills necessary for development. Education is derived from the needs and demands of the society thus it is seen as a microscopic reflection of the total society needed for both stability and continuity. The term entrepreneurship means different things to different people and can be viewed from different conceptual perspective:

1) **Somoye (2011)** defines entrepreneurship as an act of possessing an inclination for self -development, ability to innovate, nurture an emterprise and having means of and access to

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finance in both formal and informal financial sub-sectors to achieve a successful investment towards sustainable economic growth.

Professor Howard Stevenson (Havard Business School) posits that ***Entrepreneurship is the pursuit of opportunities beyond resources controlled.***

a. **Pursuit"** implies a singular, relentless focus. Entrepreneurs often perceive a short window of opportunity. They need to show tangible progress to attract resources, and the mere passage of time consumes limited cash balances. Consequently, entrepreneurs have a sense of urgency that is seldom seen in established companies, where any opportunity is part of a portfolio and resources are more readily available.
b. **"Opportunity"** implies an offering that is novel in one or more of four ways. The opportunity may entail: 1) pioneering a truly innovative product; 2) devising a new business model; 3) creating a better or cheaper version of an existing product; or 4) targeting an existing product to new sets of customers. These opportunity types are not mutually exclusive. For example, a new venture might employ a new business model for an innovative product. Likewise, the list above is not the collectively exhaustive set of opportunities available to organizations. Many profit improvement opportunities are not novel–and thus are not entrepreneurial–for example, raising a product's price or, once a firm has a scalable sales strategy, hiring more reps.
c. **"Beyond resources controlled"** implies resource constraints. At a new venture's outset, its founders control only their own human, social, and financial capital. Many entrepreneurs bootstrap: they keep expenditures to a bare minimum while investing only their own time and, as necessary, their personal funds. In some cases, this is adequate to bring a new venture to the point where it becomes self-sustaining from internally generated cash flow. With most high-potential ventures, however, founders must mobilize more resources than they control personally: the venture eventually will require production facilities, distribution channels, working capital, and so forth.

We can therefore conclude that whatever activity that involves any or all of the above activities can be regarded as entrepreneurship. Entrepreneurship refers to all the processes and activities involved in establishing, nurturing, and sustaining a business enterprise.

This author seeks to contribute the following six (6) definitions to the term entrepreneurship

a. *An entrepreneur is the person (the subject), entrepreneurship is the process (the verb) and new venture or enterprise is the creation of the person and the output or outcome of the process. (the object).* **Oluwasanya.A.T (2016).**

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ENTREPRENEUR	ENTREPRENEURSHIP	ENTERPRISE
The Enabler/The Actor	The Process /The Act	The Output/Outcome
Subject	*Verb*	*Object*

Source: Oluwasanya.A.T (2016)

b. In the words of **OLUWASANYA A.T (2016)**, Entrepreneurship involves a business idea, an opportunity, an individual, an organizational context, risk, innovation and resources. Entrepreneurship is thus a process activity, it generally involves the following inputs: a business idea, an opportunity, one or more proactive and passionate individuals, an organizational context, risk, innovation and resources.

c. It is the process of setting up one's own business as distinct from pursuing any other economic activity, be it employment or practicing some profession. The person who set-up his business is called an entrepreneur. The output of the process, that is, the business unit is called a new venture or an enterprise. The following outcomes manifest speedily:

i. A new venture or an enterprise.
ii. Value
iii. New products/services and processes
iv. Profits and other income streams
v. Growth.

OLUWASANYA A.T (2016)

d. Entrepreneurship is a focused, purposeful and creative activity of identifying a need, mobilising resources and organising production with a view to delivering value to the customers, returns for the investors and profits for the business. Entrepreneurship is therefore the outcome of a dynamic interaction between the person(Entrepreneur) and the environment. **Oluwasanya.A.T (2016**

e. Entrepreneurship is the purposeful creation and management of a business enterprise. It is a process through which individuals identify opportunities, allocate resources, and create value. This creation of value is often through the identification of unmet needs or through the identification of opportunities for change. It is the art of being an entrepreneur which is seen as "one who undertakes innovations with finance and business acumen in an effort to transform innovations into economic goods. **Oluwasanya, A.T (2016)**

f. Entrepreneurship involves capturing ideas, nurturing and converting them into products or services and then establishing a business outlet with the fixity to take the products to the market place for consumers and customers to purchase. **Oluwasanya.A.T (2014)**

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g. Entrepreneurship is the physical manifestation of an enterprising behaviour in tandem with the potencies, willingness, ingrained ability and capability to successfully run a business or venture. **Oluwasanya.A.T (2014)**.

Hansemark (1998) state that traditional education is marked as only transformation of knowledge and ability, while entrepreneurship education, in contrast, is held up as the model for changing attitudes and motives. Entrepreneurship and entrepreneurship education, beside evident advantages, like promoting business start-ups, has also wider market potential

Entrepreneurial

This is the behaviour of the entrepreneur in the market place. To be entrepreneurial, an enterprise has to have special characteristics over and above being new and small. Indeed, entrepreneurs are a minority among new businesses. They create something new, something different; they change or transmute values. Entrepreneurial activity involves not just the firm or individual responsible. Rather, others will observe this activity and the results of entrepreneurship. Other people learn that entrepreneurship is a viable alternative to the status quo. As a result of this demonstration effect, others will be induced to also develop entrepreneurial strategies. Thus, there is a compelling positive externality associated with entrepreneurship, particularly in areas with no strong entrepreneurial traditions. The entrepreneurial function implies the discovery, assessment and exploitation of opportunities, in other words, new products, services or production processes; new strategies and organizational forms and new markets for products and inputs that did not previously exist (Shane and Venkataraman, 2000). The entrepreneurial opportunity is an unexpected and as yet unvalued economic opportunity. Entrepreneurial opportunities exist because different agents have differing ideas on the relative value of resources or when resources are turned from inputs into outputs. The theory of the entrpreneur focuses on the heterogeneity of beliefs about the value of resources (Alvarez and Busenitz, 2001: 756). Entrepreneurship –the entrepreneurial function- can be conceptualized as the discovery of opportunities and the subsequent creation of new economic activity, often via the creation of a new organization (Reynolds, 2005).

Entrepreneurial Process

The entrepreneurial process is the mechanism through which the entrepreneur receives the return on his or her investment. It needs the input of a variety of elements, in order to add value on the initial materials and deliver an output. In this sense, the entrepreneurial process is the mechanism by which the entrepreneur bridges the gap between the current situation and what is considered possible. This is the way an entrepreneur brings about change and makes a difference in the market. Entrepreneurial process can be defined as the steps taken in order to establish a new enterprise. It is a step-by-step method, one has to follow to set up an enterprise.

Entrepreneurial Mindset

Evidence suggests that successful entrepreneurs have an entrepreneurial mind-set. The person with an entrepreneurial mind-set values uncertainty in the marketplace and seeks to continuously identify opportunities with the potential to lead to important innovations. Because it has the potential to lead to continuous innovations, individuals' entrepreneurial mind-sets can be a source of competitive advantage for a

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firm. Entrepreneurial mind-sets are fostered and supported when knowledge is readily available throughout a firm. Indeed, research has shown that units within firms are more innovative when they have access to new knowledge. Transferring knowledge, however, can be difficult, often because the receiving party must have adequate absorptive capacity (or the ability) to learn the knowledge. This requires that new knowledge be linked to existing knowledge. Thus, managers need to develop the capabilities of their human capital to build on their current knowledge base while incrementally expanding that knowledge to facilitate the development of entrepreneurial mind-sets. The ability to dream and materialise these dreams is what one could call the entrepreneurial mindset. McGrath and McMillan (2000) offer several characteristics of this entrepreneurial mindset:

a. Passion in seeking new opportunities.

b. Discipline in pursuing these opportunities.

c. Correct choice of the best opportunity to pursuit.

d. Focus on execution (adaptive execution).

e. Involvement of a significant number of other individuals.

The entrepreneurial mindset can be considered the backbone of the enterprise culture. Through entrepreneurship education student learn how to create business, but they also learn a lot more. The core knowledge created via entrepreneurship education includes;

- The ability to recognize opportunities in ones life .
- The ability to pursue opportunities, by generating new ideas and found the needed resources.
- The ability create and operate a new firm.
- The ability to think in a creative and critical manner.

4. ***Conclusive remarks and Recommendations***

Developing and delivering entrepreneurship is significantly affected by the internal organisational structure of an institution. Faculties and departments tend to work quite separately, with many obstacles for students who want to move and for teachers interested in establishing cross-disciplinary courses. A rigid curriculum structure is often an impediment to inter-disciplinary approaches. In terms of specific

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contents, programmes and courses should be adapted to different target groups (by level: undergraduate, graduate, post-graduate, PhD; by field of study: economics/business, scientific/technical studies, humanities, arts & design, etc.). The best way to encourage entrepreneurship among students is by giving examples from the relevant technical area. As regards current teaching methods, there are a wide range of techniques to supplement lectures as the most basic teaching tool. However, there seems to be a gap between the methods actually used and those that are viewed as the most effective and appropriate. Using experience-based teaching methods is crucial to developing entrepreneurial skills and abilities. Traditional educational methods (like lectures) do not correlate well with the development of entrepreneurial thinking. . Following the findings of this work the author make bold to recommend as following:

- ✓ There should be a process of or a program geared towards training youths in Nigeria in the act of entrepreneurship. This is in lieu of the assertion that knowledge is power.
- ✓ There should be a government regulated means of entrepreneurial development sponsorship devoid of politics and the likes that have crippled those erstwhile attempts to encourage entrepreneurship.
- ✓ There are currently too few professors of entrepreneurship. There is a need to graduate enough PhD students in entrepreneurship who can become teachers.
- ✓ Moreover, there is very little in terms of incentives to motivate and reward teachers for getting involved in entrepreneurial teaching and interaction with students. It is currently difficult to build a career in entrepreneurship, as research remains the main promotion criterion.
- ✓ There is a need for more interactive learning approaches, where the teacher becomes more of a moderator than a lecturer. Crossing boundaries between disciplines, and multi disciplinary collaboration, are essential elements in building enterprising abilities.
- ✓ Getting real entrepreneurs involved in the teaching can make up for the current lack of practical experience among professors. Although entrepreneurs and business practitioners are in general involved in the teaching, there are few examples of entrepreneurial practitioners engaged in the full curricula experience.
- ✓ Nigerian higher education institutions are not sufficiently involved and effective in working with alumni who have been successful in their entrepreneurial endeavours and who could bring back knowledge and funds.
- ✓ Set up a task force (including the Ministry of Education and other ministerial departments: Economy; Employment; Science and Research) to determine how entrepreneurship can be integrated into primary, secondary, and higher education;

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- ✓ Adopt legislation supporting relations between private business and universities, including allowing professors to work part-time with business;
- ✓ Develop an accreditation system to validate non-formal learning and practical activities that favour entrepreneurship development;
- ✓ Establish awards for entrepreneurial universities, teachers and students, and promote positive examples of academic spin-offs.
- ✓ At their level of responsibility, higher education institutions could:
  - set up a strategy and an action plan for teaching and research in entrepreneurship, embedding practice-based activities, and for new venture start-ups and spin-offs;
  - create an entrepreneurship education department, which would serve as an entrepreneurial hub within the institution and spread the teaching of entrepreneurship across all other departments;
  - offer an introduction to entrepreneurship and self-employment to all undergraduate students during their first year. In addition, give all students the opportunity to attend seminars and lectures in this subject;
  - set up incentive systems to motivate and reward faculty staff in supporting students interested in entrepreneurship, and acknowledge the academic value of research and activities in the entrepreneurial field;
  - develop clear institutional rules about intellectual property;
  - award academic credits for practical work on enterprise projects outside the established courses.

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UNDERSTANDING THE REASONS FOR CUSTOMER RELATIONSHIP TERMINATION: EMPIRICAL EVIDENCE FROM CHINESE B2B FIRMS

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Abstract:

Firms should terminate undesirable customer relationships in an appropriate way, so that they can re-direct the wrongly occupied resources to other profit earning and value creation spheres. However, extant studies on B2B relationship have mainly focused upon the stages of its formation and maintenance. Business relationship termination still remains an under-researched phenomenon, and most of relevant discussions are conceptual or qualitative research with exploratory nature. This paper empirically examines the reasons for customer relationship termination based on a questionnaire survey among 304 Chinese B2B firms. The research findings reveal that customer relationship termination intention is positively impacted by seller's dissatisfaction with relationship value, and this link is positively moderated by alternative attractiveness. Besides, the seller's dissatisfaction is determined by inter-firm communication difficulty, customer contract implementation capability, and customer opportunistic behavior. This study makes significant theoretical contributions to literature of inter-organizational relationship management, and the research findings provide insightful managerial implications as to how to effectively develop and dissolve inter-organizational relationship for managers of both buyer and seller firms.

Key words:

Customer relationship, termination intention, dissatisfaction, B2B firms

Paper type Research paper

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Introduction:

It is reported that many inter-firm relationships have to be terminated in the end, and the failure rate of strategic alliances is as high as 70 percent (Elmuti and Kathawala, 2001). No doubt ending business relationship will bring about great economic and reputational losses to both parties involved in the relationship (Alajoutsijrvi et al., 2000). B2B firms with long-term relationships are found to be more profitable in the long run (Kumar, 2002) and, for this reason, importance of intensified research on relationship termination is highlighted by many scholars (e.g., Wilson, 1995; Tähtinen et al., 2007; Wagner and Friedl, 2007). Some researchers put forward the concept of business relationship lifecycle (Dwyer et al., 1987) and discussed the final stage of business relationship (Ford, 1980) since 1980s. However, it is only recently that business relationship termination has begun to get more attention from scholars, and it still remains a relatively under-researched topic. Without findings from this last stage in relationship lifecycles, B2B relationships can not sufficiently be understood.

Research on relationship termination has been conducted in the various contexts such as marketing channels, client-agency relationships, joint ventures, and strategic alliances. The buyer-seller relationship has been primarily discussed by taking the customer's view and exploring the reasons why customers decide to switch to other suppliers. It is still unclear about the reasons that urge B2B firms to terminate some unprofitable or undesirable customer relationships, as well as external or internal factors which may moderate the likelihood of relationship dissolution (Halinen and Tähtinen, 2002). In addition, most relevant studies are conceptual or qualitative ones and exploratory in nature.

In this paper, we limit our focus to B2B seller-buyer relationships, for seller-buyer relationships have been argued to form the core unit of analysis in marketing theory (Dwyer et al., 1987; Morgan and Hunt, 1994). Particularly, the study contributes to existing literature by providing theoretical explanations and empirical evidences of the determinants of customer relationship termination intention of B2B firms. The study can provide insights about the antecedents which are important in urging B2B sellers to dissolve some unwanted customer relationships, and also put forward implications that careful attention to these antecedents can provide both buyers and sellers with an early warning of impending relationship termination. Actually understanding relationship termination is crucial for enabling B2B firms to learn from defection of one partner and to transfer that knowledge to relationships with other partners. Therefore, the conceptual ideas about customer relationship termination herein may also be useful in analyzing the dissolutions of relationships between the company and other types of partner.

This paper is organized as follows. Firstly, the literature about inter-firm relationship termination and customer relationship termination is reviewed, and then conceptual framework and research hypotheses are put forward. Secondly, a questionnaire survey is conducted among 304 Chinese B2B firms to test research hypotheses, and the research findings are reported. Finally, the theoretical contributions and managerial implications of this research are explained, are

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limitations as well as future research directions are discussed.

Theoretical background and research hypotheses

Inter-firm relationship termination:

Inter-firm relationship termination can be defined from static perspective such as the "disinclination to continue the current relationship" (Ping, 1999, p. 226) or as "the ending of a business relationship between two firms" (Tsiros et al. 2009, p. 263). By contrast, a dynamic perspective considers relationship dissolution as "a process where these links, ties and other bonds are broken, disconnecting the former parties from each other" (Halinen and Tähtinen 2002, p. 165). Research shows that business relationship ending is not a clear-cut issue. Even though the parties may stop trading with each other, some kind of social bonds still exist that might be activated at future point in time (Havila and Wilkinson, 2002).

In business marketing, the discussions of inter-firm relationship termination are inspired by applications of transaction cost economics (Heide and John, 1988, 1990, 1992), or social exchange theory (Anderson and Narus, 1984, 1990; Dwyer et al., 1987), or agency theory (Lassar and Kerr, 1996), or insights from relationship marketing (Harrison, 2004). Relevant studies have discussed conceptualization of inter-firm relationship termination (eg. Halinen and Tähtinen, 2002; Tähtinen and Havila, 2013), determinants of inter-firm relationship termination intention (eg. Ellis, 2006), ending competence (eg. Havila and Medlin, 2012; Zaefarian et al., 2015), positive and negative consequences of inter-firm relationship termination (eg. Pick, 2010; Zaefarian et al., 2015), relationship dissolution strategies (eg. Alajoutsijärvi et al., 2000; Giller and Matear, 2001) and process (eg. Halinen and Tähtinen, 2002; Michalski, 2004; Tähtinen and Vaaland, 2006). Only a few studies probe into this topic in the context of Chinese firms (Pressey and Qiu, 2007).

Today we know that inter-firm relationships may end for a variety of reasons. Tähtinen and Halinen-Kaila (1997) identify three kinds of antecedents of inter-firm business relationship termination, namely predisposing factors, precipitating events and attenuating factors. Petersen et al. (2000) make a cogent argument that relationship age is both positively and negatively related to termination. Over time the information asymmetries separating buyers from sellers (or hiding opportunistic agents from their principals) will increase the likelihood of termination. But at the same time long-lasting relationships may enjoy higher levels of trust leading to a lock-in effect and a lower risk of termination. Ellis (2006) identifies organizational, relational and external variables which may hasten termination propensity of inter-firm relationships in the channel management. They puts forward several propositions to explain the motive to terminate business relationship in terms of termination triggers, as well as their antecedents (market factors, organization factors, product factors and relationship factors) and moderating role of switching costs. Dan and Zondag (2015) examine the factors observable at the time of the alliance formation which can predict the propensity for alliance termination, and

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find that the perception of future returns from the alliance, technological intensity of the alliance partners, and market density and diversity will impact the propensity for termination.

Customer relationship termination:

Customer relationship is at the core of business relationships. Relevant discussions are primarily focused on consumer marketing contexts. Besides, seller-buyer relationship termination can be initiated by the customer, the supplier, or a third party (Tähtinen et al., 2007), and only few studies have focused on that initiated by the supplier.

The limited explorations about customer relationship ending by B2B firms examine following several topics: types of customer relationship ending (forced, sudden, creeping, optional, involuntary, and planned ending) (Michalski, 2004), classification of communication strategies realized by the supplier (direct and indirect, other-oriented and self-oriented strategies) (Alajoutsijärvi et al., 2000; Freeman and Browne, 2004), customer relationship termination competence on organizational level (Ritter and Geersbro, 2011) and sales representative level (Geersbro and Ritter, 2012), as well as the outcomes of ending customer relationship (eg. Ritter and Geersbro, 2011; Geersbro and Ritter, 2012).

Only a few authors investigate reasons why B2B sellers decide to terminate its relationship with a customer. The main reasons for the seller's decision to end a customer relationship include low profitability or unprofitability of the customer, and the coherent objective to release limited company resources for other investments (Helm et al. 2006; Geersbro and Ritter, 2010). For instance, Pressey and Qiu (2007) examine the characteristics of buyer-supplier relationship dissolution in China, based on in-depth interviews of Chinese managers of dissolved long-term business relationships. They identify four categories of dissolution in buyer-seller relationships: joint decision to end relationship, customer deselection, supplier deselection, and fading away from the relationship. The results show that the suppliers are unwilling to end a relationship with a customer unless the customer was unprofitable, however, even in such cases they were often reluctant due to the damage it might cause to the reputation of the firm.

Conceptual framework and research hypotheses:

In our paper, relationship termination is defined as a process of the planned and conscious ending of a relationship with a business partner by evacuating the existing relationship, decreasing current ties such as contact levels and/or explicitly stating the end of the relationship. The customer relationship management context is considered by taking the B2B seller's perspective. The conceptual model and research hypotheses are put forward, as shown in Figure 1.

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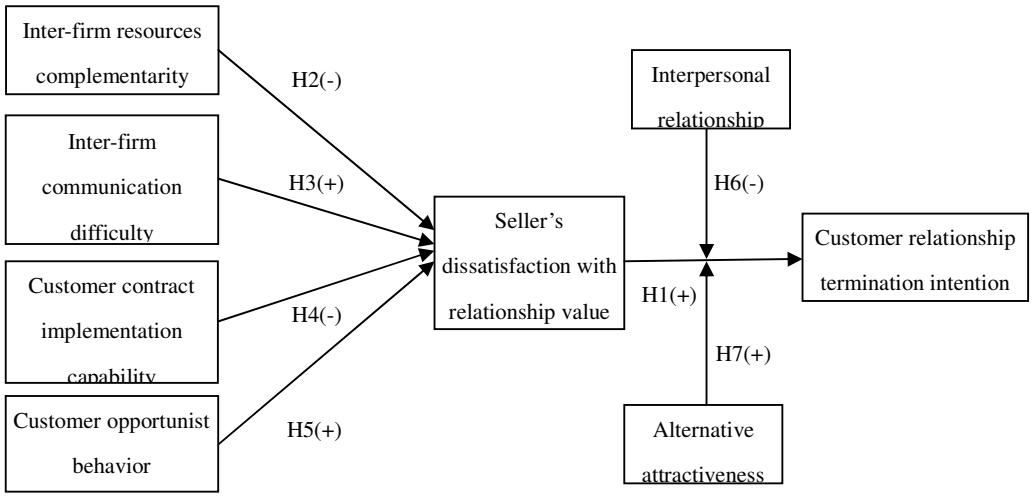


Figure 1 Conceptual model of antecedents of customer relationship termination intention in B2B context

Dissatisfaction and termination intention:

The factors that lead to the ending of a business relationship can be quite complex and hard to define. Despite the long lists promulgated in the literature, fundamentally the incentive to terminate business relationship is dissatisfaction when perceived performance of exchanges does not meet expectations (Alajoutsijärvi et al. 2000; Makino et al., 2007, Ping and Dwyer, 1992). Seller's dissatisfaction with relationship value is defined as the degree to which the seller firm is dissatisfied with the fundamental value delivered by the relationship with the buyer. Performance (dis)satisfaction is closely related to the development of inter-organizational trust and commitment, which are the keys to maintaining a long-term relationship (Anderson and Narus, 1990; Narayandas and Rangan, 2004). When the value derived from business relationship is satisfactory, partners are motivated to continue the relationship, whereas unsatisfactory relationship value may urge the firm to modify or even terminate this undesirable relationship (Parvatiyar and Sheth, 2001). Indeed, high value relationships with customers directly contribute to corporate goals and should reduce supplier's tendency to search for alternative business partners and its switch intention. The empirical study by Geiger et al. (2012) supports the negative link between supplier perceived value and its switch intention. In the latter case, the business partner has become a burden in some way, emphasizing the negative costs of business relationships (Håkansson and Snehota, 1999). In their study of client-agency relationships, Young and Denize (1995) report that dissatisfaction with service quality is a key motivator for change (see also Doyle et al., 1980; Henke, 1995; Michell et al., 1992). Therefore, we put forward the following hypothesis:

H1: Seller's dissatisfaction has a positively impact upon relationship termination propensity.

Antecedents of seller's dissatisfaction:

Next, we present two inter-firm variables (resource complementarity and communication difficulty) and two customer

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variables (contract implementation capability and opportunistic behavior) which determine the seller's dissatisfaction with the relationship value.

Lambe et al. (2002) define resource complementarity as the degree to which partner firms are able to eliminate deficiencies in each other's portfolio of resources and thereby bolster each party's ability to achieve business goals. Drawing on the Resource Based View, it is suggested that resource complementarity between partners provides firms with access to idiosyncratic resources and resource combinations, enabling firms to gain competitive resource advantages (Harrison et al., 2001). Other scholars put forward similar arguments in linking resource synergies to inter-organizational cooperation performance. For instance, Hamel et al. (1989) suggest that pooled resources lead to mutual gain if partners complement each other's weaknesses. Madhok and Tallman (1998) propose that alliances in which partners hold complementary resources have the highest probability of creating value. Based on the above evidences, we propose:

H2: Resources complementarity has a negative impact upon seller's dissatisfaction.

In this paper, communication is defined as a series of processes through which groups share and generate information in order to promote common interests (Rogers, 1981). Transaction cost analysis works on the presumption of bounded rationality and thus posits that effective communication helps create an atmosphere of mutual support and participative decision making (Mohr and Nevin, 1990). Communication behaviors associated with the sharing and exchange of information improve inter-organizational effectiveness (Tzafrir et al., 2004), for it promotes collaboration and feedback during the problem solving process, which may encourage customer participation and help achieve better perceived relationship performance. Literature in relationship marketing has recognized how collaborative communication is critical to fostering and maintaining value-enhancing inter-organizational relationships (e.g., Schultz and Evans, 2002). Paulraj et al. (2008) view inter-organizational communication as kind of relational competence and empirically support their argument that inter-organizational communication enhances buyers' and suppliers' performance. On the contrary, poor communication hinders the two sides gaining benefits from the cooperation. Accordingly, we have the following hypothesis:

H3: Communication difficulty has a positive impact upon seller's dissatisfaction.

Relationships with customers are expected to fulfill crucial functions for suppliers (Walter et al., 2001). The more direct functions (such as volume, profit and safeguard functions) and indirect functions (such as innovation, market, scout and access functions) the relationship creates, the higher value the supplier achieves. According to transaction cost theory, a formal and written contract which explicitly stipulates the responsibilities and obligations of each party may help reduce opportunism and control exchange hazards (Cao and Lumineau, 2015). However, signing the contract only marks a commitment to work together and the beginning of an ongoing process rather than an end in itself (Chen, 2001). What's more important is the business partner's capability to implement the contract responsibilities, particularly in the

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dynamic business environment. Increased fulfillment of various kinds of expected functions leads to increase in seller's perceived value and satisfaction with the performance (Purchase et al., 2009), and vice versa. Therefore, we put forward:

H4: Implementation capability has a negative impact upon seller's dissatisfaction.

The fourth antecedent of seller's dissatisfaction with the relationship value is customer opportunistic behavior. Researchers have studied the impact of opportunistic behavior in business relationship for decades. According to Williamson (1975, p. 9), opportunism ''refers to a lack of candor or honesty in transactions, to include self-interest seeking with guile.'' In the context of inter-organizational cooperation, opportunistic behavior includes ''breaking promises, not sharing resources or facilities as per agreement, bluffing, lying, misleading, misrepresenting, distorting, cheating, misappropriating, stealing, etc.'' (Das and Rahman, 2001, p. 43). According to the transaction cost economics perspective (Williamson, 1975), it is well established that opportunism has a negative impact upon exchange performance (Heide and John, 1990; Wathne and Heide, 2000). Opportunist behaviors will significantly increase costs associated with monitoring performance and safeguarding investments (Gassenheimer et al., 1998; Heide and John, 1990), therefore the exchange becomes less efficient and less prone to joint action and includes lower expectations of continuity, all of which will decrease relationship value (Heide and John, 1990; Parkhe, 1993; Smith and Barclay, 1997). Besides, opportunism has a negative impact on the emergence of relational sentiments (Gundlach et al., 1995) because perceiving a partner as opportunistic undermines extant relational norms and raises the feeling that the exchange partner is not concerned with the well-being or fairness of the exchange. Therefore, we put forward:

H5: Opportunistic behavior has a positive impact upon seller's dissatisfaction.

Moderating variables in the dissatisfaction and termination intention link:

Finally, we will discuss the potential moderating roles of interpersonal relationship and alternative attractiveness in the link between dissatisfaction and customer relationship termination intention.

Extant literature has recognized that a business relationship consists of more than just the inter-organizational level. The development of an inter-organizational relationship occurs also through interpersonal relationships, and this interpersonal aspect of the relationship plays a critical role in improving overall commitment (Mavondo and Rodrigo, 2001). Likewise, interpersonal relationship should also have an impact upon the termination of inter-organizational relationship by decreasing the ending propensity. It belongs to one critical kind of attenuating factors proposed by Tähtinen and Halinen-Kaila (1997). Especially in China, the guanxi literature demonstrates that interpersonal relationship is a key part of inter-organizational relationships among Chinese firms (Barnes et al., 2011). Therefore, we have

H6: Interpersonal relationship negatively moderates the relationship between seller's dissatisfaction and relationship termination intention.

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Alternative attractiveness is defined as the firm's estimate of the likely satisfaction available in an alternative relationship (Ping, 1993; Rusbult, 1980). Drawing from extant literature in social psychology, economics, political science, interpersonal communications and marketing, Stewart (1998) develops a model of the customer exit process. One of the four key exit issues in this model is availability of alternatives. Likewise, if B2B firms are unaware of attractive alternative customers at hand, then they may well stay in a relationship even when it is perceived as less than satisfactory. On the contrary, firms may facilitate its decision to terminate the current relationship and initiate a new one if they perceive the alternative to be attractive due to higher degree of inter-firm resources complementarity, better inter-firm communication, stronger contract implementation capability or less likelihood of opportunistic behaviors of the new customers. Hence, it is proposed that:

H7: Alternative attractiveness positively moderates the relationship between seller's dissatisfaction and relationship termination intention.

Research methodology

Sampling and data collection:

Given the increasing need to generalize inter-firm relationship termination research results to various settings, China domain is believed to provide a reasonable context for this study. Chinese culture holds the vivid characteristic of holistic thinking to tackle with the relationship with business partners. We surveyed industrial firms in Wuhan, a large city in central China. Wuhan has a large number of firms on iron and steel, automobile, electronics, chemicals, metallurgy, textile, shipbuilding, pharmaceutical and other industrial products. It is helpful to generalize the results of customer relationship termination research to a variety of industry settings.

The sampled companies should meet three qualifications. Firstly, it should be a supplier of industrial products or services. Secondly, it should have operated its business for at least three years, for a newly-found company is perhaps not in a relatively stable development stage and the causal link among the constructs in question cannot be fully manifested. Thirdly, it should have autonomy in decision making of initiating, maintaining and ending relationships with its customers. Using a list, provided by the local government, of 1000 Wuhan B2B firms in various industries, questionnaires were sent to 681 firms who agreed to participate in this study, either by e-mail or by paper questionnaire. We promised the confidentiality of the companies and specific responses of informants, and only two key members of research team can get access to the whole dataset. After repeatedly urging informants to answer the questionnaire, 356 questionnaires were finally collected, representing a response rate of 52.3%.

Of the 356 respondents, 304 answered in an appropriate way. We compared the two sets of responses from paper questionnaire and e-mail to examine possible differences regarding the characteristics of the two groups. The result showed that the means of relevant variables have no significant differences between paper questionnaire and e-mail based

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respondents, leading us to pool the data. In addition, a comparison of early and late responses indicated no significant differences in the major constructs of these two sets, indicating the minimal likelihood of non-response bias (Armstrong and Overton, 1977). The characteristics of the respondent firms are presented in Table 1.

Table 1

Profile of respondent firms

Characteristics		Percentage	Characteristics		Percentage
Number of employees	<100	18.1%	Age	<10 years	31.9%
	100-500	22.4%		10-20 years	30.9%
	>500	59.5%		>20 years	37.2%
Main business scope	Manufacturing	48.0%	Ownership	SOEs	29.9%
				Private companies	25.7%
				Foreign investment companies	33.9%
	Services	52.0%		Others	10.5%

Measurement scales

On the basis of interviews with managers and an extensive review of previous studies, preliminary version of the questionnaire was developed. When possible, existing scales were adapted to the context of this study. All measures are seven-point Likert scales anchored by "strongly disagree" and "strongly agree". The sources and descriptions of the measures are explained in Table 2.

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Table 2

Sources and description of measurement scales

Constructs	Scale sources and descriptions
Inter-firm resources complimentarity	Adapted from Deitz et al. (2010) consisting of 4 items. All the 4 items are retained after scale purification.
Inter-firm communication difficulty	Adapted from Hung and Lin (2013) consisting of 4 items. All the 4 items are retained after scale purification.
Customer contract implementation capability	Newly developed scale consisting of 5 items based on manager interviews. 4 items are retained after scale purification.
Customer opportunistic behavior	Adapted from Ping (1993), Rokkan and Heide (2003), Wuyts and Geyskens (2005) consisting of 5 items. All the 5 items are retained after scale purification.
Dissatisfaction with relationship value	Adapted from Geiger et al. (2012) consisting of 6 items. All the 6 items are retained after scale purification.
Interpersonal relationship	Adapted from Mavondo and Rodrigo (2001) and Barnes et al. (2011) consisting of 6 items. 5 items are retained after scale purification.
Alternative attractiveness	Adapted from Ping (1993) consisting of 5 items. 3 items are retained after scale purification.
Customer relationship termination intention	Adapted from Ping (1995) consisting of 6 items. All the 6 items are retained after scale purification.

Result of empirical research:

Reliabilities and validities of measurement scales:

The Table 3 provides the means, standard deviations, correlations, reliability estimates such as Cronbach's α, composite reliabilities (CR), average variances extracted (AVE) of all measures. The results indicate that all the constructs' Cronbach's alpha coefficients (ranging from .77 to .86) and the composite reliabilities (CRs) (ranging from .83 to .92) exceed the accepted reliability threshold of .70. In addition, all the AVEs are greater than .50 cutoff (ranging from .50 to .64). Thus, all the measures demonstrate adequate reliabilities.

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Table 3

Descriptive analysis, correlations, reliability estimates and discriminate validity estimates of measures

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) resources complementarity	**0.709**							
(2) communication difficulty	0.334	**0.716**						
(3) contract implementation capability	-0.057	0.091	**0.778**					
(4) opportunist behavior	0.019	0.194	-0.205	**0.746**				
(5) dissatisfaction with relationship value	-0.042	0.303	-0.183	0.364	**0.801**			
(6) interpersonal relationship	0.172	0.210	0.228	0.238	-0.016	**0.775**		
(7) alternative attractiveness	0.147	0.124	-0.042	0.208	0.351	-0.069	**0.750**	
(8) relationship termination intention	-0.039	0.188	-0.127	0.309	0.460	0.021	0.494	**0.784**
mean	4.213	3.752	5.269	4.660	3.425	4.605	3.945	3.714
S.D.	1.388	1.379	1.123	1.265	1.158	1.353	1.292	1.353
Cronbach's α	0.774	0.783	0.848	0.814	0.864	0.832	0.839	0.857
CR	0.834	0.843	0.898	0.872	0.924	0.877	0.882	0.902
AVE	0.503	0.513	0.605	0.557	0.642	0.601	0.563	0.615

Note: Diagonal elements (in bold) represent the square root of the AVE. Off-diagonal elements (included in the lower triangle of the matrix) represent the standardized correlations among constructs.

The validities of measures were examined with confirmatory factor analysis (CFA). As Table 4 indicates, the CFA measurement model suggests acceptable fit indexes for sample with GFI, NNFI and CFI all exceeding .90 and RMSEA not exceeding .08 ($\chi 2$/df=3.56; GFI=.91; NNFI=.95; CFI=.94; RMSEA=.08; RMR=0.02). All items load on their respective constructs, and each loading coefficient is larger than .50 and significant at the .01 level, showing satisfactory convergent validities for all measurement scales (Anderson and Gerbing, 1988).

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Table 4

CFA results of measurement scales

Latent variables	Observed variables	SLC (t-value)
Inter-firm resources complementarity (Deitz et al., 2010)	1. X company and our company are mutually dependent on each other since we contribute different resources and competencies.	0.77(15.28)
	2. The resources brought into the transactions by X company and our company have been very valuable for the other.	0.89(18.87)
	3. The resources brought into the transactions by X company and our company have been significant in getting the job done.	0.81(16.44)
	4. Together, X company and our company add substantial value to each other in the cooperation.	0.62(11.40)
Inter-firm communication difficulty (Hung and Lin, 2013)	1. There are few exchanges of business information between X company and our company.	0.54(9.34)
	2. The employees of X company seldom keep us well informed about any changes or questions that could be of interest to us.	0.82(15.71)
	3. The employees in X company are reluctant to explain to us the pros and cons of the recommendations he/she make to us.	0.77(14.57)
	4. If we ask for some type of information, whether it is strategic, technical or operating, the employees of X company are slow to supply it.	0.56(9.72)
Customer contract implementation capability (newly developed based on manager interviews)	1. X company always make the payment timely.	0.78(15.08)
	2. X company always informs us of the latest development of their contract implementation.	0.80(15.50)
	3. X company always implements their contract responsibility properly.	0.77(14.89)
	4. X company always assists our company to smoothly deliver the offerings.	0.65(11.95)
Customer opportunistic	1. There will be some things X company will do only if we	0.61(10.92)

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behavior	check up and insist on it.	
(Ping,1993;	2. X company will not volunteer much information regarding the	0.76(14.88)
Rokkan and Heide, 2003;	business to us.	
Wuyts and Geyskens, 2005)	3. Sometimes, X company alters the facts slightly in order to get	0.80(15.66)
	what they need from us.	
	4. Occasionally X company may shirk certain contractual obligations to us when they see profit opportunities from doing so.	0.69(12.83)
	5. X company may neglect their responsibilities when we are not likely to notice the noncompliance.	0.67(12.31)
	1. Our company is not satisfied with the relationship because this customer relationship has failed to provide sufficient value to us.	0.60(10.72)
	2. All in all, our company is not satisfied for the disadvantages of the relationship with this customer far outweigh the benefits.	0.58(10.30)
	3. Our company is not satisfied with the relationship because this customer could not make a crucial positive contribution to our company's success.	0.57(10.01)
Seller's dissatisfaction with relationship value (Geiger et al., 2012)	4. Our company is not satisfied with the relationship because it could not make a crucial positive contribution to our company's achievement of goals.	0.78(15.11)
	5. Our company is not satisfied with the relationship because it does not match our conception of an optimal relationship.	0.65(11.85)
	6. Our company is not satisfied with the relationship because it could not meet the requirements of my company in important aspects.	0.77(14.77)
Interpersonal relationship	1. The key persons in our company and X company are able to	0.64(10.72)
(Mavondo and Rodrigo, 2001;	talk openly as friends.	
Barnes et al., 2011)	2. The key persons in our company and X company often	0.67(10.34)

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	interact with each other on a social basis outside of work.	
	3. The people at my firm trust the people at X company.	0.82(14.07)
	4. Our company believe the people at X company are trustworthy.	0.89(15.23)
	5. The practice of "give and take" of favor is a key part of the relationship between the key persons at our company and X company.	0.78(11.85)
Alternative attractiveness (Ping, 1993)	1. All in all, the alternative customer would be better than X company.	0.78(14.74)
	2. Overall, the alternative customer's policies would benefit our company more than X company.	0.72(13.35)
	3. In general, we would be more satisfied with the alternative customer than we are with X company.	0.69(12.65)
Customer relationship termination intention (Ping ,1995)	1.Our company will think about ending the business relationship with X company.	0.57(10.26)
	2. We are looking for other customers to replace X company.	0.79(15.95)
	3. We are not likely to continue the business relationship with X company.	0.84(17.41)
	4. We will probably consider a replacement customer in the near future.	0.74(14.43)
	5. We are looking at replacement customers.	0.63(11.76)
	6. We will probably stop doing business with X company in the near future.	0.68(12.79)

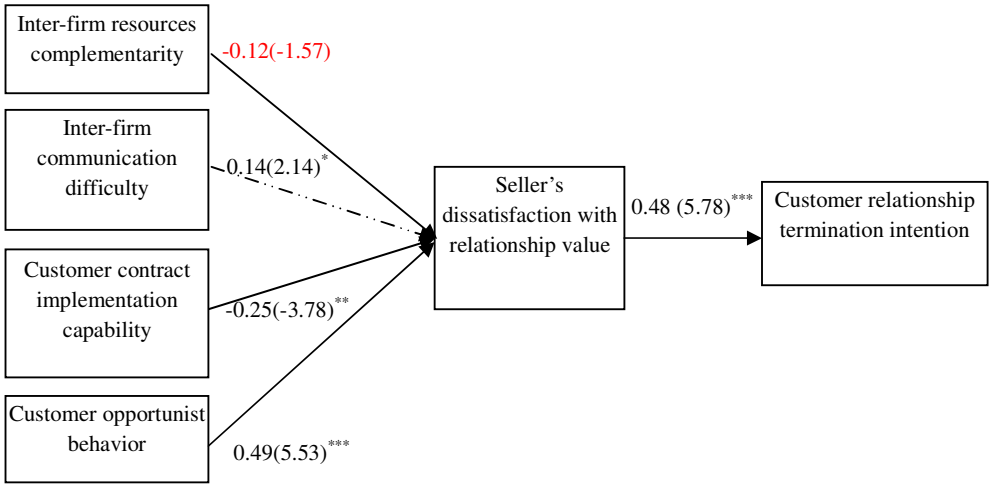
χ^2=2976.08; df=837; χ^2/df=3.56; GFI=0.913; NNFI=0.951; CFI=0.942; RMSEA=0.082; RMR=0.023

Note: SLC is short for standardized loading coefficient; X company refers to one important customer of the surveyed enterprise.

Hypotheses test:

The structural equation modeling (SEM) technique was employed to examine main effects, and the results appear in Figures 2.

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$\chi 2$ /d f =3.677; GFI = 0.87; NNFI =0.92; CFI=0.94; RMSEA= 0.094; RMR=0.039

*：p＜0.05；**：p＜0.01；***：p＜0.001

Figure 2 Results of SEM analysis

H1 predicts that seller's dissatisfaction with relationship value positively impacts relationship termination intention. As Figure 2 indicates, the results support H1 (β=.48, t=5.78), for the path coefficient is positive and significant at .001 level. H2 is not established (β=-.12, t=-1.57), indicating that inter-firm resources complementarity has no significant impact upon seller's dissatisfaction. Besides, the results support H3 (β=.14, t=2.14), which predicts inter-firm communication difficulty increases the seller's dissatisfaction. H4 is supported (β=-.25, t=-3.78), that is, customer contract implementation capability significantly deceases the seller's dissatisfaction with relationship value. H5 is also supported (β=.49, t=5.53), indicating that customer opportunistic behaviors can improve seller's dissatisfaction with relationship value.

In order to examine the moderating roles of interpersonal relationship and alternative attractiveness, the procedure recommended by Greenley and Foxall (1999) was followed. This involved four-step hierarchical moderated regression technique, as shown in Table 5. At the first stage of the hierarchical regression, only two control variables, firm size and firm age, are included (Model 1). The result shows that firm size and age have no significant impact upon customer relationship termination intention. The second regression adds independent variable (seller's dissatisfaction with relationship value) (Model 2). The result shows that dissatisfaction has a positive and significant impact upon termination intention (β=.46, t=8.78), supporting H1 again. The third regression adds two moderating variables simultaneously (Model 3). The results show that the interpersonal relationship has no direct impact upon termination intention (β=.03, t=.51), while alternative attractiveness has a significantly positive effect (β=.40, t=7.90). The fourth regression adds interaction terms of seller's dissatisfaction and two moderators (Model 4). All the independent variable

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and moderator variables are centralized before test. The results show that the standardized coefficient of the interaction term of interpersonal relationship and dissatisfaction is not statistically significant (β=-.03, t=-.51), and the interaction term of alternative attractiveness and dissatisfaction is positive and significant at .001 level (β=.44, t=8.79). Therefore, H6 is not established, and H7 is supported.

Table 5

Results of hierarchical regression analysis: Standardized regression coefficients (t-value)

	Model 1	Model 2	Model 3	Model 4
Control variables				
Firm size	-0.065 (-1.106)	-0.036 (-0.675)	-0.035 (-0.667)	-0.036 (-0.687)
Firm age	0.080 (1.357)	0.054 (1.030)	0.053 (1.005)	0.058 (1.040)
Independent variable				
Seller's dissatisfaction with relationship value		0.455***(8.799)	0.456***(8.872)	0.454*** (8.229)
Moderating variables				
Interpersonal relationship			0.026 (0.510)	0.004 (0.072)
Alternative attractiveness			0.399*** (7.901)	0.317*** (6.319)
Interaction terms				
Dissatisfaction× interpersonal relationship				-0.027 (-0.509)
Dissatisfaction× alternative attractiveness				0.441*** (8.793)
VIF（≤）	1.024	1.003	0.998	0.996
R^2	0.008	0.214	0.350	0.355
Adjusted R^2	0. 002	0.207	0.345	0.372
F-value	1.253	27.306***	40.281***	32.867***

*: p<0.05; **: p<0.01; ***: p<0.001

Conclusions:

Research findings and theoretical contributions:

The decline of inter-firm relationship remains an important, although little studied, topic within the B2B marketing literature. Existing research on this topic tends to be fragmentary (Ellis, 2006), and scholars have discussed several critical issues about inter-firm relationship termination, including the motive and barriers of partner switching (Ellis, 2006),

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antecedents of relationship dissolution (Dan and Zondag, 2015; Heide and Weiss, 1995; Perrien et al., 1995; Ping, 1993), ending competence (Havila and Medlin, 2012; Zaefarian et al., 2015), and process and strategies of relationship termination (Giller and Matear, 2001). However, extant literature has not fully discussed when business relationship should be terminated and, particularly, what are determinant factors of customer relationship termination in B2B contexts. Besides, relevant findings are mostly derived from qualitative studies (Havila and Medlin, 2012) and the quantitative discussions in this field are very much scant.

Based on the above-mentioned research gaps, the aim of this paper is to make theoretical contributions to literature of inter-organizational relationship management by empirically examining why B2B sellers intend to terminate their relationship with some customers. By using a questionnaire survey among 304 Chinese B2B firms, the following research findings have been arrived at:

Firstly, when arguing a model of customer exit process, Stewart (1998) describes the link between dissatisfaction and exit as rather complex, as research shows that dissatisfaction is neither a sufficient nor a necessary explanation for exit. Stewart reasons that exit can be caused by satiation leading to boredom and variety seeking. Reichheld (1992) suggests between 65 percent and 85 percent of customers who exit claim to have been satisfied or very satisfied with their former supplier. To further complicate the relationship between dissatisfaction and exit, some studies have shown that dissatisfied customers do not exit. However, our research findings indicate a strong positive link between seller's dissatisfaction with relationship value and its intention to terminate customer relationship, evidencing that the B2B firms are more rational and deal with customer relationship primarily based on value claiming concerns.

Secondly, the link between dissatisfaction and termination intention is moderated by alternative attractiveness, but not moderated by interpersonal relationship. This finding is seemingly contradictory to our observations that guanxi plays a critical role in Chinese society and business world. The possible reason for this finding is that for the strategically important issues, the firms make decision primarily based on partner's capability and brand which are good for the firm's interest in terms of survival and growth (Wuyts et al., 2009). Apparently, initiating or dissolving relationship with customers is considered to be critical matter which will determine the future growth of the firm. In these circumstances, the role of interpersonal relationship is expected to be not highly significant.

Thirdly, the seller's dissatisfaction is determined by inter-firm communication difficulty, customer contract implementation capability, and customer opportunistic behavior, while inter-firm resources complementarity has no significant impact. Potential reason for this finding is that compared with other factors, company resources are more explicit and predictable, and they could be evaluated by firms before entering the relationship and be included in the written contract in the form of transaction terms. Therefore, the likelihood that resources complementarity impacts seller's dissatisfaction is marginal.

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Managerial implications:

Given the high costs associated with the dissolution of B2B relationships, it is incumbent upon both sides of a buyer-seller relationship to identify the reasons why firms decide to terminate business relationship and avoid behaviors leading toward inter-firm relationship declining. By understanding the factors that are important for B2B firms in deciding to end customer relationships, managers, both from sellers and buyers, can focus their efforts on these factors in order to foster successful buyer-seller relationships.

B2B firms should understand that effective relationship management is about managing both "growing" and "declining" relationships. The dissolution of some relationships can even be beneficial and desirable. Optimal resource allocation presumes the conclusion of relationships that do not provide sufficient value for the company. Therefore, B2B firms should consider several critical aspects of the customer relationship when they determine to end it. Firstly, firms should constantly monitor the level of value they could capture form exchanges with customers. If they are highly dissatisfied with the customer relationship value, they should initiate termination routine so that the resources freed from unsatisfactory relationships can timely be used in creating new ones with a higher profit potential as suggested by the customer portfolio approach. Secondly, firms can predict potential value generated by customer relationship by evaluating key factors including inter-firm information communication, customer's capability to implement its contractual obligations, and customer's opportunistic behaviors. In this way, firms can occupy a favorable position in managing their relationships with customers by either planning to replace the unwanted customers or urging the unsatisfactory customers to make expected changes. Thirdly, in practice, termination decisions are contextually-embedded, and one important consideration is availability and attractiveness of potential alternatives. B2B firms should routinely evaluate revenues and costs associated with establishing and maintaining promising buyers and keep in touch with them. In doing so, firms can, on the one hand, improve their bargaining power by reducing firm's dependence upon existing customers and, on the other hand, minimize the economical and reputational losses arising from ending present customer relationship by timely initiating cooperation with new customers.

In addition, research findings also provide the buyer firms with insightful suggestions about supplier relationship management policies. In order to maintain long-term relationship with the key suppliers, they should enhance the supplier's satisfaction with relationship value by improving the inter-firm communication quality, strictly fulfilling the obligations stipulated in the contract and control opportunistic behaviors. Besides, the buyer companies should keep a close eye on alternative firms and predict the suppliers' relationship termination intention level based on market intelligence, so that firms could take timely actions in case the suppliers dissolve relationship suddenly.

Limitations and future research directions:

There are some theoretical and methodological limitations in this study, which provide meaningful directions for future

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research. Firstly, other antecedents of termination intention are not considered in our model. For example, if the duration of business relationship is correlated with the accumulation of experiential knowledge (enabling firms to make better-informed assessments of customer behaviour), then relationship age will indirectly contribute to an incentive to terminate. Secondly, our survey is conducted only among seller firms. Future research can adopt matched samples of buyer-seller dyads to improve the validities of measures and research findings. Thirdly, future study can focus upon a specific industry to better control the impact of industry characteristics and provide more relevant managerial implications for B2B firms in that industry.

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EFFECTS FROM THE INTERACTION BETWEEN EXCHANGE RATE REGIME AND ECONOMIC GROWTH:THE CASE FOR MACEDONIA

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Abstract

Determining the equilibrium exchange rate and factors that determine it, will contribute for taking actions for increasing economic growth. Improving the terms of trade tends to increase the welfare of the country, its domestic demand and prices of non-traded goods, with real appreciation of the domestic currency (effect of welfare). According these, real exchange rate as a monetary instrument, can detect the performances for export growth, increase in aggregate demand, in this way increasing economic growth. Developed countries where increasing in economic growth rely on exports growth, could be example for Macedonia that exchange rate is not only instrument for maintaining price stability. Exchange rate is an instrument for improving exports performances, increasing economic growth as strengthening the stability of financial system. The research will examine the relationship between nominal effective exchange rate with other macroeconomic aggregates applying the ordinary least squares method. These estimations will underline the impact of exchange rate on economic growth in Macedonia.

Key words: Exchange rate, economic growth, Macedonia, MLS method, stability.

1. Introduction

The impact of exchange rates on trade in a given country, as in Macedonia, example for small and open economy, should be seen in the context of continued integration of supply chains. Exports generally include high import content and impact of foreign currency-exchange appreciation or depreciation on any finished product because it is complex. If the depreciation of the exchange rate makes its exports of finished products "cheaper", it makes imported components "expensive" for domestic producers.

Maintaining growth and reducing the unemployment in a small and open economy such as

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Macedonia depends from improved performance of exports. Improving the performance of exports can also help to preserve macroeconomic stability by closing the gap in the current account to avoid wasting supplies and to stop the growth of external debt. Improving performance requires improving export competitiveness. In the short term, competition may be related to the level of the real exchange rate, which provides internal and external balance. The appreciation of the real exchange rate with respect to its equilibrium level reduces the incentives and the ability of manufacturers to compete in foreign markets, since a significant part of production costs paid in local currency. In the long run, real exchange rates are assumed to converge to its equilibrium level, and competitiveness is more related to the productivity of the economy.

The existence of the real exchange rate in Macedonia, the products whose price in the country is a low cost can be exported effectively and import products whose price is relatively higher in the country in terms of abroad. In addition to the events and challenges for Macedonia, membership in the EU can improve the industrial situation in Macedonia only if the access largely makes Macedonia location from which foreign investors can serve EU markets if the domestic industry, with aid of FDI, can take the necessary changes to its output, an issue explored in greater detail in the section of the industry. These long-term structural shifts in employment and output, which can be accelerated through accession of Macedonia to the EU, sectoral change can be an important driver of change in aggregate factor productivity and income of workers in different sectors of the economy (Boshkov and Bishev, 2015a).

Given the large gap in prices and income per capita between Macedonia and the EU, the price will be accepting an important source of inflationary pressure, and also facing the existing price distortions in the energy, municipal services, etc.. Before access can move this later inflationary factor as driver for access around the time when the effect of inflation on real convergence is combined with the negative short-term effects of EU accession on fiscal balance, falling interest rates and so on. This will require careful management of the exchange rate. That is, if the Macedonian real growth accelerates, Macedonia will be more attractive candidate for EU membership, and it will faces with intense pressures on the exchange rate regime and macroeconomic policies.

2. Literature Review

This section presents several studies that use the variable nominal effective exchange rate. Also, here is provided an overview of methods used by these studies (Table 1).

Table 1. Review of methods used in studies which analyze nominal effective exchange rate.

Studies	Title	Methods
Baxter, M., and Stockman, A. (1989).	**Business Cycles and the Exchange Rate Regime: Some International Evidence**	Correlation analysis
Bollerslev(1989)	**Modeling the coherence in**	SUR, ARCH and GARCH

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	short run nominal exchange rates: A multivariate generalized ARCH model	model
Flood,Rose(1992)	**Fixing exchange rates :A virtual quest for fundamentals**	Ordinary least squares method
Oskooee(2001)	**Nominal and real effective exchange rates of middle eastern countries and their trade performance**	Dickey-Fuller Unit Root Tests, Engle-Granger cointegration test and Johansen cointegration test
Lai, Lowinger(2002)	**Nominal effective exchange rate and trade balance adjustments in South east Asia countries**	VECM
Tenreyro(2004)	**On the trade impact of nominal exchange rate volatility**	Poisson pseudo maximum likelihood model
HarbingerC, Albert Wijeweera(2005)	**Nominal Exchange Rate Neutrality: The Case of Australia**	VAR model

3. Methodology

Building models with the presence of bilateral causal relationship between two variables, is more complex. The analysis uses the method of ordinary least squares. This method is used for estimation of unknown parameters in the ordinary linear model. This method minimizes the sum of squared vertical distances between observed responses in the data set and the answers provided by the linear approximation. This method characterized estimated ratios that are consistent when regressions are exogenous and there is no perfect multicollinearity. This method can examined linear dependence between phenomena and general model can have one dependent and one or more independent variables. Regressions with the method of least squares, produced highly statistically significant parameters, but the presence of autocorrelation question poses the question whether MNC models are robust.[1] (Bishev and

[1] While in the presence of autocorrelation of estimated coefficients by the method of least squares remain impartial, consistent and asymptotic normally distributed, they are no longer effective (Gujarati, 2003).

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Boshkov, 2015a).

4. Data

For analysis we use quarterly data which cover the period from 1993 the first quarter, to 2013, first quarter. Data are for the Macedonian economy. Time series are: the nominal effective exchange rate (neer)[2], observations for this variable are 1993q1 to 2013q1, or 81 observations in total. For real effective exchange rate[3], we have 81 observation, further Macedonian gross domestic product which also has quarterly observations from 1993 to 2013. Purchasing power parity[4] is included in the data but this variable has 78 observations for the period 1994q1, first quarter to 2013q1, first quarter. The interest rate as a time series for the Macedonian economy is represented by the rate of borrowing, and the cover data for it is from 1994q2 (second quarter) to 2013q1 (first quarter), or in total 77 observations. Exports and imports account maximum number of observations, i.e. 81. The data on monetary aggregates M2 and M4 are shorter series 2001 q1 (first quarter) to 2013q1 (first quarter). The data for the index of inflation or the consumer price index where 2005 = 100, all from 1993q1 to 2013 q1, or 81 observation in total. Data were collected from the databases of the International Monetary Fund (IMF) and EconStats™ (Boshkov and Bishev, 2015b).[5]

5. Empirical Research and Results

For empirical analysis of the ratio of the nominal effective exchange rate with all other previously mentioned variables in the model, we use quarterly data for Macedonia covering the period from 1993 to the first quarter 2013, first quarter. All variables we put in logarithmic form (logneer, logreer, loggdp, logppp, logm2, logm4, logcpi, loginterestrate). This is done because the functional form of log-log can examine the elasticity of variables. We agree that coefficients estimated with the method of least squares can not consider statistically robust because MLS method has the ability to capture cointegrating ratio variables between two or more variables (Bishev and Boshkov, 2015b).

[2] The nominal effective exchange rate is unadjusted weighted value of the currency of the country to the currencies of all countries with which trade is usually expressed as an index, an index of the currency pool.

[3] The real effective exchange rate is the average of the country's currency to the index basket of other major currencies adjusted for inflation.

[4] PPP (Purchasing power parity) purchasing power parity is a technique used to detect the relative value of currencies which calculates how big is the change that is needed for the exchange rate to be equal to the purchasing power parity of each currency.

[5] Website for this quote: http://www.econstats.com/ifs/NorGSc_Mac2_Q.htm

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Table 1. MLS models with logarithm of the nominal effective exchange rate as a dependent variable

MLS regressions/dependent variable logneer	t-statistics (of constant and independent variable)	Ramsey test	Breusch-Godfrey LM test
1. $logneer_t = 7.077 - 0.5497 * logreer_t$	t-value = {8.71 -3.15}	0.0003	0.0000
2. $logneer_t = 5.091 - 0.15083 * logppp_t$	t-value = {13.77 -1.58}	0.6077	0.0000
3. $logneer_t = 4.57 - 0.17 * logGDP_t$	t-value = {63.19 -0.85}	0.0000	0.0000
4. $logneer_t = 3.2723 + 0.1200 * logM2_t$	t-value = {23.9240 9.8070	0.3258	0.0000
5. $logneer_t = 3.3364 + 0.1089 * logM4_t$	t-value = {62.29 23.85}	0.0013	0.0000
6. $logneer_t = 5.1119 0.217 * logintereststate_t$	t-value = {161.029 -19.63}	0.0000	0.0000
7. $logneer_t = 3.28 + 0.188 * logimports_t$	t-value = {20.75 7.83}	0.0000	0.0000
8. $logneer_t = 3.21 + 0.214 * logexports_t$	t-value = {19.50 7.99}	0.1303	0.0000
9. $logneer_t = 3.82 + 0.35 * logcpi_t$	t-value = {13.69 2.49}	0.0000	0.0000

Note: The null hypothesis in Ramsey RESET test is that the model hasn't rejected variables, while the null hypothesis in Breush-Godfrey test is that there is no serial correlation.

From Table 1 we notice that all models suffer from autocorrelation in whose presence the coefficients are still has the best linear unbiased coefficient (BLUE-BEST LINEAR UNBIASED ESTIMATOR), but they are not efficient, which means they have a great variance (standard error), although all coefficients and the constant are statistically significant. The functional form is the best model for the logarithm of the nominal effective exchange rate with the purchasing power parity and the monetary aggregate M2, which is consisted of financial assets that are less liquid than the aggregate M1. The coefficients are interpreted in the usual way, for example, for M2, if the money supply M2 (in Macedonia) grow by 1%, the nominal effective exchange will grow 0.12% (Boshkov and Bishev, 2015c).

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Table 2. MLS models with logarithm of the nominal effective exchange rate as a independent variable

MLS regressions/dependent variable logneer	t-statistics (of constant and independent variable)	*Ramsey test*	*Breusch-Godfrey LM test*
1. $logreer_t = 5.57 - 0.203 * logneer_t$	t - value = { 19.15 - 3.15 }	0.0000	0.0000
2. $logppp_t = 4.81 - 0.21 * logneer_t$	t - value = { 8.00 - 1.58 }	0.0000	0.0000
3. $logGDP_t = 4.57 - 0.18 * lognee$	t - value = { 63.19 - 0.85 }	0.9653	0.0000
4. $logM2_t = 3.2723 + 0.1200 * logneer_t$	t - value = { 23.92 9.81 }	0.0000	0.0000
5. $logM4_t = 3.3364 + 0.1089 * lognee$	t - value = { 62.290 23.85	0.0002	0.0000
6. $loginteres\ trate_t = 5.12 - 0.217 * logneer$	t - value = { 161.029 - 19.63 }	0.0000	0.0000
7. $logimports_t = 3.28 + 0.188 * logneer$	t - value = { 20.75 7.83 }	0.0000	0.0000
8. $logexports_t = -3.31 + 2.088 * logneer_t$	t - value = { 19.50 7.99 }	0.0000	0.0000
9. $logcpi_t = 1.03 + 0.2055 * logneer_t$	t - value = { 2.77 2.49 }	0.0000	0.0000

Note: The null hypothesis in Ramsey RESET test is that the model hasn't rejected variables, while the null hypothesis in Breush-Godfrey test is that there is no serial correlation.

According Ramsey test, the best model is, where t statistics are t-вредности = { 63.19-0.85} (Table 2). All models also suffer from serial correlation. The coefficients are almost all highly statistically significant, but statistically ineffective because of the presence of serial correlation. In the following two tables we present the above functional forms but with differentiated variables (first difference) (Tables 3 and 4).

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Table 3 MLS models with first difference of logarithm of the nominal effective exchange rate as a dependent variable

MLS regressions/dependent variable logneer	t-statistics (of constant and independent variable)	*Ramsey test*	*Breusch-Godfrey LM test*
1. $\Delta logneer_t = 0.011 - 0.847 * \Delta logreer_t$	t - value = { 0.22 7.38}	0.0000	0.0000
2. $\Delta logneer_t = 0.0068 - 0.062 * \Delta logppp_t$	t - value = {11.79 - 0.74 }	0.0067	0.9182
3. $\Delta logneer_t = -0.0029 + 0.0066 * \Delta logGDP_t$	t - value = { - 0.42 0.47 }	0.8553	0.0000
4. $\Delta logneer_t = 0.0039 - 0.004 * \Delta logM2_t$	t - value = { 2.76 - 0.35 }	0.2384	0.4548
5. $\Delta logneer_t = 0.0033 + 0.016 * \Delta logM4_t$	t - value = { 2.07 0.70 }	0.3055	0.5282
6. $\Delta logneer_t = 0.006 - 0.072 * \Delta logintersate_t$	t - value = { 1.90 - 4.32 }	0.1538	0.0246
7. $\Delta logneer_t = -0.0022 - 0.02 * \Delta logimport_t$	t - value = { - 0.37 - 0.48 }	0.0003	0.0000
8. $\Delta logneer_t = -0.0035 + 0.025 * \Delta logexports_t$	t - value = { - 0.50 0.48 }	0.8235	0.0000
9. $\Delta logneer_t = 0.011 - 1.53 * \Delta logcpi_t$	t - value = { 2.02 - 8.53 }	0.0000	0.0000

Note: The null hypothesis in Ramsey RESET test is that the model hasn't rejected variables, while the null hypothesis in Breush-Godfrey test is that there is no serial correlation.

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Table 4 MLS models with first difference of logarithm of the nominal effective exchange rate as a independent variable

MLS regressions/dependent variable logneer	t-statistics (of constant and independent variable)	*Ramsey test*	*Breusch-Godfrey LM test*
1. $\Delta logreer_t = -0.0035 - 0.48 * \Delta logneer_t$	t - value = {-0.887.38}	0.0000	0.0246
2. $\Delta logppp_t = -0.0023 - 0.1152 * \Delta logneer_t$	t - value = {-0.45 - 0.74}	0.1799	0.0316
3. $\Delta logGDP_t = -0.021 + 0.42 * \Delta logneer_t$	t - value = { -0.39 0.47 }	0.8864	0.1155
4. $\Delta logM2_t = 0.0248 - 0.64 * \Delta logneer_t$	t - value = { 1.30 -0.35 }	0.2814	0.5973
5. $\Delta logM4_t = 0.033 + 0.629 * \Delta logneer_t$	t - value = { 3.24 0.70 }	0.2827	0.8024
6. $\Delta loginteres\ trate_t = -0.024 - 2.78 * \Delta logneer_t$	t - value = {-1.33 -4.32}	0.0000	0.1718
7. $\Delta logimports_t = 0.024 - 0.143 * \Delta logneer_t$	t - value = { 1.33 -0.48}	0.0843	0.0002
8. $\Delta logexports_t = 0.019 + 0114 * \Delta logeneer_t$	t - value = { 1.23 0.48 }	0.8494	0.4061
9. $\Delta logcpi_t = 0.007 - 0.315 * \Delta logneer_t$	t - value = {3.51 -8.53}	0.0000	0.0000

Note: The null hypothesis in Ramsey RESET test is that the model hasn't rejected variables, while the null hypothesis in Breush-Godfrey test is that there is no serial correlation.

From the Table 3 it is notable that the functional form in regressions with differentiated series is much better than that when are in the level, *p* value is much greater than zero and this means that it's statistically significant. Also serial correlation 4 of 9 models is not a problem unlike the two previous tables where the serial correlation was a problem in any of the models. Table 4 presents models with the first difference of the nominal effective exchange rate. With models, where the nominal effective exchange rate is a dependent variable, in 6 of 9 models the functional form is good, which means models do not suffer from a bias to rejected variables. Serial correlation is a problem according Breusch-Godfrey LM test when the first difference of logarithm of the consumer price index is dependent variable and when the growth of exports is dependent variable. Other equations according this test don't suffer from serial correlation. In the table 5 based on the results of the above equations we present the causal tests of

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the nominal effective exchange rate with other variables for which we have data (Boshkov and Bishev, 2015d).

Table 5. Models of causality in Macedonia based on the Method of Least Squares

	Log-level	First difference
Nominal effective exchange rate (neer) and Real effective exchange rate (reer)	$\log neer_t \Leftrightarrow \log reer_t *$	$\Delta \log neer_t \Leftrightarrow \Delta \log reer_t *$
Nominal effective exchange rate (neer) and Purchasing Power Parity (ppp)	$\log neer_t \Leftrightarrow \log ppp_t *$	$\Delta \log neer_t \Leftrightarrow \Delta \log ppp_t$
Nominal effective exchange rate (neer) and Gross Domestic Product (GDP)	$\log neer_t - \log gdp_t$	$\Delta \log neer_t - \Delta \log gdp_t$
Nominal effective exchange rate (neer) and M2 Monetary aggregate (M2)	$\log neer_t \Leftrightarrow \log M2_t *$	$\Delta \log neer_t - \Delta \log M2_t$
Nominal effective exchange rate (neer) and M4 Monetary aggregate (M4)	$\log neer_t \Leftrightarrow \log M4_t *$	$\Delta \log neer_t - \Delta \log M4_t$
Nominal effective exchange rate (neer) and interest rate (interest rate)	$\log neer_t \Leftrightarrow \log interestrate_t *$	$\Delta \log neer_t \Leftrightarrow \Delta \log interestrate_t *$
Nominal effective exchange rate (neer) and imports (imports)	$\log neer_t \Leftrightarrow \log imports_t *$	$\Delta \log neer_t - \Delta \log imports_t$

Note: $\Leftrightarrow$ show bilateral causal ratio, $-$ indicates lack of causality, * denotes statistical significance of the relationship between the variables of 10%.

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Table 5 (continued) Models of causality in Macedonia based on the Method of Least Squares

Nominal effective exchange rate (neer) and exports(exports)	$\text{logneer}_t \Leftrightarrow \text{logexports}_t *$	$\Delta\text{logneer} - \Delta\text{logexports}$
Nominal effective exchange rate (neer) and Consumer price index (CPI)	$\text{logneer}_t \Leftrightarrow \text{logcpi}_t *$	$\Delta\text{logneer} \Leftrightarrow \Delta\text{logcpi} *$

Note: $\Leftrightarrow$ show bilateral causal ratio, $-$ indicates lack of causality, * denotes statistical significance of the relationship between the variables of 10%.

The previous tests of causality, we underline that emphasize that undermines confidence autocorrelation disrupts the confidence in coefficients estimated by the Method of Least Squares, even it can destroy. However, the purpose of the regressions with the Method of Least Squares is testing the ratio of nominal effective exchange rate as a variable with other variables in the model, and can be concluded that there is causality (Boshkov and Bishev, 2015e).

6. Discussion

The main goal of National Bank of Republic of Macedonia is the maintenance of the price stability. Regarding this, the National Bank is committed to apply a strategy for maintaining stable nominal exchange rate against the Euro. The role of the exchange rate as a nominal anchor derives from the characteristics of the domestic economy, as a small and open economy that is highly dependent on the import of primary commodities (European Commission, 2007). Also, Macedonian exchange rate can be used as an instrument for export performances of the country.

Risks are present and persist also in 2016, which was typical for 2013, 2014 and 2015. The main characteristic for these past years is that Macedonia has made apparent separation of the dynamics of growth compared to that imposed by the growth of the countries that are our major trade partners. Indicated by the arguments, real GDP growth for 2014 was 3.8%. This growth was due to investment (public investment and FDI) and exports (increased exports and reduced trade deficit) .In 2014 the unemployment rate decreased as a growth factor of labor productivity. Despite the complexity of the period, 2014 can be defined as the year with favorable monetary policy, especially with the trend of slowing inflation mainly due to the negative contribution of the prices of food and fuel. During 2014, monetary policy has maintained its flexibility in terms of the current environment and in terms of keeping the exchange rate stability and low inflation pressures determined by factors on the supply side, further endorsed credit growth, mainly through the use of non-monetary measures and changes in other instruments.

Although in terms of inherent risks and uncertainties, as the risk which stemming from internal political developments, last year, 2015, the Macedonian economy registered solid macroeconomic

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performance. Maintaining economic growth was due to structural changes in the domestic economy, the successful implementation of monetary policy. 2015 also characterized by low inflation and stable foreign exchange market movements. Early this year showed room for continuity of monetary policy by further reducing deposit interest rates and creating conditions for greater targeting of the available bank assets for lending the private sector. Growth of 3.7%, which Macedonian economy keep due to domestic consumption and export, i.e. new companies with foreign capital in the country on the export side, public infrastructure and the decline in the unemployment rate. Inflation in 2015 was negative by -0.3% due to lower fuel prices, which determine the inflation and globally. The deficit can not be regarded as constant, since last year is about 2% of GDP. The narrowing of the trade deficit in 2015 due to the contribution of new companies in the free zones, as well as positive price effect on energy imports and remittances remain relatively stable. Banking regulation is improved in 2015 in accordance with the standards in statistics, payment systems, information structure and introducing a system for managing operational risks.

According to macroeconomic projections, 2016 is expected to end with solid macroeconomic performance, although these expectations are significantly burdened by constant threats from external and domestic environment. Monetary authorities are always ready to respond flexibly to all challenges in order to accomplish the objectives of monetary policy in terms of maintaining price stability and stable exchange rate, maintaining financial stability and support macroeconomic stability in the domestic economy.

7. Conclusion

In a situation where the competitive price is appropriate, further performance gains in exports may be hampered by structural factors. The real exchange rate depreciated steadily and Macedonian price level is low when it is compared to other countries with similar income. Although estimation of the equilibrium real exchange rate are challenging, measurements show that the exchange rate is generally in line with macroeconomic fundamentals. In contrast, direct comparison of wages between countries suggests problem with the cost competitiveness, while heterogeneity of data makes this comparison quite difficult. Macedonian producers fail to maintain or increase their share in exports (Boshkov and Bishev, 2015f).

According to results, we conclude that the test undermines confidence autocorrelation disrupts the confidence in coefficients estimated by the Method of Least Squares, even it can destroy. However, the purpose of the regressions with the Method of Least Squares is testing the ratio of nominal effective exchange rate as a variable with other variables in the model, and can be concluded that there is causality.

The impact of exchange rates on trade in a country like Macedonia, small and open economy, can be seen in the context of continued integration of supply chains

With support of the estimation we showed that in a small and open economy such as Macedonia, using real exchange rate as an instrument could be realized the opportunity for growth of export performances, increase aggregate demand and increasing economic growth thus speeding the convergence process to EU. So, exchange rate can be seen not only as an instrument for maintaining price stability but also as an

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instrument that will contribute for economic stability of Macedonia and strengthening the stability of the financial system.

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IMPERATIVES OF INFORMATION AND COMMUNICATION TECHNOLOGY ON POTENCIES AND SKILL GAPS OF EDUCATORS AND UNDERGRADUATES OF HIGHER EDUCATION INSTITUTIONS IN NIGERIA

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Abstract

In the past few decades, Information and Communication Technologies have provided society with a vast array of new communication capabilities. For example, people can communicate in real-time with others in different countries using technologies such as instant messaging, voice over IP (VoIP), and

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video-conferencing. Social networking websites like Facebook allow users from all over the world to remain in contact and communicate on a regular basis. ICT has more recently been used to describe the convergence of several technologies and the use of common transmission lines carrying very diverse data and communication types and formats. Modern information and communication technologies have created a "global village," in which people can communicate with others across the world as if they were living next door. This paper highlights the challenges facing the adoption of e-learning and utilization of ICT infrastructure in Nigerian tertiary education. It also looks at the effect of e-learning in tertiary education and the support offered by other ICT infrastructures to the activities of teaching, learning and research.

Keywords:
Information And Communication Technology, Educationists, Graduates, Skill Gaps, Entrepreneurship Education, E-Learning, Higher Education Institution.

1. Introduction

Information and Communication technology is fast expanding the highway of knowledge and applications and also provides new ways of exchanging information and transacting business. The world is rapidly moving towards knowledge based economic structures and information societies, which comprises network of individuals, firms and countries, linked electronically in an interdependent and interactive relationship. Advances in information and communication technology are changing the global economy. Knowledge is becoming increasingly important for production. It is also changing the nature of markets and competition. With the dawn of an age of networked intelligence, the new information technologies are changing the ways we work, learn and communicate with each other. The radical technological changes in information technology and telecommunications have contributed towards a more information and interaction intensive activities for human-computer interaction. This trend which is expected to continue causes a whole new range of social, economic and technological considerations and challenges, regarding the structure and content of societal activities in this information age. The promises of e-learning for transforming tertiary education and thereby advancing the knowledge economy have rested on three arguments. E-learning could expand and widen access to tertiary education and training: improve the quality of education and reduce its cost. The paper evaluates these three promises with the sparse existing data and evidence and concludes that the reality has not been to the promises so far in terms of pedagogic innovations, while it has already probably significantly improved the overall learning (and teaching) experience. Reflecting on the ways that would help develop e-learning further, it then identifies a few challenges and highlights open educational resource initiatives as an example of way forward. The first section of the paper recalls some of the promises of e-learning; the second compares these promises and the real achievements to date and suggests that e-learning could be at an early state of its innovation cycle; the third section highlights the challenges for a further and more radically innovative development of e-learning. Information and Communication Technology (ICT) has become a key tool in acquiring, processing and disseminating knowledge. It has become an imperative tool for measuring

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development of a nation in the 21st century. The revolutionary impact of ICT on all sphere of the society has not spared the educational sector. Education is a prerequisite of today's knowledge-based economy. The production and use of new knowledge required a more educated population. ICT is playing a major role in the acquisition and diffusion of knowledge which are fundamental aspects of the education process. It is offering increasing possibilities of codification of knowledge about teaching and for innovation in teaching activities through being able to deliver learning cognitive activities anywhere at any time (Larsen and Vincent Lancrin, 2005). The availability of the Internet has given rise to an electronic approach to the educational system called e-learning. Tertiary educational institutions have always being at the forefront of new scientific discoveries and innovations brought about by the activities of teaching, learning and research. E-learning is becoming increasingly prominent in tertiary education. E-learning being delivered on the platform of ICT infrastructure promise to widen access to education and improve quality of education at reduced cost.

Apart from electronic learning, ICT infrastructures are being widely use to support teaching, learning and research activities in tertiary education. Such infrastructures include personal computers, specialized software, handheld devices, interactive whiteboard, intranet and visual library. Information Technology (IT) is radically altering the balance of power between institutions, government, and people by broadly disseminating important information. Power bases dependent on information virtually flows around the globe without restriction. Information technology has altered the way many people do their jobs, and has changed the nature of work in industrialized nations.

2. Conceptual Framework

The concepts, methods and applications involved in ICT are constantly evolving on an almost daily basis". The broadness of ICT covers any product that will store, retrieve, manipulate, transmit or receive information electronically in a digital form, e.g. personal computers, digital television, email, robots. ICT and Information Technology (IT) are similar concepts that can be used interchangeably. IT implies communication and therefore it becomes obvious that the two terms are synonymous. ICT is concerned with the storage, retrieval, manipulation, transmission or receipt of digital data. Importantly, it is also concerned with the way these different uses can work with each other in business. For clarity, key concepts of Information and Communication Technology (ICT), such as those relating to networks and security:

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– Understand what hardware is, know about factors that affect computer performance and know about the peripheral devices.
– Understand what software is and give examples of common applications software and operating system software.
– Understand what Information and Communication Technology (ICT) is and give examples of its practical applications in everyday life.
– Understand health and safety and environmental issues in relation to using computers.
–Recognise the important security issues associated with using computers.
– Recognise the important legal issues in relation to copyright and data protection associated with using computers.
Electronic Learning (E-learning) is an electronic delivery and administration of learning opportunities and support via computer network and web-based technology (Akinyemi, et al, 2007). It covers a wide range of systems, from students using e-mail to accessing course work on-line. E-learning can be of different types: Web-supplemented, Web-dependent and mixed mode (OECD, 2005. Application and processes of e-learning include web-bases learning, computer-based learning, virtual classroom, video-conferencing and digital collaboration where contents are delivered via the internet, intranet/extranet, audio/or video tape, satellite TV, CD-Rom. E-learning creates a self-centered approach to learning by relaxing time and space, it enrich learning content and enhance wider access to information resources.

3. Literature Review

Despite the potentials of ICT to enhance the activities of teaching, learning and research, report showed that the application of ICT in Nigerian tertiary institutions is less than five percent (Guardian, 2007). Knowledge, innovation and Information and Communication Technologies (ICT) have had strong repercussions on many economic sectors, e.g the informatics and communication, finance, and transportation sectors (Foray, 2004; Boyer 2002). What about education? The knowledge-based economy sets a new scene for education and new challenges and promises for the education sector. Firstly, education is a prerequisite of the knowledge-based economy: the production and use of new knowledge both require a more (lifelong) educated population and workforce. Secondly, ICTs are a very powerful tool for diffusing knowledge and information, a fundamental aspect of the education process: in that sense, they can play a pedagogic role that could in principle complement (or even compete with) the traditional practices of the education sector. These are the two challenges for the education sector continue to expand with the help (or under the pressure) of new forms of learning. Thirdly, ICTs sometimes induce innovations in the ways of doing things for example, navigation does not involve the same cognitive processes since the Global Positioning System (GPS) was invented (e.g Hutchins, 1995) scientific research in many fields has also been revolutionized by the new possibilities offered by ICTs, from digitization of information to new recording, simulation and data processing possibilities (Atkins and al. 2003). Could ICTs similarly revolutionize education deals directly with the codification and transmission of knowledge and information-two activities which power has been decupled by the ICT revolution?
The following are some of the definitions of ICT:

a. ICT is the digital processing and utilisation of information by the use of electronic computers. It

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comprises the storage, retrieval, conversion and transmission of information.

b. ICT is he acquisition, analysis, manipulation, storage and distribution of information; and the design and provision of equipment and software for these purposes. **(deWatteville and Gilbert 2000)**

c. ICT (information and communications technology – or technologies) is an umbrella term that includes any communication device or application, encompassing: radio, television, cellular phones, computer and network hardware and software, satellite systems and so on, as well as the various services and applications associated with them, such as videoconferencing and distance learning. ICTs are often spoken of in a particular context, such as ICTs in education, health care, or libraries.**(Margaret Rouse 2005)**

d. Information Communication and Technology (ICT) is the modern handling of information by electronic means which involves access to, storage of, processing, transportation or transfer and delivery **(Bell 2008)**

e. it is acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a micro-electronic based combination of computing and telecommunication **(Lucey 2008)**.

f. ICT (information and communications technology) is a branch of engineering dealing with the use of computers and telecommunications equipment to store, retrieve, transmit and manipulate data. **(Daintith, John, ed. (2009)**

g. ICT (information and communications technology) is the study, design, development, application, implementation, support or management of computer-based information systems. The term is commonly used as a synonym for computers and computer networks, but it also encompasses other information distribution technologies such as television and telephones. **(Chandler, Daniel; Munday, Rod, iaugust 2012)**

h. Information and Communication Technology (ICT) is the synergy between computers and communication devices and forms an important part of the modern world. **Oluwasanya A.T (2015)**

i. ICT is process of creating, modifying, storage, transmission of information, in varied formats, between humans and machines alike globally, using several different electronic technologies, to achieve an outcome be it recreational or otherwise. **Oluwasanya A.T (2015)**

j. ICT refers to technologies that provide access to information through telecommunications. It is similar to Information Technology (IT), but focuses primarily on communication technologies. This includes the Internet, wireless networks, cell phones, and other communication mediums.

k. Information and Communication Technology (ICT) means all the technology used to handle telecommunications, broadcast media, intelligent building management systems, audiovisual processing and transmission systems, and network-based control and monitoring functions.

l. Information and Communication Technology (ICT) is generally accepted to indicate all devices, networking components, applications and systems that combined allow people and organizations (i.e., businesses, nonprofit agencies, governments and criminal enterprises) to interact in the digital world. Information and communication technology.

m. (ICT) is an extended term for Information and Communication Technology (ICT) which stresses

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the role of unified communications. ICT is also the convergence of audio-visual and telephone networks with computer networks through a single cabling or link system. There are large economic incentives (huge cost savings due to elimination of the telephone network) to merge the telephone network with the computer network system using a single unified system of cabling, signal distribution and management.

n. Information and Communication Technology (ICT) means the processing and distribution of data using computer hardware and software, telecommunications, and digital electronics.

All the definitions share a similar notion that, information has to be generated and shared. They also assert that, such information must be digital or electronic. The definitions generally do not restrict ICT and IT to only computers, they mention telecommunications equipment (mobile phones, printers, scanners etc) as well.

The practice of management has been greatly affected and aspiring managers must be fluent in new management trends and techniques in order to succeed. Information Technology comprises computing and telecommunications technologies. It is the merging of the two technologies, especially their organizational and management aspects, that help in fashioning IT for organizational use (Woherem, 1991 and 1993; Frenzel, 1996). In the 1970s and 1980s, the focus is shifting quickly to telecommunications. Now, when commentators and the information superhighway, of which telecommunications is a primary enabling technology.In recent times, researchers working with firm-level data have found significant contributions from IT toward productivity (Lichtenberg 1995: Brynjolfson 1993: Bresnahan 1999: Brynjolfson and Hitt 1995; 1996; 1998; Barua et al, 1991 and Harris and Katz, 1991). Baua et al (1991), Steiner and Teixeira (1991) Strassmam (1995), Hitt and Brynjolfson (1996) and Renkema (2000) all argued that although IT investment have increased productivity, it has not resulted in normal business profitability rather there were some evidences of small or negative impact on profitability. The focus of ICT is on telecommunication and computerization (Lucey 2005) it implies the convergence of computing and communication (Telecommunication) technologies and its uses or application for global internet, Extranet World Wide Web (WWW), Visual reality cyberspace-the New Digital Mentality and culture (Uwaje, 2007). Information Communication and Technology comprises the physical devices and software that link (connect) various computer hardware components and transfer data from one physical location to another (Laudon 2008). Connectivity has facilitated the use of electronic delivery financial transaction. The education sector has so far been characterized by rather slow progress in terms of innovation development which impact on teaching activities. Education research and development does not play a strong role as a factor of enabling the direct production of systematic knowledge which translates into ‘’programmes that works’’ in the classroom or lecture hall (OECD 2003). As a matter of fact, education is not a field that lends itself easily to experimentation, partly because experimental approaches in education are often impossible to describe in precisely enough to be sure that they are really being replicated (Nelson, 2000). There is little codified knowledge in the realm of education and only weak developed mechanisms whereby communities of faculty collectively can capture and benefit from the discoveries made by their colleagues. Moreover, learning typically depends on other learning inputs than those received in the class or formal education process the success of learning depends on many social and family aspects that are actually beyond the control of educators.

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- ✓ Information:"Information" means many things to many people, depending on the context. Scientifically, information is processed data. Information can also be loosely defined as that which aids decision making. Information, though abstract, could also be visualized as a commodity, which could be bought or sold. Other writers have defined information as: Any potentially useful fact, quantity or value that can be expressed uniquely with exactness. Information is whatever is capable of causing a human mind to change its opinion about the current state of the real world (deWatteville and Gilbert 2000)
- ✓ Communications: Communication refers to the transfer or exchange of information from person to person or from one place to another. When action produces a reaction, whether positive or negative, communication has taken place. Other writers in the field of communication studies have defined communication as a process: a transfer of information, ideas, thoughts and messages. It involves a sender, a receiver, a code and, a language that is understood by both the sender and the receiver.

It is also a process involving the passing of messages through the use of symbols which all parties in the communication encounter understand. It involves the exchange of ideas, facts, opinions, attitudes and beliefs between people. It is not a one-way affair. There must be a sender to transmit the message, and receiver to make appropriate decisions on how the rest of the exchange should continue. (James, et al., 2004)

- ✓ Technology: Technology refers to the use of scientific knowledge to invent tools that assist human beings in their efforts to overcome environmental hazards and impediments to comfort. In this regard, technology refers to the things like the computer, telephone, cell phone, GSM handsets, television, radio, etc.

Educational Gains of Information and Communication Technology

The convergence of telecommunications and computing technologies has profoundly changed the way people acquire and share information. The exponential growth of the Internet and other networks has altered the way we are educated, how we conduct our business, how we enjoy our leisure time, and how we obtain our health care. It is the proliferation of information technology throughout the society that makes the digital information age so significant. The integration of information technology (IT) into teaching, learning and research is a significant part of both the opportunity and the challenge that higher education faces in the information age. These cultural and technological changes provide us with opportunities to create environments where intellectual capacity, information and knowledge bases, methodologies and other valuables are made available to learners anywhere, anytime. Clearly IT is an important tool in creating access to a learning environment that encourages interaction and collaboration and supports a student's ability to explore individual paths of learning.

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However, these new opportunities do not come without significant challenges. IT will change teaching and learning profoundly. Information Technology (IT) represents a fundamental change in basic technology of teaching and learning.

Economic Gains of Information and Communication Technology

It is clear that the primary driver of the information age transformation is the integration of historically disparate concepts and approaches into an interrelated environment that offers more value than the sum of its parts. Traditional distinctions and boundaries in technologies-access to information, demand for services, organizational structures and processes are passed. Everything is becoming structurally integrated into networks that exchange information and services among individuals, groups, or institutions on a real-time basis. Obviously, these technical and cultural changes are affecting how successful organizations compete in this dynamically changing period. Institution must provide their students, employees and entire organization with the environment, experiences and skills for success in a transformed economy and culture. This presents a major challenge in view of the positive empowerment of youths in our society for progressive transformation. IT training, planning and management have moved from independent tactical activities to essential part of an organization's strategic processes. In fact; in the information age, IT system and services are often seen as the factor that distinguishes success from failure in an intensely competitive market place. Information Technology will increasingly determine the pace of economic growth and the level of human welfare. The prerequisite for the creation of an information-based economy is the existence of an efficient telecommunication structure and technologies. Hence the need for research and advancement in electronic technologies.

Importance of Information and Communication Technology

a. Information and Communications Technology (ICT) has an important role in the world since we are now in the information age era. With ICT, the company can make the business easier to happen with the client, supplier and the distributor.
b. It is also very important in our daily lives. The lack of appropriate information at the right time will result in low productivity, low quality research works, and waste of time to pursue information and even to do research which actually others had done or in other countries. Nowadays ICT cannot be separated with our daily needs.
c. ICT has a great impact in our daily lives. For example, we can read our local newspaper using the online newspaper. Another example is we still can get connected with our family, relatives, or colleagues even if we are abroad by using the electronic mail, yahoo messenger, call conference, or video conference.
d. Digital computer and networking has changed our economy concept to the economy with no boundary in time and space because of ICT. It brings a lot of advantages for economic development enabling millions of transactions to happen in an easy and fast way.
e. ICT is one of the economic development pillars to gain national competitive advantage. It can improve the quality of human life because it can be used as a learning and education media, the mass communication media in promoting and campaigning practical and important issues, such as the health and social area.

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f. ICT has become an integral part of everyday life for many people. It increases its importance in people's lives and it is expected that this trend will continue, to the extent that ICT literacy will become a functional requirement for people's work, social, and personal lives.
g. The use of ICT in education add value in teaching and learning, by enhancing the effectiveness of learning, or by adding a dimension to learning that was not previously available. ICT may also be a significant motivational factor in students' learning, and can support students' engagement with collaborative learning.
h. Information and Communications Technology (ICT) is basically our society's efforts to teach its current and emerging citizens valuable knowledge and skills around computing and communications devices, software that operates them, applications that run on them and systems that are built with them.
i. ICT has an impact on nearly every aspect of our lives – from working to socializing, learning to playing. The digital age has transformed the way young people communicate, network, seek help, access information and learn. We must recognize that young people are now an online population and access is through a variety of means such as computers, TV and mobile phones.
j. Educational technology and e- learning is taught in or out of the classroom since educational technology is used by learners and educators in homes, schools, businesses, and other settings.
k. Ease of product purchases. You may also decide to buy goods available in Nigerian markets without going to the market. All you need do is make an order through any of the popular online stores like Jumia, Konga, Jiji, Dealdey, etc. And pay on delivery.

Challenges Facing Ict Utilization In Nigerian Higher Education Institutions

The challenges facing the adequate utilization of ICT in Nigerian tertiary education can be broadly grouped into four, these are: Inadequate Infrastructure, Inadequate Skilled Manpower, Resistance to Change and Inadequate Funding.

- **Inadequate Infrastructure**

Tertiary institutions in Nigeria lack adequate ICT infrastructure to effectively tap into the opportunities offered by the cyberspace. Personal computers (PCs) are available in most Nigerian tertiary institutions, but they are not readily accessible to students because of the low computer (PC): student ratio which is averagely put at about 1 to 40. In most cases, the basic software needed for practical works are not available and where they are available, they are not accessible because of the low ratio. There is also the lack of CAI and other specialized software to support some areas of teaching learning and research. Internet connectivity is available in most tertiary institutions in Nigeria, but in most cases the bandwidth subscribed to (which determine speed of access) is too small to support any meaningful academic activity during peak period. Some institutions have subscribed to Virtual Library sites whereby members can access electronic academic materials such as journals.

- **Inadequate Skilled Manpower**

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Inadequate ICT technical personnel is a major problem in Nigerian tertiary education. The reason for this can be ascribed to the lucrative job opportunities available to ICT professionals outside the academics. The situation has made institutions rely on commercial private ventures to provide support for the few ICT facilities available. The support offered is in most cases are commercial and lack academic content. As a way out of this challenge, some universities like Bells University of Technology, University of Nigeria and NamdiAzikwe University are in partnership with private organizations like AFRIHUB for ICT technical manpower development.

- **Resistance to Change**

There is the concern of faculty members not willing to take the 'soft' approach to teaching and learning. Rather, they stick to the traditional hard ''approach''. Report from OECD (2005) gave reasons while faculties resist e-learning. That e-learning development, with its standardization aspects, might conflict to some extent with the professional culture of academic based on autonomy and reward system often based on research. Concern about intellectual property rights and shared rights between faculty, institutions and technologies.

- **Funding**

This is the major challenge confronting the acquisition and utilization of ICT in Nigerian tertiary education. Most institutions solely rely on their proprietor for funding and the bulk of such fund goes to servicing the overhead cost. Since no clear sustainable business model has yet emerged for commercial provision of e-learning, and failures have been more numerous than success, (OECD, 2005), institutions are not willing to invest the little fund available to them on e-learning project.

4. Conclusive remarks and Recommendations

This paper discovered that the encouraging effect of e-learning on the overall learning experience is a quantum leap in the accurate of e-learning, though it has not significantly transformed the learning and the teaching processes. Worldwide, the use of Information and Communication Technology is changing the face of teaching, learning and research. Nigerian educational system cannot afford to take the back seat. Nigerian tertiary education need to fully utilize ICT resources to make education widely available and accessible at reduced cost. The information age presents us with profound opportunities, numerous benefits, daunting challenges, but frightening cautions. Current approach to planning, provision and use of information technology must change in order to respond effectively to the changes that are occurring. The strategic integration of information and technology is fundamental and pertinent to meet the challenges of privacy, secrecy, security and cybe terrorism in the digital information age. In order to head towards these advances innovation cycles, a sustainable innovation and investment model will have to be developed.

While a first challenge will be technical, this will also require a broad willingness of tertiary education institutions to search for new combinations of input of faculty, facilities and technology and new ways of organizing their teaching activities. The following recommendations are valid:

a. there is the urgent need for infrastructural upgrade and funding of research work. Institutions should exploit alternative source of funding's for ICT infrastructure development. Some of these

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sources are:

- Collaboration with private organizations for provision of infrastructure and manpower development
- Collaboration on the use of private organizations ICT infrastructures for training of staff and students and for research purposes
- Harnessing the opportunities offer by ICT for commercial purposes.

b. Tertiary institutions should begin to adopt the use of open sources software, which are available for free

c. Encourage the development of in house software for CAI and LMS

d. There is the need for tertiary institutions in Nigeria to recruit a broader range of staff to complement ICT academic staff, such as technologist, instructional designers and learning scientists.

e. Collaboration among institutions. This will enhance sharing of knowledge, technology and personnel. It will also improve the quality of curricula and promote good practices.

With the present situation of tertiary education in Nigeria, where institutions are yet to fully come to term with the reality of e-learning potentials, and that there is no clearly defined sustainability model to support it, there is a case for continued government and its agencies support for ICT acquisition and utilization in the following areas:

- Encouraging the dissemination of good practices to simulate innovation, avoid wasteful duplication of efforts, and scale up successful experiments.
- Encouraging appropriate staff development, in order to ensure progress at institutional level.
- Supporting research and development on learning objects and other promising innovations such as open educational resources or the use of visual simulation tools, and ensuring their relevance to staff and students.
- Promoting collaboration between ICT providers and institutions, and supporting public-private partnerships, in order to keep costs at reasonable level.

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A CRITICAL ANALYSIS OF SUSTAINABLE RURAL FINANCE: THE CASE OF MKOKHA VILLAGE IN MATOBO, ZIMBABWE

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Abstract

The study examines sustainability of rural finance services in Mkhoka village of Matobo North district in Bulawayo South, Zimbabwe. Guided by the microfinance triangle, it investigated sustainability of financial institutions, financial services, regulatory framework, processes, economic activities and infrastructure among other things. A sample from financial services providers and Mkhoka villagers provided data for the study. Questionnaires, personal interviews and observations were employed as tools for data collection. Phenomenology, positivism and interpretivism were married with a descriptive analytical approach. Results reveal that there is no sustainability in the provision of financial services in Mkhoka village owing to multi-dimensional constraints faced by both financial institutions and customers. These include inter-alia, poor roads, high operating costs, lack of electricity, inadequate water facilities due to continuous drought, very few economic activities, high default rates, high interest rates, stringent loan terms and tight repayment schedules. The study propose interventions that foster sustainability in rural finance in the village as comprising engagement of all stakeholders in a coordinated approach to address the highlighted constraints. Empirical experiences of other countries were also used to draw important lessons that can be experimented with in ensuring sustainability of rural finance in Mkhoka.

Keywords:

rural finance, sustainability, micro-finance, financial services, enabling environment

INTRODUCTION

Rural finance (RF) entails financial intermediation beyond town centres (International Bank for Reconstruction and Development, 2003). Rural communities are highly underserved. The extent to which they lack financial services vary from total financial exclusion to partial exclusion. Traditionally, formal financial institutions - like rural or agricultural development banks- have avoided or failed to offer sustainable services in rural areas, (ILO, 2012; RBZ, 2007).

According to Nagarajan and Meyer (2005), the scope of RF services is eclectic. RF not only services small enterprises in rural areas, but also the entire value chain of agricultural production and non-farm

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needs. Financial advances can help insure farm produce, cover veterinary costs finance, infrastructural development, pay for educational expenses, contract labour for planting and harvesting; transport goods to markets; make and or receive payments, pay for health costs or deal with emergencies among other things.

Provision of financial services to rural areas should not be short-lived but should be for a life time to enable rural residents to maintain their welfare, (LOGOTRI, 2006; Schreiner, 2000; Hollis and Sweetman, 1998; Christel et al, 1995; Krahnen and Schmidt, 1994; Adam et al, 1984). Von Pischke (1998) suggested that better functioning in financial markets result from sustainability in financial services provision which in turn improve economic welfare of rural citizens.

Various empirical studies on Zimbabwe (Mbira, 2016; Majattha, 2016; Toindepi, 2015; Muzari, 2013; Tarugarira, 2013; Mago, 2013; Mishi, 2012; Chikoko and Mangwendedza, 2012) looked at different aspects of general microfinance without narrowing down to rural finance in particular. This study particularly adds value by looking at sustainable RF in Zimbabwe. It provides important empirical evidence on sustainable rural finance in Mkokha village. It also provides an alternative way of assessing sustainability using qualitative criteria where financial service providers do not keep proper records that can be used for calculating operational self-sufficiency and financial self-sufficiency.

REVIEW OF RELATED LITERATURE

This study considered 3 theoretical underpinnings namely the institutionalist theory, social welfare theory and financial inclusion. The first holds that achievement of financial sustainability is but the only avenue through which financial institutions can offer continued support to the poor, most of which reside in rural areas. The second view holds that social investors, donors and the government should back up operations of microfinance institutions that serve the poor. Sustainability of related financial services is assessed on the basis of the level of advancement of social well-being of recipients. Financial sustainability of the service provider based on profitability is not necessary, (Brau, 2004).

The importance of institutional sustainability was stressed in a number of empirical studies, (Chikaza, 2015; Millson, 2013; Tammy, 2012; Conning, 2009; Hartarska and Nadolnyak, 2007). A financial institution qualifies as sustainable if it is able to mobilize its own resources, cover its own costs and maintain its monetary value under inflation. Sustainability constitutes of three main components: 1) operational self-sufficiency – also called viability. It measures the degree to which operational income can cover costs, 2) financial self-sufficiency – measures the degree of operational costs coverage and the value of an institution's resources conserved after accounting for subsidies and inflationary effects and 3) self-reliance – measures the ability of an MFI to mobilize its own internal financial resources thus avoiding dependency on government and donor funding or on commercial loans.

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Other researchers contend for a mixture of the two approaches arguing that) that combining financial sustainability together with social responsibility can benefit both the poor and the MFIs. MFIs that comprehend their purpose of serving the poor find ways of making their operations self- sufficient as an alternative to seeking donor and government support, (Prahalad, 2005; Copestake et al., 2002). Ability to cover costs and profitability become a prerequisite to such MFI.

Turning to the last theoretical basis, Rajan and Zingales (2003) and Reserve bank of India (2005) suggested that financial inclusion is a way of guaranteeing availability of a complete range of reliable, low cost and standard banking products to all people of a country. This has to be done in a noble and expedient manner avoiding discriminatory practices against any sections of the society on the basis of level of income or economic means. This is because banking services are public goods in nature, hence non-discrimination should be a priority goal of public policy (Chikoko and Mangwendeza, 2012; Reserve Bank of India 2005).

Nagarajan and Meyer (2005) provided a link between sustainable economic activities and sustainable RF. They asserted that developing economies are usually confronted by a shortage of formal RF, this therefore affect viability of economic activities in rural areas hence increasing poverty levels.

Conceptual framework

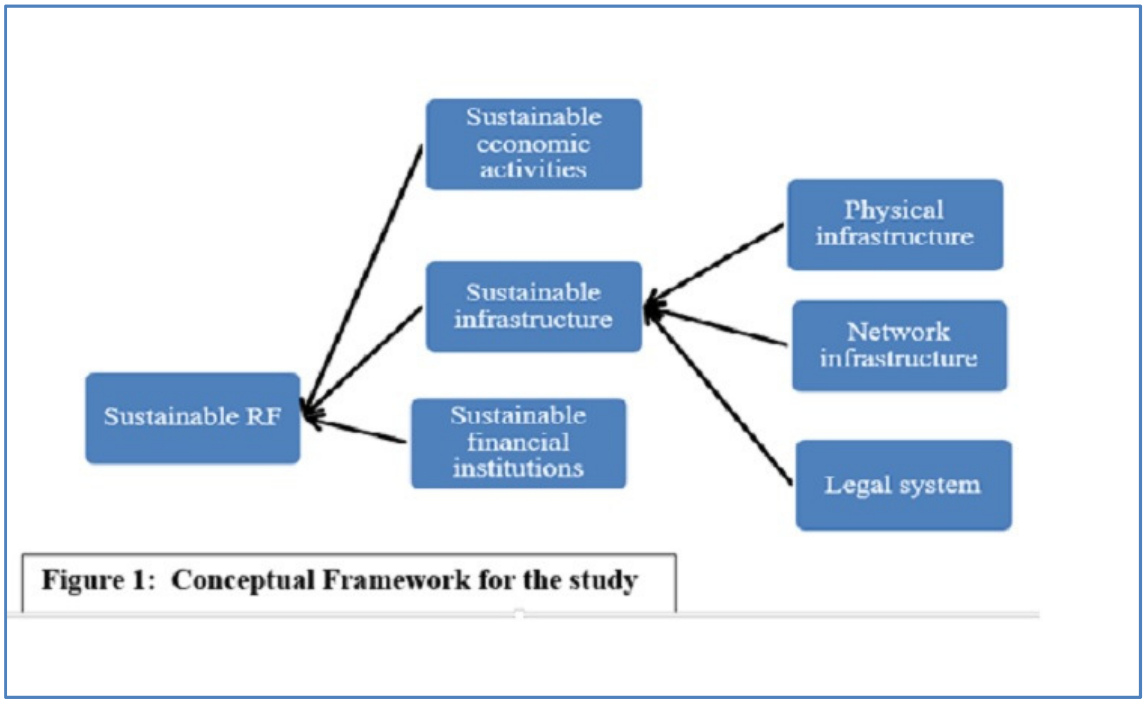


Figure 1: Conceptual Framework for the study

The researcher conceptualised that sustainable RF depends on sustainable economic activities, sustainable infrastructure and sustainable financial institutions. For sustainable rural finance, a number of things should be sustainable; institutions, economic activities and infrastructure. Infrastructure was divided into

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physical, network and legal infrastructure. This includes support services like training and advances in technology, Llanto and Badiola, 2011; Zeller and Meyer, 2002).

METHODOLOGY

The study adopted exploratory and conclusive research designs. The conclusive research design mixes both causal and descriptive research, (Singer and Willett, 2003). The first design was used to probe features of a research problem, options available for solving it and any other important issues that should be taken into account. Descriptive research helped to give an account of the state of RF and the challenges that both rural clients and providers of financial services have to overcome for sustainable rural finance. It also allowed for a mixture of both quantitative and qualitative methods.

In a bid to avoid philosophical monism, this research used both positivist, interpretivist and phenomenological approaches. Firstly, interpretivism was instrumental in understanding qualitative data, for instance, barriers to sustainable provision of RF in Mkokha village. Secondly, the positivist approach was used to collect and analyse quantitative data which encompassed loan amounts received by customers in Mkokha village and percentage of income spent on different uses. Lastly, phenomenology studied lived experiences of the people in Mkokha village and those of financial service providers for the village.

In line with the chosen designs, the researcher used questionnaires, interviews and observations to collect data. A mixture of closed and open ended questions were personally administered on Mkokha villagers by the researcher. Semi-structured interviews were conducted with financial institutions' representatives while preliminary interviews were done with the village secretary and head to get a general picture of the economic activities in the area and the provision of RF. The researcher went around the area witnessing some of the economic projects and challenges highlighted for the village. This provided complimentary information, some of which respondents were not comfortable disclosing, thus eliminating room for pretence.

Support for mixed methods came from a number of modern researchers including Cameroon (2011), Tashakkori and Teddlie (2010), Creswell, (2010) and Onwuegbuzie and Turner (2007), who advocate for a mixed research paradigm. Their studies reveal that not even one research philosophy consistently outperform other philosophies, hence researchers suggest a blend of beliefs so as to enhance excellence of research findings.

Primary data was gathered from the study universe constituting all financial institutions that provide rural financial services in Mkokha village and 160 households, using a sample size of 54 participants. 3 participants are NGOs (World Vision, ORAP and Red Cross), 1 bank, (Agribank), 1 MNO, (Econet), and the RBZ while the rest 48 are households. The sample size was chosen on the basis of representativeness, time and cost limitations. A mixture of purposive, convenience and simple random sampling was considered ideal in order to minimise the negative impacts of one technique on research findings.

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Secondary data came from a variety of literature on the subject.

Quantitative data was presented and analysed using descriptive and inferential statistics. For qualitative data analysis, the researcher chose narrative and critical analysis.

Measures of sustainability

Popular measures of sustainability like the operational self sufficiency (OSS) and the financial self sufficiency (FSS) could not be used in this study because of inaccessibility of data. Local initiatives had incomplete records for the period under study and apart from that; merry-go-rounds also had some temporary periods of inactivity. NGOs also had once off grants for which the next provision is not predictable but depends on availability of donor funds and would require approval. Alternatively, qualitative measures and profitability was used to assess sustainability i.e. the ability to cover costs. Sources of funds were also investigated to find if institutions' sources of capital are sustainable. The qualitative assessment was based on the nature of business i.e. whether it is a going concern or not, consistency in service provision and the nature of infrastructure in Mkokha village.

RESULTS ANALYSIS AND INTERPRETATION

Sustainability of financial institutions

Service providers and services provided

Empirical finding show that 11 service providers provide both financial and non-financial services, 18 service providers concentrate on financial services only while the last group of 3 service providers offer non-financial services only.

Financial services which promote financial sustainability were found to be developmental loans by World Vision for supporting agriculture and commercial activities as opposed to agricultural vouchers where recipients have no responsibility of repayment. Such funds are used with care. Apart from the core services, support services were cited as critical for sustainability. The NGOs trained a total of 952 members since 2009 in different areas including livestock breeding, gardening and bookkeeping issues. In terms of food aid, all household have benefited from food aid given by the Red Cross. This finding confirms findings by other authors like Seibel (2000) who contended that there is a need to broaden financial services through the use of non-financial services if sustainability is to be fostered.

Consistency in service provision and sustainability

The 48 respondents (100%) indicated that all other institutions providing financial services in Mkokha village are not reliable except their local initiatives. This confirms findings by Vakantesh and Kala (2011), and Baland et al (2008) that Self-Help-Groups (SHGs) are the ideal financial institutions for rural people by the people. Hence this case is not peculiar to Mkokha village only but is a common feature in many countries especially India and China that have seen growing numbers of SHGs as opposed to other financial institutions. The level of unreliability that exists for microfinance providers

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inhibit sustainability in RF. Villagers' economic development is set back by such behaviour.

Some institutions made promises and required residents to organise themselves into groups and disappeared thereafter. These include Agribank and Red Cross. Once, they were promised of a well which was never constructed. Currently, the women cooperative dug and are deepening a traditional well, known as *umthombo.*

This reinforces evidence from Meyer (2002) who argued that once off grants or loans is not what the poor need. They require services that benefit them over a long period. Their economic wellbeing is worsened by short term financial services, (Navajas et al., 2000).
The solution suggested to this is to provide access to financial services reliably by working together in partnerships.

Distribution channels, outreach, related problems and solutions

Interview responses from RF providers show that outreach is shallow except for local SHGs. World Vision and ORAP's reasons for poor outreach are poor road networks to Mkokha, poor infrastructure, lack of water in the area and long distance from Matopo centre where most of the facilities can be obtained. These NGOs also indicated that their funding is usually directed. Donors specify numbers of intended beneficiaries in the implementation plan. The final implementation should be in line with the intended outreach.

Findings suggest that problems may be overcome if NGOs work together starting from infrastructural development and capacity development. This will ensure that financial services will spread out and deep into all marginalised areas by avoiding duplication of effort and will also guarantee timely intervention that ensures that by the termination of one programme by one NGO, the other NGO will also be coming in. NGOs suggested that this coordination can be facilitated by their umbrella body National Association of Non-Governmental Organisations (NANGO).

Agribank complained about loan default as one main discouragement to expansion of outreach. It also complained of viability problems of economic activities in the area which are the cause of high default. By doing this, they mean that the poor are unbankable which contradicts findings by Khawari (2004) who said that poverty is an opportunity for agriculture development banks to make profit by offering tailor-made financial services. The contradicted sustainable agricultural banks are Thailand's Bank for Agriculture and Agricultural Cooperatives (BAAC) and Mongolia's Agricultural Bank. In addition, Agribank seemed to partly blame AREX for the few loan applications submitted and political forces also influence how much of the funds should be directed towards the area.

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Table 1: Agribank and its outreach

Year	**2009**	**2010**	**2011**	**2012**
Maximum loan amount	$200	$400	$500	$1000
Number of borrowers	15	21	30	30

Figures in Table 1 are for the number of borrowers for Gulathi area which is made up of Nyumbane, Gwangwazile and Mkokha. Exact figures for Mkokha only could not be obtained. This shows how limited the coverage was. If economic activities in the village are sustainable and political influence is avoided, then, Mkokha can be a sustainable business opportunity for the bank.

Econet's outreach in the whole country totals about 1.7 million registered users. Econet indicated that the problem which limits its outreach in Mkokha is lack of EcoCash merchants or agents in the area. The other problem that it faces is poor network coverage as a result of lack of a base station in Mkokha village. This can be overcome by installing base stations in the area and setting up agents in the village.

Outreach is also considerable for burial societies consistent with empirical evidence from Uganda, Von Pische (2003). Every household is a member of one or more burial societies. Every burial society has a minimum of 10 households. With merry-go-rounds, outreach is a bit low because most of them have an average of four members who contribute monthly which means that each member will get a share of the savings once after every four months. The other challenge is that every member first have to be part of a burial society before they can join merry-go-rounds. Due to persistent drought, less and less members each year are able to maintain their membership in merry-go-rounds as shown by the decline in percentage change in outreach in the table below. With membership of burial societies, contributions are made per household and the membership has been on the increase from 2009 until every household could save for burial cover. No further change can be registered in outreach as every household has come on board. The results are shown in Table 2.

Table 2: SHGs and their outreach

Year	2009	2010	2011	2012
total members (merry-go-rounds)	400	600	520	320
Percentage change in outreach		50%	-20%	-38%

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total households (burial societies)	121	159	160	160
Percentage change in outreach		31%	1%	0%

Partnerships

Financial service providers work in partnerships, however, these are not functional in Mkokha. They are established for serving other areas of Matobo district. If all possible linkages are taken advantage of, then financial sustainability can be better achieved by all stakeholders of the partnership as observed by Nagarajan and Meyer (2005) in a cross country study of outreach and sustainability.

The RBZ indicated that its duty is to coordinate activities of different financial institutions like banks, MFIs, NGOs, local savings groups and insurance companies to unlock their potential for sustainable financial inclusion in rural areas. Efforts are underway to make sure that all marginalised areas are covered including Mkokha village as embodied in the National Financial Inclusion Framework.

Importance of sustainability to microfinance institutions and to households

Sustainability requires that a financial institution makes profit to cover its operational costs. Figures for Mkokha only were not obtained so the researcher used total profit figures for both Econet and Agribank. Total profit figures for Agribank are given in Table 3 below. Therefore, from the operating losses shown, Agribank has not achieved financial sustainability for the 6 years, except in 2011 when it made a profit of $0.3 m.

Table 3: Total profit figures for Agribank.

Year	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Agribank	-$6.7m	-$8.1m	$0.3m	-$5.6m	$9.3m	$9.1m	$5.9m
Econet			$165,7m	$139.9m	$119.4m	$70.2m	$40.2m

The figures obtained for Econet are for the holding company not for the EcoCash subsidiary. However, results from the interviews show that significant business comes from EcoCash. EcoCash was formed in 2011. The financial information considered is for the financial years ending February 2012 to 2016. The profit figures are $165 741 088, $139 938 220, $119 397 000, $70 207 607 and $40 200 266. The profitability of the institution is declining. Nevertheless, this evidence show that Econet in sustainable since it cover its costs.

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The three NGOs indicated that financial sustainability is not much of a concern to them because if donors donate funds, they worry much about the social responsibility. NGOs should benefit more people hence outreach should be broad and deep. However institutional and financial sustainability is a result of the value attached to the organisations by their donors. If they use funds as intended, then they are guaranteed of continued support. They could not provide financial statements but only indicated that above 90% of their donor funds go towards expenditure. Nevertheless, they are mandated to ensure that projects they fund are sustainable through capacity building.

The SHGs did not have proper records that could be used for calculating financial sustainability ratios. Households in Mkokha indicated that sustainability of burial societies is a prerequisite. This will ensure timely funeral cover in times of bereavement. For merry-go-rounds and businesses sustainability is critical for development and survival since the area is seriously affected by drought and they have food shortages almost every year. NGOs and the government intervene but sometimes it will be too late. Financial sustainability will therefore ensure that they cover their costs and expand the scale of business. Business sustainability is a basis for qualification for loan access. This confirmation from the study is in line with empirical findings from South Africa and other countries, (Kasenge, 2011).

Responses made to questions on viability of business operations, sources of funds and other relevant information was used to deduce the level of financial sustainability for the microfinance institutions to come up with Figure 2. Agribank and merry-go-rounds were found to be low on both financial viability and outreach. NGOs and Econet were found to be high on sustainability but low on outreach. Finally burial societies were found to be high on outreach but low on sustainability.

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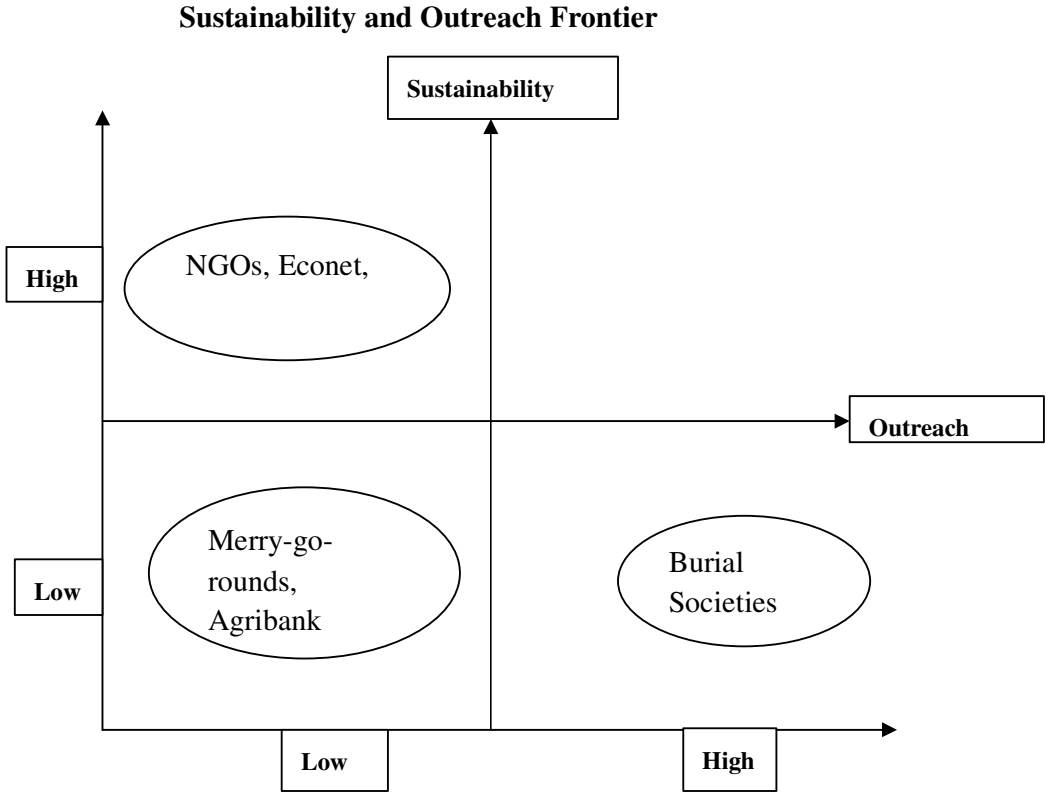


Figure 2: Financial sustainability rankings

Sustainability of infrastructure and support services

Infrastructure is not sustainable owing to a number of challenges which include: absence of constructed roads leading to lack of transport facilities, lack of boosters causing poor network coverage and poor communication, lack of physical bank structures, lack of title deeds for land, lack of electricity facilities, lack of sufficient water facilities and lack of dip tanks.

Technological and process innovations

Results revealed that in other rural areas, Agribank use technology to tag cattle that are pledged as collateral for loans. They remain the property of Agribank for the loan period until the last instalment is paid after which the tag will be removed. The bank also has a mobile banking application. These two innovations have not yet been rolled out to Mkokha village but it's a potential way of serving the village.

Econet services have benefited local SHGs through convenience of making contributions via EcoCash without concerns about distance which were previously unavoidable as contributions were traditionally made under a tree. Econet has discovered a new function on its EcoCash facility which allows EcoCash users to use their cellphones as virtual debit cards. They can swipe cellphones on a POS device or on a credit card terminal and pay for goods and services provided by EcoCash merchants if the customers have money in their wallets. The customers will sign a merchant copy of the transaction printed from the

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EcoCash terminal for record keeping. Econet plans to have every store in the country, including rural areas, installed with an "EcoCash Terminal". The terminals will not be sold to participating stores and merchants but will be leased to them.

EcoCash merchants can easily transfer money from their EcoCash wallet to their bank account without the need to visit a bank. The bank account is also accessible from the EcoCash wallet. Money can be withdrawn from a bank account through an EcoCash wallet withdrawal. EcoCash merchants are also able to transact with other merchants as well as paying their staff salaries.

EcoCash agents in rural areas now are being integrated into accepting payment for groceries using EcoCash. Econet is considering this for Mkokha district once it manages to create partnerships.

World Vision, and ORAP and Red Cross use technology that helps them to manage information. They have special software for database management. An example is the recently launched Rural WASH Information and Management System (RWIMS) developed by Integral Edge Business Intelligence for the National Coordination of Water and Sanitation Health (WASH) programmes.

The RBZ representative suggested that even those without technological modernization can leverage on the platforms provided by Econet and create a win-win situation for both of them.

Despite that, SHGs feel that they can be better if they have their own technological equipment. They still insist on loans and donor aid. This supports findings by Llanto and Badiola (2011) who also suggest that donors and the government should bear the task of providing funds for procurement of robust information technology (IT) systems such as Loan Performer, Globus, CreditEase, Loan Manager and Microfinance Tracking System which have inbuilt controls and capacity to produce management reports for private RF providers, NGOs and government related institutions.

Response on training received

A majority of the households in Mkokha village are trained at least once a year if they are not members of merry-go-rounds. Members of merry-go-rounds conduct self-training sessions regularly to benefit from the savings that they contribute. They normally do that every month when they meet to make contributions. The government and some non-governmental organisations come to train the villagers. Figures are given in Table 4 below.

This picture portrayed here by local financial initiatives is the outcome desired by NGOs that individuals be able to educate each other and sustain their economic activities through informed business conduct. Training through local initiatives ensures that everyone will buy-in. People will support the ideas they advocate for and sustainable businesses can be promoted that way.

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Table 4: Training history.

Name of trainer	Subject	Frequency since 2009
World Vision	Conservative farming	Once a year
Red Cross	Drought resistant crop farming, livestock production, bookkeeping, financial management	3 times per year
Government	Youth empowerment and project management	3 times per year
Own group training	Financial management and survival strategies	12 times per year

Sustainability of rural finance services

Sources of funds and sustainability

80% households indicated that they rely on project income, 40% on sale of livestock, 10% on remittances from within the country and abroad through EcoCash and 5% on salaries. The sources of funds are not exclusive. No respondent cited loans as a source of funding mainly because they are spontaneous and only a few have benefited from loans in the past. Therefore they cannot rely on them as a source of funding. All households get funds from more than one source. On other sources, 15% of the households acknowledged that they benefit from donor input funding.

A considerable portion of those who rely on project funds are gardeners whose projects are discontinued for a while until the rains are back. Projects are not big enough to provide means of livelihood through the dry spell. Hence residents of Mkokha village go for some time without money. The evidence provided above that 50% of the income generating activities are declining in performance show that this form of funding is not sustainable. Sustainability is about having access to financial services in every time of need not seasonally.

On the other hand, the sources of funds for the providers of financial services are mainly donor funds. Interview responses from the three NGOs that took part in the study show that donor funding is generally sustainable. However, Red Cross added that if an NGO is not performing as expected by donors, they withdraw their funding. This is the challenge they confessed to have encountered in 2009 when DANIDA and EU withdrew aid from the organisation over allegations of corruption. Econet's profits had been the source of funding for the EcoCash division. It was said that 80% of profits from

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Econet go to EcoCash. The sources of funds for EcoCash are sustainable. Agribank's sources of funds are not sustainable since the government is struggling to fund it and the bank has been making losses and is due for privatisation.

Uses of funds and sustainability

On uses of funds, summarised responses are tabulated in Table 5. From the table, the houses that are better off spend 50% on basics and the other 50% is spread between big and small assets. As the percentage income spent on basics increase, declining income levels force households to spare little and little towards assets. At 100%, 15 worse off households spend all their funds on basics and can afford nothing else other than that.

Table 5: Percentage usage of income by villagers.

Item description	**Percentage**									
	10	20	30	40	50	60	70	80	90	100
Basics					12	5	1	3	4	15
Small assets	4	3	3	4	10					
Big assets	4	2								

Big assets are the ones that are usually useful for production purposes and allow people to undertake projects on a large scale. Without assets, projects cannot be sustainable.

One suggested solutions is to equip people with developmental assets through engaging donor and NGO support for households with potential. This may make their small projects viable and sustainable. As long as sustainable economic activities are there in an area, then financial services will definitely follow such development as advocated by the Agribank.

Details on preferred loans terms and amounts

Respondents gave details of loan amounts and loan terms preferred for different purposes. The researcher grouped the purposes into consumption and investment. An average loan term was calculated and shown in Figure 3 below.

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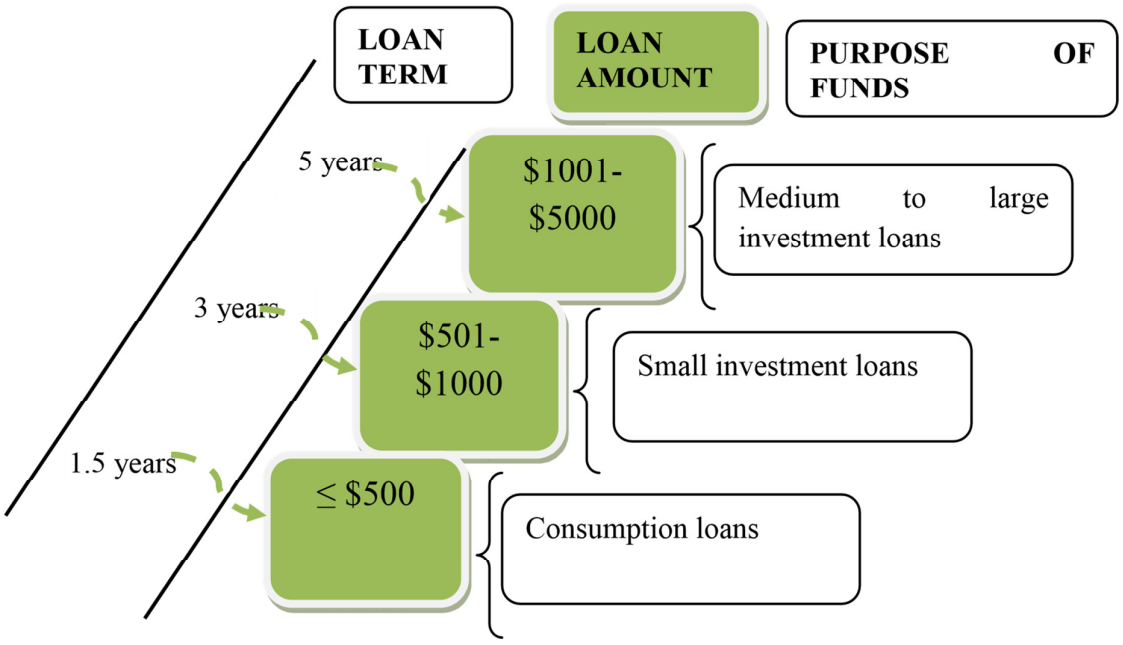


Figure 3: Villagers loan requirements

From the Figure 3, the loan amounts and the term of the loan are reasonable as they are not far from the terms that Agribank allows. Possibly, the clients completed the questionnaires considering what Agribank has for them.

Loan collateral and sustainability

Responses on the type of collateral assets that the people of Mkokha can pledge when applying for loans give the results shown in Table 6.

Table 6: Loan collateral distribution.

Type of collateral	**Number of households**
Livestock	9
Farm machinery (water pump, plough)	7
Farm produce/inventory	38
Buildings (barns, etc.)	5
Land	15

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From Table 6 above, the most common form of collateral that villagers are willing to part with is their produce. The challenge of accepting produce lies in poor harvest which may be short of the loan amount due to drought in the area. Those prepared to collateralise livestock are only 9 households. The reason may be that there are very few livestocks in the area mainly because of the drought that claim lives of animals every year owing to water shortages in the area. So they are not ready to risk the few cattle they have. 15 households are prepared to pledge land as collateral. However, the challenge with people in Mkokha is that they have no title deeds to land. Land can therefore not be accepted by financial institutions. Only five households (12.5%) are prepared to pledge their buildings. The reason may be that the majority have poor traditional houses that are difficult to sell. Also noteworthy is that only a few individuals can pledge farm equipment. The reason may be that most people do not have the equipment as evidenced by the practice of zero tillage by many households (as observed by the researcher as she toured the area). From the limitations highlighted, the different forms of collateral cannot be relied on for sustainable credit.

Solutions include experimenting with group loans for the area in support of the RBZ financial inclusion stance. The Red Cross and Econet are not worried about collateral since they are not into lending. They only provide school fees and money transfer services in the village.

Impact of financial services and other financial substitutes on household welfare

Research evidence on how welfare changed as households gained admission to RF and support services produced the following results. 55% of households indicated that they can now afford basic necessities; another 35% indicated that they are now able to buy small assets over and above basic necessities and 10% can now afford big assets over and above basics and small assets. Those who can now afford basics are beneficiaries of indirect financial services through food aid and a few of them are managing with the returns from farming inputs that were received from donors. Those who afford small assets are beneficiaries of merry-go rounds that are popular for kitchen top-ups and purchase of blankets.

Some interventions by NGO-MFIs came in form of equipment support. Those who were given equipment found it easy to boost business performance in terms of profitability. This made it easy for them to cover other large expenditure items which are productive and long term in nature. One such individual got a water pump from ORAP and is really doing well. His garden depends on the pump he received from ORAP shown in Figure 4.

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Figure 4: Beneficiary of a water pump form ORAP and his diesel powered water pump

This form of impact is the one noted by RHVP (2007) when they claimed that the KI-RMFP project resulted in improved asset accumulation, better health and quality housing.

Financial service that villagers lack

From the consumers' side, they lack sufficient credit facilities. All households require different types of loan products. Demand is high for agricultural loans followed by commercial loans and it is least for consumer loans. This result agrees with empirical evidence from India which posits that the poor in rural areas are usually financially excluded, Gupta (2010). Financial institutions perceive that villagers need school fees, technologically related services and crop insurance. Similarly, other countries have complimented loan products with savings products and insurance products according to (Pagura and Kirsten, 2006). However, Makki (2002) warned against problems that are also inherent in agriculture insurance calling for innovative solutions to successfully integrate it with other financial services.

Sustainability of economic activities

Economic activities in Mkokha village and relationship to sustainability

The activities are ranked in order of significance starting with the main activities in the area. The same applies to the challenges and the solutions.

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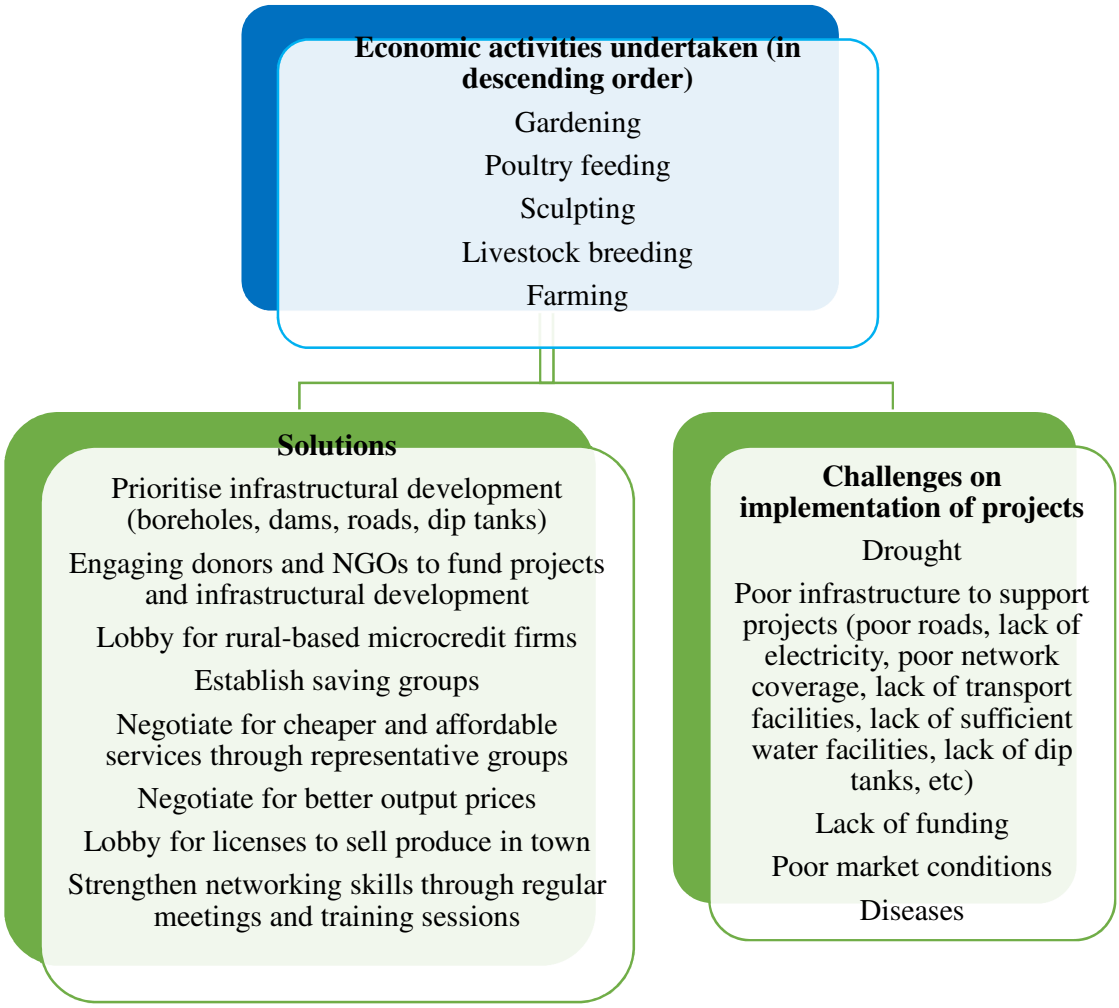


Figure 5: Economic activities, challenges and solutions for Mkokha village

Evidence of some of the economic challenges observed by the researcher is shown below.



Figure 6: A garden in Mkokha village.

The farmer is showing the researcher some of his crops.

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Figure 7: Rock outcrops in, Mkokha village

Outcrops make farming less viable



Figure 8: Livestock food and water challenges

Livestock starve during dry seasons and people have difficulties finding water for sustenance.

Response on the status of household economic activities since 2009

Of all the economic activities in Mkokha village, only 10.4% have registered positive growth since 2009 as shown in Table 7. The improving projects are the only ones whose owners can receive funds from relatives abroad and in towns.

Table 7: Status of household activities since 2009

Status of business	Responses	Percentage
Declining	24	50
Constant	19	39.6
Increasing	5	10.4

Economically active household members

Figure 9 shows the different estimates of percentage family members who are economically active in Mkokha village for each of the 48 households. The figures were used to come up with the scatter plot.

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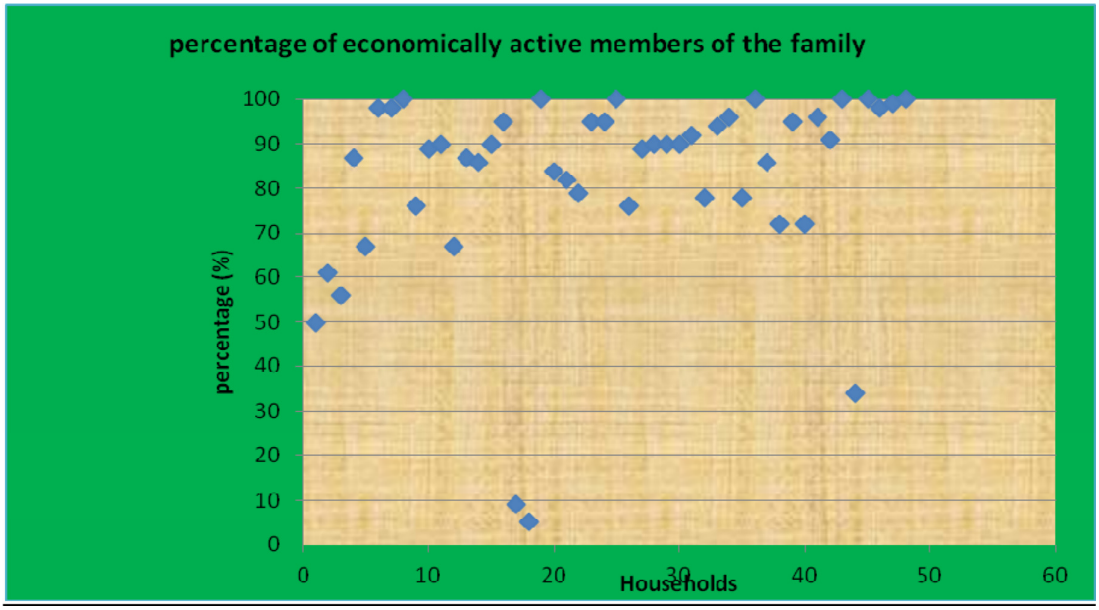


Figure 9: Scatter plot showing percentage of economically active family members.

On the graph, the numbers 1-40 have been used arbitrarily to number the first up to the 40th response. They are used in place of names of respondents. On average, 82.5% family members of the 48 households that participated in the study are economically active. This is a good picture for microcredit providers. It indicates potential for better performance by clients in Mkokha village. However, providers indicated concern with economically active members of the society who do not want to work when given resources to improve their welfare.

Factors that limit access to RF

95% of households indicated that they do not trust financial institutions and they are discouraged by long distances. These findings substantiate theory that, among others, long distance and lack of confidence in the financial sector exacerbates financial exclusion, (Arora, 2009). The researcher observed that there is not a single financial service provider who is based in the area let alone a business centre. The nearest business centre is in Gwangwazile village where there are only 3 small shops, 1 butchery and a bottle store. Formal financial services providers come and go. This shows how far the village lags behind in terms of development.

The people of Mkokha want the regulatory authority to ensure that they have legal title to land so that they can use it as collateral. They want a clear procedure on how to proceed if providers of financial services fail them. They want to know how they can engage the relevant authorities.

Agribank complained that at some point in the past, the government would compel it to lend to farmers despite any challenges they may face and in the absence of insurance. So this partly accounts for losses it recorded.

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SHGs in Mkhokha still have outstanding challenges which need attention. These have to do with supervision, good governance and regulation. Self-regulation for SHGs was noted to be ineffective, owing to lack of regulatory capacity for ensuring compliance and authority to dissolve non-performing establishments.

Political interference has been seen in the distribution of aid and in the selection of members whose applications will be submitted to Agribank through the ministry of agriculture. Transparency is lacking on how individuals can win political favour and have their applications considered.

The rising minimum capital requirements present a challenge to banks like Agribank which end up having no funds for lending to rural areas as it seeks funds to boost its capital base.

Positive developments

The Reserve Bank of Zimbabwe welcomed mobile money as a significant move towards better financial inclusion. It committed itself to assisting MNOs in whatever ways possible to promote innovations in mobile money transactions. The RBZ has invited Econet to hold open discussions to facilitate smooth mobile transactions. The RBZ working with the POTRAZ is set to improve transparency, promote fair competition and pricing of mobile money transfer services to reduce costs and increase availability.

All of the NGOs indicated their commitment to infrastructural development RF is to be made sustainable in the area. NGOs also feel that more work should be done in terms of construction of wells and boreholes. ORAP and Red Cross have plans underway for this. The RBZ said the government is also working with the RDCs to ensure infrastructural development in other regions and hoped that soon Mkokha will benefit from that arrangement. The RBZ also echoed the need to approach REA so as to ensure electricity coverage in Matobo district. Literature from Llanto and Badiola (2011) support such initiatives.

Econet said it has started working with chiefs in Matobo district for the erection of base stations and soon it will come to Mkokha and the village will have good network coverage.

The government is working on addressing the liquidity challenges that Agribank is facing by ceding part of the ownership of the bank to private investors. This is supposed to provide sufficient funds to meet minimum regulatory capital for the bank without difficulty.

Recommendations

The RBZ should promote an environment free from political interference to ensure that rural financial markets form and function properly.

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The government should the people in Mkokha have title to land. Any other regulatory gaps should be filled in to ensure that people can use their rights as collateral substitutes. Security in transactions will be enhanced if rights to land and other movable assets are honoured.

Local SHGs are encouraged to deposit money for their burial societies in EcoCash wallet account to avoid risks they may face by keeping money at home. Ecocash can help SHGs to make their regular contributions without the need to travel and meet at a common place.

Through their own representatives, people in rural areas are recommended to arrange for their additional training through youth groups, church groups and cooperatives to sharing knowledge and experiences through workshops and conferences. Following training of trainers workshops, participants drawn from different rural districts can go back and train other community members.

It is recommended that RF providers experiment with solar units to charge agents' notebooks and or introduce electronic which facilitate cashless transactions as was done in China and Bolivia, (ILO, 2012). This will help to address the problem of lack of electricity in Mkokha village and other rural areas.

Donors and the government are recommended to provide funds for procurement of robust information technology (IT) systems such as Loan Performer, Globus, CreditEase, Loan Manager and Microfinance Tracking System which have inbuilt controls and capacity to produce management reports as suggested by Llanto and Badiola (2011).

The researcher challenge MFIs as ideal tools for poverty alleviation to experiment with providing services to such rural areas and hence accomplish their goal as some MFIs have done well in countries like Kenya.

CONCLUSION

The study investigated the state of RF in Mkokha and reveals diverse challenges that preclude sustainability of RF in Mkokha village. These challenges affect economic activities of people in the village and render them ineligible as target beneficiaries by service providers. They affect infrastructure; both physical and network. Profit making financial institutions shy away from the village amidst history of default on previously extended loan facilities. Sustainability appears a far-fetched dream for Mkokha village. NGOs and Econet were found to have achieved institutional sustainability in terms of profitability and sources of funds while Agribank and SHGs are yet to. SHGs operate on a very small scale and do not offer a wide range of financial services except burial services and saving services. Econet serves the village from a distance and its services are sometimes unavailable owing to network challenges. NGOs do not offer sustainable RF because they depend on donor fund which come

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spontaneously. However, partnerships, infrastructural development, technological developments combined with an enabling environment may make RF sustainable in the village though it requires a lot of commitment, coordination and resources. In addition, sustainability is only achievable in the long run, in agreement with Welford's (1994) assertion.

The results of the study reinforce empirical research findings that most rural areas are financially excluded or underserved with sustainable financial inclusion only possible when stakeholders come into working partnerships.

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PERCEIVED CONSUMER-CENTRIC MARKETING- MIX AT THE URBAN BOTTOM OF THE PYRAMID- AN EMPIRICAL STUDY OF NON-CORE FOOD ITEMS

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Abstract

Purpose of the Study: Therefore, current research work strives to develop a reliable and valid BOP consumer-centric marketing- mix for the non-essential or Non-core food items.

Design/methodology/approach: This research paper reviews the existing marketing- mix elements of western food market (Product, Price, Place and Promotion). A survey of six hundred households was conducted in six selected slum areas of Delhi. Thereby, based on the exploratory factor analysis existing elements of marketing-mix were refined for the essential food items.

Findings: The resultant marketing-mix comprised of four dimensions named as Expected Product, Convenience, Price Insensitive and Non-Social Sources.

Practical implications: For managers, this research suggests a set of guidelines for designing an efficient marketing-mix for non- core food items in consumer-sensitive manner. Other managerial implication of study are-

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- Implementing a need-based marketing- mix.
- Efficient positioning of their product through effective marketing-mix
- Reaching the 'Fortune at the BOP' while answering the needs of BOP consumers

Social Implications: Recommendations will lead to inculcating a long forgotten market in mainstream, economy and improving the standard of their living by providing significant choices.

Originality Value: This paper makes an original contribution in direction of revival of existing western marketing-mix based on the BOP consumer survey.

Research limitation: The food items consumed by BOP market is further pronged into two categories- Core and Non-core Food items. This study is limited to understanding the purchase behavior for non- core or non-essential food items. This study was conducted in six densely populated urban slum areas of Delhi.

Keywords- *Bottom of the Pyramid (BOP) or subsistence marketplace, Fortune at the BOP, Non- Core Food Items, 4P Marketing- Mix, Urban BOP Consumer, and Exploratory Factor Analysis (EFA).*

Introduction

BOP proposition, coined by Prahalad (2002a), asserts that 'MNCs by selling to the poor consumer will not only eradicate poverty but will bring profit or fortune for firms as well'. This proposition suggested that there exists untapped purchasing power or fortune at BOP, by serving this segment, it may not only lead to profits or gains for the firms but will also increase the welfare of poor consumers. The BOP proposition had not so easy acceptance as it challenged many traditional and economic tenets of the western world. However, this proclaimed fortune at BOP elicited many companies' interest. At the onset of the twenty-first century, many firms entered BOP market. Most of the initial attempts failed, consequently, the proclaimed fortune was questioned and companies revised their BOP market estimates downward (Karnani, 2007a; Martinez and Carbonell, 2007). One of the prominent BOP skeptics, Karnani (2007a), argued that BOP market valuation was overestimated and considered as biggest source of losses. Further, flawed entering strategies adopted by marketers were also held accountable for massive failure. It was notable that all the firms entered this market with the westernized products at lower price to satisfy consumers. This generalized marketing approach revealed the lack of understanding of BOP market segment. These failures paralyzed replication of western marketing model in completely different market setting at BOP and asserted on the development of grounded marketing model based on the in-depth understanding of this segment. Thus, understanding BOP market was daunting task ahead for the marketers.

Even though there were surge of research (Prahalad and Hart, 2002a; Prahalad, 2004; World Resource Institute, 2007; Guesalaga et al., 2008; Karnani, 2010; Rangan et al., 2011) suggesting increased attention to the BOP concept (Esposito et al. 2014), but still the BOP concept remained at infancy stage. Most of the initial research revolved around advocacy of serving BOP market. The major research gaps include

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absence of definition/size of the BOP market, its purchasing power, economic interest for the marketer, buying behaviour at BOP, appropriate methodology in serving BOP, organizations that can serve the BOP market best.

It became imperative to extend the discussion on subsistence marketplaces beyond the advocacy for increased market engagement. It was felt that companies were ill-equipped to serve the poorest consumers. So it was necessary for the marketers to understand BOP consumers and their peculiar needs; thereby formulate an appropriate marketing-mix. However, previous decade witnessed more research in direction of understanding needs of BOP or subsistence consumers (Purvez, 2003; D'Andrea et al., 2006; Viswanathan et al., 2008; Chikweche & Fletcher, 2010; Chikweche et al., 2012) and influence of marketing strategies on BOP consumers' buying decision (Chikweche & Fletcher, 2012; Jaiswal & Gupta, 2015).

Researchers in BOP segment employed qualitative investigation design based on the in-depth interview; ethnographic observations and case study methods for understanding consumption behaviors of BOP consumers. There is a lack of focus on using quantitative data (Esposito et al., 2014), which is a big research gap to be addressed. Since, there is lack of quantitative data oriented studies, seeking deliberation, current research focuses on quantitative research and strives to develop a reliable and valid BOP consumer-centric marketing- mix for the non-essential food items.

This research study reviews the existing marketing- mix elements of western food market (Product, Price, Place, and Promotion). Thereby, based on the exploratory factor analysis existing elements of 4Ps marketing-mix was refined for the non- core food items.

Review of literature and Theoretical Framework

This section reviews existing literature available on BOP proposition and market, food market at BOP and existing marketing-mix strategies in the context of food market.

Urban subsistence marketplace

There are different views on empirically defining the subsistence marketplace. Various scholars have tried to define and classify this market (Banerjee and Duflo, 2006; Hammond, Kramer et al, 2007; Hart, 2002; Prahalad, 2005, Viswanathan et al., 2008). The four main classifications are the World Bank global income classification modified by Rangan, Quelch et al (2007), the Hart (2002) classification, the Hammond, Kramer et al (2007) classification and Viswanathan et al classification (2010).

Emergence of BOP concept brought various critics into the picture insisting on specific criteria for defining BOP consumers. However, researchers who consider BOP market comprising of consumer with latent needs (Gupta et al., 2015; Vishwanathan et al., 2010) stressed on use of socio-economic based definition. Thus, keeping the socio-economic realities (Sharma & Nasreen, 2017) in mind subsistence marketplace, for the current research, can be defined as-

1. Subsistence market place consists of Household earning less than Rs. 8000 per month (Gupta et al. 2015 and Vishwanathan et al., 2010).
2. Live in rural villages or urban slums and shantytowns

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3. Lack of water supply, sanitation services, electricity, and basic health care, no access to formal financial services (World Resources Institute, 2007).
4. There exists one-to-one interaction between small neighborhood storeowners and local consumers, strong social relationship (Viswanathan, 2007).
5. The BOP consumers' mainly satisfy basic needs such as food, water, shelter.
6. Limited or no access to formal educations.
7. Difficult to reach via conventional distribution, credit, and communications and offered with low quality and quantity of products and services.

Food market at world's BOP

According to WRI report (2007), major categories on which BOP consumers spend their income are (Figure 1) – Food (58%), Energy (9%), Housing (7%), Transportation (4%), Health (3%), ICT (1%) and Water (1%). Thus, BOP segment spends a substantial part of their meagre income on food consumption. On the basis of available data, total BOP household food market (36 countries) in Africa, Asia, Eastern Europe, and Latin American and the Caribbean had an estimated worth of $2.89 trillion. When segregated on the basis of region, food market share of Asia, Africa, Latin America and Eastern Europe stood at 89%, 80%, 51% and 50% respectively. Asian BOP food market is largest with a concentration of 1.49 billion people representing worth of $1.1 trillion. Further, results of this report, suggested that as incomes rise, household spending on food declines.

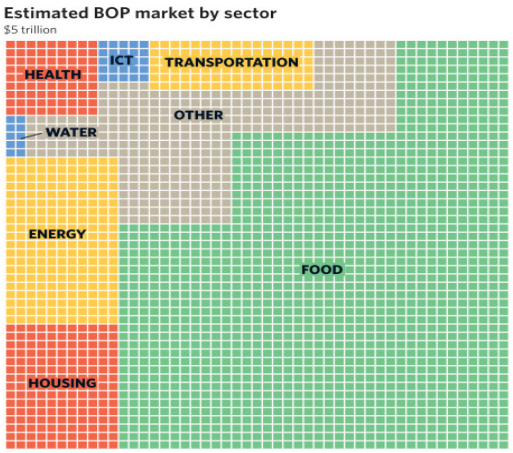


Figure 1: Major categories of income allocation at BOP (Source: WRI 2007)

In India, National Sample Survey Office (NSSO) conducts nationwide quinquennial surveys on Monthly Per capita Consumer Expenditure (MPCE). Average MPCE for entire India in 2011-12 was estimated at approximately Rs.1430 in rural India and Rs.2630 in urban India. The poorest 5% of India's rural and urban population had an average MPCE of Rs.521 and Rs 700 respectively. The top 5% of the rural population, ranked by MPCE, had an average MPCE of Rs.4481 – about 8.6 times that of the bottom 5%. The top 5% of the urban population had an average MPCE of Rs. 10,280.This highlights an extreme

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disparity in consumption spending across various fractile classes[6] in India.

Almost the same situation prevails in Delhi whereby average MPCE was estimated at approximately Rs2762.11in rural Delhi and Rs. 3298.47 in urban Delhi. The poorest 5% of Delhi's rural and urban population had an average MPCE of Rs. 1071.42 and Rs 978.05 respectively. The top 5% of the rural and urban population, ranked by MPCE, had an average MPCE of Rs. 6577.31 and Rs.11323.77 respectively. This shows the disparity between bottom and top 5% of MPCE is more severe in urban parts of Delhi than rural.

Consumption expenditure on food items constitutes 53% of average MPCE in rural India in comparison to 42% food consumption expenditure by urban households. The share of food shrunk over the 18-year period since 1993-94 from 63.2% to 48.6% (a decline of about 23%) in the rural sector and from 54.7% to 38.5% (a decline of nearly 30%) in the urban sector. Over the 7-year period since 2004-05, the share of food has fallen by about 12% in rural India and about 9% in urban India. Most food groups have suffered a decline in share over the 18-year period. The decline is steepest for cereals, the share of which has halved for rural India and shrunk by 48% in urban India.

According to the 68th round of NSSO survey, Delhi accounts for 39% of the total MPCE on food items amounting an average MPCE of Rs 1461.54. Since food purchase dominates the consumption spending of BOP segment, therefore, the current research study focuses on the food market.

Marketing-Mix for food retailing

Marketing-mix is a conceptual framework which guides the principal decisions, managers make in assorting their offerings to suit consumers' needs. The marketing mix paradigm has dominated marketing thought, research and practice (Grönroos, 1994) since its conception. Marketing scholars identify marketing-mix as controllable parameter that firms use to influence consumer buying process (Kotler, 2010). Since, the current study involves food retailing thus literature relates to marketing-mix in food and retailing. Each element of the marketing- mix is reviewed in context of food purchase behaviour so as to determine the adequacy of the current state of marketing-mix framework and the modifications required to accommodate BOP consumer's needs.

Product

Although the BOP segment spends more than 60% of total income on food items still they end up buying poor quality goods at higher prices (Weidner et al., 2010; Viswanathan et al., 2010; Chikweche & Fletcher 2010). There is an urgent need to modify the western model of product offering on the basis of local needs and requirements of the BOP segment (Prahalad and Hart, 2002; Mahajan and Banga, 2005;Vishwanath et al., 2008; Chickweche et al., 2010). Small packages were found to be more affordable and thereby proliferate choices available to BOP consumers (Prahalad & Hammond, 2002; Crabtree 2007). These small sachets increase consumption and allow consumers to easily switch product with negligible switching cost (Prahalad & Hammond, 2002). According to D'Andrea et al. (2004), BOP consumers use brand as a symbol of quality of the product. BOP consumers are very brand conscious (Prahlad, 2004). In a study

[6] MPCE fractile classes of population are "0-5%", "5-10%", "10-20%", etc. Estimates of population characteristics are often generated separately for population in different fractile classes in order to portray the variation of such characteristics with variation in MPCE

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conducted by Viswanathan et al. (2010) in South India, apparent quality found to be second important influencer on BOP purchase. *Fair measurement* found to be most the important influence on purchase decision at BOP (Vishwanath et. al, 2010). Chickweche and Fletcher (2009), mentioned that the *availability of new or alternative products* had important influence on product purchase at subsistence marketplace. The marketers should consider the *degree of essentiality* and potential added value to the consumers whilst development of product offerings to the BOP segment (Chikweche & Fletcher, 2012). Since current research study relates to food retailing thus besides the aforesaid elements, items found in related literature were also inculcated such as '*Nutrition and Health Benefits'* (Spink and Bose 2002; Banerjee and Dufloo, 2007; Karnani 2009, Davidson 2009, Nevin & Suzan 2010), Taste (Spinks and Bose, 2002), Ease of preparation (Spinks and Bose, 2002), Food label and Safety marks (Akbay & Jones, 2005).

Price

Food pricing is an essential factor that shapes individual choice (French, 2003). Conventional wisdom indicates that high retail price which reflects immediate monetary costs are likely to hinder consumer purchase behavior while a low price or competitive price leads to an increase in store traffic and product sales (Pan & Zinkhan, 2006). BOP consumers are price sensitive as their basic concern is to satisfy the physiological need in best possible way (Chattopadhyay & Laborie, 2005). The company targeting BOP can rely on technology breakthrough to reduce cost. Company can further adopt flexibility in payment by local retailers and microcredit agencies thereby ensuring credit to consumers.

Place

Physical accessibility to the product is hindered by weak supporting infrastructure such as poor storage facilities, telecommunications and transport, makes the distribution channels that firms use both longer and more expensive (Nwanko, 2000; Fay and Morrison, 2006) and weak distribution infrastructure. To enhance the interaction between consumer and firms both formal and informal distribution channels are used. The informal distribution channels are often linked to the social network in communities and many times controlled by Govt. (Mahajan and Banga, 2006). Informal distribution channel emerged here formal structured marketing systems are complemented by, or co-exist with, informal systems to serve a similar set of needs (Nkamnebe, 2006).This informal distribution system is common in BOP market where there are weak infrastructure and lack of capital limits the development of formal marketing systems (Kaynak and Hudanah, 1987). Although informal distribution systems provide competition to the formal systems, at times the two supplement each other (Layton, 2007). These informal distribution channels can be legal and illegal.

Promotion

Promotion is used to inform people of products and encourage buyers in the target market to buy particular brands. BOP is a media dark area. The firm faces a challenge of lack of adequate communication infrastructure (Chickweche 2012). Consumers are faced with the challenge of accessing information from firms. Since communication media is beyond the affordability of BOP consumer and there are frequent power electricity cuts in subsistence Marketplace (Chickweche, 2012). In Research conducted in Zimbabwe BOP, it was found marketer made more use of "Below the line media" over "Above the line media". Above the line media used by marketers included Print, Radio, TV Internet,

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outdoor and newspapers. Because majority illiterate target audience and lack of supporting and communication infrastructure above the line medium found to be ineffective. Thus, in engaging BOP consumers, marketers relied on below the line media. Few innovative methods cited are workabaut (Guinea) which uses social networks, product demonstration, community road shows and mobile advertising. However, in implementing the below the line medium, the key conduit is the social network (Chickweche 2012). Further, it was found aggressive marketing and Advertising via print out door and television of international brands may lead the poor consumers to divert there scarce resources from consumption of Core bundles to non-core bundles (Jaiswal, 2008; Davidson, 2009; Gupta and Jaiswal 2015; Karnani 2007, 2008, 2010). Another study conducted in South India also fortified this finding and explained social sources of product information are more reliable than non-social sources -marketer related sources (advertising, label on product packages) as well as media controlled sources (TV, newspaper, radio and Internet). In social source of information groups and family or friends are preferred over neighbours and marketplace interaction. Another source of information included Government and community leaders (authority controlled) which was again less preferred.

Thus based on the review of existing literature Marketing-mix in context food market can be operationalised as given in Table 1.

Table 1

Operationalisation of Marketing-Mix elements in Context of Food Retailing

Marketing Mix	Construct Operationalization	Authors
I. Product		
PRD1	i).Varieties/ Brands offered	Spinks & Bose, 2002; Nevin & Suzan, 2010; ,Nguyen et al. 2015.
PRD2	ii).Degree of essentiality	
PRD3	iii).Reasonable quality offered	
PRD4	iv). Freshness of food items	
PRD5	v).Availability in Small quantity/ Sachets	
PRD6	vi). Nutritional and health content provided	
PRD7	vii).Accurate measurement of quantity	
PRD8	viii). Packaging of product	
PRD9	ix). Food label/ Safety Mark	
PRD10	x). Availability of product	
PRD11	xi). Taste of the product	
II. Price		
PRC1	i). List Price (MRP)	Viswanathan et al. 2010, Chikweche & Fletcher 2010.
PRC2	ii).Price charged less than List price	
PRC3	iii).Price per unit charged when bought product in small quantity	

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Table 1

Operationalisation of Marketing-Mix elements in Context of Food Retailing

Marketing Mix	Construct Operationalization	Authors
PRC4	iv). Discount offered	
PRC5	v). Availability of product on credit	
III. Place		
PLC1	i). Nearness of the shop/Less Travelling	Viswanathan et al. 2010, Chikweche & Fletcher 2010
PLC2	ii). Credit Facility	
PLC3	iii).Courteous Treatment	
PLC4	iv).Standard price and quality	
PLC5	v) Product Knowledge of shopkeeper	
PLC6	vi). Trust/ Familiar local Shopkeeper	
PLC7	vii). Wider Choice	
PLC8	viii). Easy Return Policy of the shopkeeper	
PLC9	ix).Bargaining opportunities	
IV. Promotion		
PRM1	i). Packaging	Viswanathan et al. 2010, Chikweche & Fletcher 2010
PRM2	ii). Shopkeeper	
PRM3	iii). Family/friends	
PRM4	iv). Groups	
PRM5	v). Neighbours	
PRM6	vi). Market interaction	
PRM7	vii). Bulletin boards	
PRM8	viii). Newspaper	
PRM9	ix). TV	
PRM10	x). Radio	
PRM11	xi). Internet	
PRM12	xii). Community Leaders	
PRM13	xiii). NGOs	
PRM14	xiv). Government	

Research Context

The current research study defines subsistence marketplace as households earning less than Rs. 8000 per month, clustered in the area with lack of civic infrastructure. Thus, urban slums and shantytowns, clustered with household earning less Rs 8000 considered as to be the sampling frame. In a report titled "The Challenge of Slums", the United Nations Human Settlements Program (UN-HABITAT 2003) reported that one billion people — approximately one third of the world's urban dwellers and a sixth of

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all humanity, live in slums. India alone constitute about one third of the global slum population. This research study was conducted in the high density slums of Delhi (Capital of India). Delhi comprised of 675 identified Slum clusters in ten zone (Delhi Urban Shelter Improvement Board 2015). There is an absence of sample frame because BOP market or subsistence marketplace or urban slums are not properly mapped by the govt. and NGO. Further, they do not hold legal title or deed to their assets (e.g., dwellings, farms, businesses) making it difficult to formalise these colonies. Also, heavy dependence on informal economy hinders in accurately determining their income.

Further in order to understand the food offering at subsistence marketplace, report by National Sample Survey Office (NSSO) on Household Consumer Expenditure is analysed. NSSO report considers more than 250 food items for consumption. The item wise data on household food consumption collected in the NSS survey is grouped into nine broad food categories. Unfortunately BOP segment thrives under the condition of limited income and restricted market choices. Therefore, for this research the food items considered can pronged into two broad categories- Core Food Items and Non-Core food items.

Core Food Items

It includes food items which forms a staple diet for bottom fractile classes in India. Core items are imperative and easily accessible to this market or made easily accessible by governmental initiatives as considered to be essential for living. In India consumption of rice, wheat and sugar is made available to below poverty line consumers at subsidised rate through Fair price shops, known as Public Distribution System. These shops may be owned by the government, local government, a government undertaking, the proprietor of a firm, co-operatives or private persons (individually or jointly) or other bodies like club, trust. Further Core items are generic in nature and not much brand choices offered for these to BOP or subsistence market segment. However, perishable food items are not considered as requires a different marketing mix, which can't be generalized for this segment.

Non-core food items

This category includes the components infused by NSSO 68th round under the head of "beverages, refreshment and packaged processed food". Beverages include tea, coffee, mineral water, soft drinks, fruit juice soda water, and other beverages such as cocoa. Processed food lists twelve kinds of processed food divided into two categories: under "served" those served in restaurants, dhabas, snack bars, etc., and "packaged those which are usually taken to the home and consumed. The "served processed food" is excluded from the research study. The 'Packaged processed food' consists of 'prepared sweets, cake, and pastry', 'Biscuits, chocolates', 'Papad, Bhujia, Namkeen, Mixture, chanachur', 'Chips', 'Pickles, sauce, jam, jelly', and Other packaged processed food.

This research study is limited to understanding the purchase behavior for non-core food items. This study was conducted in densely populated urban slum areas of Delhi of households earning less than Rs. 8000 per month.

RESEARCH METHODOLOGY

In order to redefine marketing-mix in the context of BOP segment for Non-Core food items, an empirical study was undertaken based on a well-chalked methodology. The steps adopted for conducting research

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can be outlined in Figure 2.

Figure 2: Research methodology adapted

Pre-Test and Pilot Study

Pre-test and Pilot studies are both essential parts of questionnaire survey design (Sekaran, 2003), in order to validate instrument and to ensure that the survey questionnaire is free of errors. In this research study, the pre-test was conducted by distributing questionnaires to 10 eminent professors in related fields. Changes suggested thereafter were accommodated in the questionnaire. Integral insights provided were in terms of the definition of BOP consumers, homogeneity in consumption habits of BOP consumers and fearful behavior of BOP community towards the surveys. In addition, 15 respondents selected on the basis of judgmental sampling from the slum area of Uttam Nagar (Delhi) meeting the definition of BOP consumers. They were asked to suggest potential problems with the questionnaire design. This allowed translation of the survey instrument in local Language (Hindi).

Pilot Study

The pilot study was conducted in slum areas of Mangol Puri and Kathputli colony (Urban slums, Delhi) on the 100 households earning less than Rs. 8000 per month. The sample comprised of 44 females and 56 males respondents with 64 respondents in the income bracket of Rs. 20001-4000. Out of the total of 100 households, 88 were covered under the Public Distribution Scheme (PDS) and were reaping the benefits from Fair market shops. In this pilot study, the reliability of the measures items used in the questionnaire was assessed using the internal consistency test Cronbach's alpha. Cronbach's alpha estimate value above 0.70 is considered as acceptable (Nunally, 1978). All of the measures used in the pilot study observed an adequate reliability with Cronbach's alpha values of Product (0.864) and Price (0.909) except Place and Promotion. In order to ensure Cronbach's alpha for Place to be greater than 0.70 PLC2 (Availability of product on credit) was dropped; further, under Promotion, items PRM2 (local Shopkeeper) PRM4 (Groups), PRM5 (Neighbours) were dropped from final survey instrument. After deleting the internal consistency increased to of Place and Promotion increased to 0.734 and 0.710 (above

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0.70) respectively.

Survey instrument

The questionnaire composed of forty questions with different types of scales: nominal (yes or no answer) and five-point Likert scales which are described by attitudinal faces. The survey instrument was divided into two subsections, the first section for collecting a demographic profile of the respondents consist of eight questions and the second section for measuring perception of BOP consumers towards marketing mix elements. This section measured responses on five point Likert scale from strongly disagree to strongly agree.

Data Collection

For the final data collection, 675 were identified in 5 zones comprising of 4.33 Households with a reported population of 21.60 lakh (DUSIB,2015) across Delhi. Thereafter, six highly dense slum clusters (Density of the slum/ No. of slum areas) were identified. These six slum clusters included Mangol Puri, Kathaputali Colony, Zakhira, Nangloi, Peeragahri and Tigri from where survey of 600 household was conducted. From these six slum clusters, hundred households were surveyed.

A convenient sampling approach was adopted to verify the hypotheses. A paper-and-pencil questionnaire survey was administered among slum area respondents. In a household, head of the family was the respondent. The time of data collection was chosen carefully. The sample is composed of 600 respondents, coming from six different regions of Delhi. The sample comprised of 286(47.7%) of female and 314 (52.3%) male respondents with equal across different slim areas. Within the age group of 25- 44 years about 83 % of the respondents are covered and on extreme ends i.e. below 24 years and above 55 years, only 5.2% and 4% respondents are included. The following table presents the demographic profile of 600 sample units (Table 2).

Table 2

Demographic profile of the respondents across different slum areas

Demographics	Categories	Frequency	Percentage
Gender	Male	314	52.3
	Female	286	47.7
Slum Area	Mangol Puri	100	16.7
	Kathaputali Colony	100	16.7
	Zakhira	100	16.7
	Nangloi	100	16.7
	Peeragahri	100	16.7
	Tigri	100	16.7

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Age (Transformed to Categorical variable)	Below 24	31	5.2
	25-34	255	42.5
	35-44	243	40.5
	45-54	47	7.8
	55 And Above	24	4.0
Year of Schooling	No Schooling	6	1.0
	Below 4 Years	159	26.5
	Below 8 Years	218	36.3
	Below 12 Years	217	36.2
Household Income	Below Rs. 2000	6	1.0
	Rs. 2001-Rs.4000	156	26.0
	Rs. 4001-Rs6000	208	34.7
	Rs.6001-Rs8000	230	38.3
Marital Status	Married	588	98.0
	Unmarried	12	2.0
Family members	0-2	72	12.0
	3-5	411	68.5
	5 above	117	19.5
Ration card	No Ration Card	221	36.8
	Yellow Ration Card	229	38.2
	Red Ration Card	150	25.0

ANALYSIS AND RESULTS

Data collected was analyzed through a series of validated tools and procedures. The critical step involved in the development of a measurement scale is factor analysis of the collected data was conducted followed by checking convergent and discriminant Validity**.** Assessment of the reliability of constructs was performed next. The results of the analysis are described in the following sub-sections.

Exploratory Factor Analysis

EFA using Principal Component analysis with Varimax rotation was performed to see if the observed variables loaded together as expected and meet criteria of reliability and validity.

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Table 3 **KMO and Bartlett's test for marketing- mix of non-core food items**		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.902
Bartlett's Test of Sphericity	Approx. Chi-Square	19099.616
	Df	210
	Sig.	.000

From the above Table 3, KMO measure of sampling adequacy was 0.902, Bartlett's test of sphericity was 19099.616 and statistically significant at 5 percent level thus, and the correlation matrix is not an identity matrix. It was concluded that the twenty-five variables of marketing-mix represent four factors and the sample size was adequate and suitable for the application of factor analysis.

It was found that all the items have communalities greater than 0.40, whereby the lowest communality is for PRC1. This implies all the variables adequately contributes towards formation of the factors. Further, about 85.363% of the total variance is explained by the four factors extracted as depicted by scree plot with converges at fourth factor.

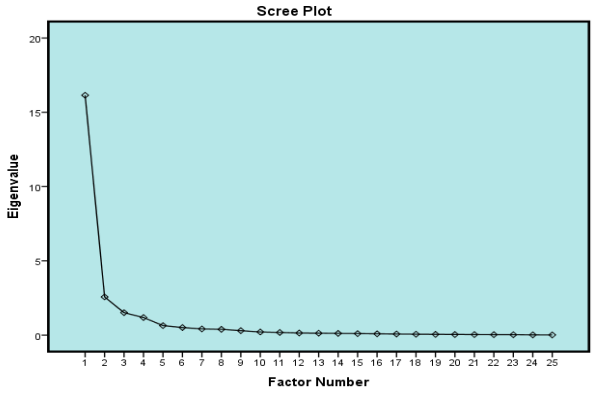


Figure 3: Scree plot showing extraction of four factors for non-core food items

Factor Structure

The pattern matrix below illustrates that variables group into four factors. The table represents clean factor structure matrix with convergent and discriminant validity as evident by the high loadings within factors and no major cross-loadings between factors.

Table 4 **Rotated component matrix for non-core food items**					
Items	**Expected Product**	**Convenience**	**Price Insensitive**	**Non-Social Sources**	**Items**
PRD1	.785				Varieties/ Brands offered
PRD3	.692				Freshness of food items

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PRD6	.807				Accurate measurement of quantity
PRD7	.813				Packaging of product
PRD8	.811				Food label/ Safety Mark
PRD9	.703				Availability of product
PRD10	.795				Taste of the food items
PLC1		.912			Nearness of the shop/Less Travelling
PLC3		.911			Standard Price and Quality offered
PLC6		.786			Wider Choice
PLC7		.736			Easy Return Policy of the shopkeeper
PLC8N		.795			No Bargaining opportunities
PRC1N			.920		NO List Price (MRP)
PRC2N			.793		NO Price charged less than List price
PRC3N			.717		NO Price per unit charged when bought product in small quantity
PRC4N			.597		NO Discount offered
PRC5N			.648		NO Availability of product on credit
PRM1				.622	Packaging of product
PRM3				.815	NGOs
PRM6				.769	TV

From the Table 4, the first factor consists of five variables and named as Place convenience, the second factor consists of eight variables and is named as "Expected Product". The third factor consists of five variables which are named as "Price insensitivity". The fourth factor represents the non-social awareness tools to reach BOP consumers.

Convergent Validity

Convergent validity means that the variables within a single factor are highly correlated. This is evident by the factor loadings. Factors depicted in Table 4, demonstrate sufficient convergent validity because their loadings are above the recommended minimum threshold of 0.350 for a samples size of 300 (Hair et al., 2010). The factors also demonstrate sufficient discriminant validity, as the correlation matrix shows no correlations above 0.700, and there are no problematic cross-loadings.

Discriminant Validity

Discriminant validity represents the extent to which factors are distinct and uncorrelated. The rule is that variables should relate more strongly to their own factor than to another factor. Two primary methods exist for determining discriminant validity during an EFA. The correlations between factors do not exceed 0.70 indicating no major shared variance. However, the given factor transformation indicated a slightly high correlation between first and second factor.

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Reliability

The reliability of the factor structure was computed by Cronbach's alpha for each factor. Cronbach's alpha for all the factor is above 0.7; although, *ceteris paribus*, the value will generally increase for factors with more variables, and decrease for factors with fewer variables. The Cronbach's alpha for factor 1 i.e. Convenience was 0.421, however same was increased to 0.944 by dropping PLC8 N(No Price charged less than List price)

Table 5

Reliability of the instrument for non-core food products

S.No.	Number of Items	Factor	Cronbach alpha	Mean	Variance
1	4	Convenience (Place)	0.944	4.157	1.016
2.	7	Expected Product	0.966	2.662	1.463
3.	5	Price Insensitivity	0.914	3.446	1.220
4.	4	Non-social Awareness	0.850	3.052	1.061

Exploratory factor analyses indicated a four-dimensional structure of marketing- mix as perceived by the consumers for Non-core food items. The proposed marketing-mix comprised of the previously known elements, namely, Product, price, place and Promotion renamed as Convenience (Place), Expected Product, Price Insensitivity and Non-social Awareness.

Discussion and Implications

In the context of food market, literature reveals that conventional 4Ps marketing mix elements should be used as a marketing-mix strategy (e.g., Akbay & Jones, 2005; Knight, Jackson, Bain, & Eldemire-Shearer, 2003; Nevin & Suzan Seren, 2010; Spinks & Bose, 2002). BOP segment spends more than 60% of the total income on food items still they end up buying poor. The current study redefines the Product mix for non- core food items. The product- mix for non- core food items comprised of seven items including Varieties/ Brands offered, Freshness of food items (Expiry date), Accurate measurement of quantity and Packaging of product. In case of non- core food items consumers are more concerned with aesthetics and show an inclination towards brands or varieties, thus this product- mix for non- core food items is named as **Expected product**. Therefore, previously developed product-mix can't be applied at BOP and needs to be redefined for non- core food items separately.

BOP consumers are price sensitive as their basic concern is to satisfy physiological need in best possible way (Chattopadhyay & Laborie, 2005). BOP is characterized by WRI (Hammond et al., 2007)as low income consumers having significant unmet demands, dependence on informal, subsistence livelihood and poverty penalty. They are poorly integrated into the formal economy and depend on informal sector to meet their needs. However in the case of non- core food items BOP consumers displayed complete

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price insensitivity and even if Price charged more than List price, no Discount offered and no Availability of product of credit, still the BOP consumer made the purchase of non- core food items. Thus, this price-mix is named as Price Insensitivity index.

To enhance the interaction between consumer and firms both formal and informal distribution channel is used. For the non-core the place- mix comprised of five items such as Nearness of the shop/Less Travelling, Standard Price and Quality offered, Wider Choice, Easy Return Policy of the shopkeeper and No Bargaining opportunities. However, the last item 'No Bargaining opportunities' was dropped to increase Cronbach alpha. This resulted into four item scale highlighting the convenience aspect of place mix. Thus the place- mix for non- core food items was renamed as Convenience aspects.

Chikweche et al. (2012) found that BOP consumers buy in big quantities to avoid scarcity in future and prefers the shopkeeper based on the availability of the commodities. However, from the current study, it was found that BOP consumers are loyal as far as purchase of core food items is concerned but they prefer more of convenience in case of non-core food purchases.

Communication can effectively change purchase decision of consumer. BOP is a media dark area. The firm faces a challenge of lack of adequate communication infrastructure (Chickweche, 2012). Consumers are faced with the challenge of accessing information from firms. Since communication media is beyond the affordability of BOP consumer and there are frequent power electricity cuts in subsistence marketplace (Chickweche, 2012). However, for non- core food items media-mix comprised of Packaging of product, NGOs and TV. This indicates use of non-social media-mix for obtaining information about non-core food items.

Conclusions

Exploratory factor analysis using Principal Component analysis with Varimax rotation was performed to see if the observed variables loaded together as expected and meet criteria of reliability and validity. The first factor comprised of five variables and was named as "**Place convenience**", the second factor of seven variables named as "**Expected Product".** The third factor of five variables named as "**Price insensitivity**". Fourth factor of four items names as the **non-social media mix to** reach BOP consumers. The factors demonstrated sufficient convergent validity, as their loadings were above the recommended minimum threshold of 0.350 for a samples size of 300 (Hair et al., 2010). Further, the factors also demonstrated sufficient discriminant validity, as the correlation matrix shows no correlations above 0.700, and there are no problematic cross-loadings.

The current research study tries to develop a generalized marketing mix for non- core food items in the context of urban BOP segment with a sample size of 600 households earning less than Rs8000. This study embarks another era of BOP research model based on the quantitative investigation technique. However, the questionnaire framework was really challenging to create; therefore it is suggested that the questions asked to BOP segment should not be too long and time consuming. Further, it is suggested to use 3 to 5 point Likert scale, translated questionnaire in the local language to enhance understandability. Although the research study is non- contrived but results were observed to get improved when discussion on the other related aspects was encouraged. To make sure such mistakes do not happen, the researcher relied on knowledgeable intermediaries to pretest the questionnaire and ask their help to understand elusive

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answers from respondents. In spite of these precautions, the researcher experienced some problems such as the religion of some respondents that deter them from answering to all the questions. Future researches should forecast such constraints and adopt its questionnaire. The macro-environmental constraints such as inflation, role of Govt., other environmental factors, are prevalent in India. These constraints could potentially influence purchase decision by BOP consumers. Future studies are expected to be in direction of macroeconomic factors.

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MACEDONIAN CONVERGENCE AND THE ROLE OF EXCHANGE RATE IN THE RUN-UP TO EU ACCESSION

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Abstract

To cope with competitive pressures and market forces within the EU in the medium-term, the SEE6 needs to address important challenges through determined implementation of structural reforms. Progress with structural reforms can help for macroeconomic stability, for example, by reducing the structural external deficits. Also it helps nominal convergence, as the productivity realizes the improvement of competitiveness and helps disinflation by maintaining low unit cost. So in terms of macroeconomic convergence for SEE6 countries and the case of Macedonia, EU membership requires convergence of the Macedonian economy with that of the EU in realistic conditions, indicating income per capita and economic structure, and in nominal terms, meaning convergence of prices, inflation and interest rates.

Also, in the paper the focus is on the importance of the exchange rate regime as available tool in meeting the requirements needed for entering into the EU. Using the exchange rate as anchor for inflationary expectations, on long run have been effective so far, producing a low and stable inflation rates. However, in periods of low inflation and deflationary pressures, exchange rate anchors do not allow sufficient space for fiscal and monetary stimulus. In this respect, policy makers are under following dilemma: to deviate from exchange rate anchor and increase the space for fiscal and monetary stimulus; to accelerate structural reforms and competitiveness and on short run deepen the recessionary pressures; and to

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increase foreign debt and thus increase scope for fiscal and monetary stimulus while preserving the exchange rate anchor.

Key words:

EU accession, economic convergence, SEE6, exchange rate, Macedonia

JEL classification: O11.

Introduction

Because of the fact that Southeast European countries rely mainly on exchange rate anchors to reduce inflation, the appreciation of the real exchange rate among countries in the region is significant, although it is slightly lower when compared to countries in the EU member states. As a result, these countries suffer from loss of competitiveness. This can be clearly seen from the movements of the deficit on their current account, which are important in all these countries. Using the exchange rate as anchor for inflationary expectations, on long run have been effective so far, producing a low and stable inflation rates. However, in periods of low inflation and deflationary pressures, exchange rate anchors do not allow sufficient space for fiscal and monetary stimulus. In this respect, policy makers are under following dilemma: to deviate from exchange rate anchor and increase the space for fiscal and monetary stimulus; to accelerate structural reforms and competitiveness and on short run deepen the recessionary pressures; and to increase foreign debt and thus increase scope for fiscal and monetary stimulus while preserving the exchange rate anchor.

Economic policies can be instrumental for growth in the near- and the medium-term in SEE6. On the fiscal side, sustained reform effort is needed to address structural rigidities in the budgets of SEE6. Priorities include: changes in the composition of public expenditure toward investment and away from wages, public expenditure targeting and prioritization as well as improvements in revenue collection and the broadening of the tax base, among others. On the monetary policy side, with regional inflation at a very low 1.2 percent and big output gaps remaining, some scope for short-term easing of monetary conditions exist, especially in those countries where deficits have begun to decline.

Importance of exchange rates and macroeconomic challenges with EU accession in Southeast European countries

To acceding into the European Union (EU), countries are facing with macroeconomic challenges on their way to this membership. Countries should meet a number of economic, political and legal criteria. For countries in transition, formal economic criteria for accession are primarily focused on establishing a functioning market economy. The formal process for access puts more emphasis on progress of transition reforms in the early stages of accession, as countries struggle to establish market economies, while compliance with specific criteria for macroeconomic stability are prevailing in the later stages. Fulfillment of economic criteria, in fact, is real and nominal convergence. The progress with market

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reforms can be measured through various indicators of transition. These reforms are essential for improving real convergence or revenue growth to the level of the EU, which helps countries to advance the competitive pressures in the economic union (Bishev 2002). Macroeconomic stability and nominal convergence of key macroeconomic indicators such as inflation and fiscal deficits to the EU levels, is also important for development and progress of a functioning market economy.

Referring to the macroeconomic stability and progress in the transition, both are closely related and important for sustainable growth and progress towards a functioning market economy. Progress with structural reforms can help for macroeconomic stability by reducing the structural external deficit. It also helps to nominal convergence, as productivity realizes the improvement of competitiveness and helps to disinflation by maintaining low unit cost. The challenge for the accession process is to realize a nominal and real convergence with macroeconomic stability and stable development. Further, this could be complicated by the need of facing with potential shocks as large and volatile capital flows and to finalize the transition to a market economy

Like many countries in the early stages of transition, Southeast European countries rely mainly on the exchange rate to reduce inflation (DeBroeck 2006:362-383). Aside from Albania, Romania and Serbia, all other Southeast European countries have neither the currency nor the boards tightly controlled management or pegging for a specific time. Initially, inflation declined with the exchange rate, but increasing of external deficits prompted a move towards managing fluctuation in 2003 (Buiter 2003). Inflation continued again, oppressed administrative prices were adjusted and growing euroisation contribute for increasment of foreign currency-exchange rate shift to the prices. Moving of the regime may hit the credibility of monetary policy adversely, as it is shown through growing euroisation. The drivers were less successful in reducing external imbalances, suggesting trade off with inflation. Although large fiscal deficits can contribute for external imbalances in some countries (Croatia). They also reflect the slow progress in reforming the real economy. The largest current account deficit is among the countries with the most progress on structural reforms (Serbia, Montenegro, Bosnia and Macedonia), which are measured with the same transition indicators or the share of private sector in GDP. This confirms that nominal convergence and macroeconomic stability are closely connected with real convergence and the introduction of market economy.

Exchange rate as fundament and slow structural reforms put pressure on competitiveness (Oskooee 2001). Fixed or nearly fixed exchange rate could lead to unsustainable real appreciation and loss of competitiveness, unless fiscal and income policy remain closely tied and structural reforms increase productivity. For example, in Serbia, the exchange rate in 2002 became unsustainable as real wages grew up and external deficit increased. Pressure for real appreciation in the region is also growing due to large inflows of foreign currency. The sustainability of the exchange rate in Southeast Europe in particular will depend on the accompanying policies. So far, the slow progress of structural reform in many of these economies increases the risks associated with soft pegging. Competitiveness can also be torn over time through a lack of fiscal discipline or weak-income policies. In Serbia and Macedonia, where fiscal policy is tight, exchange rate as fundament can become problematic if competitiveness is lost. This can happen if income policies are also lost or structural reforms fail to boost productivity. Croatia,

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which has significant fiscal deficits and exchange rate as an anchor may also face with problems of competitiveness over time. This can be activated if the currency inflows to the tourism sector or strong capital inflow leads to real appreciation, with opposite effects on other sectors of traded goods. Any move toward more flexible arrangements in Southeast Europe should be carefully considered to avoid market distortions successfully.Various indicators show that the economies of Albania, Bosnia, Macedonia, Serbia and Montenegro need more progress in transition reforms to become functioning market economies, a key criterion used by EU for moving the countries from one phase of the approach to another. Slow structural reform is also reflected through low levels of FDI and this may limit the potential for growth in the medium term - or real convergence. Slow structural reform also affects macroeconomic stability, which is the core of large external imbalances in some countries. Especially in Bosnia and Serbia, large current account deficit reflects low level of competitive exports, while imports is increased by foreign remittances, strong credit growth or potential flexibility of required management.

Macroeconomic challenges in other countries of Southeastern Europe are related with viability of their monetary framework, risks of rapid financial deepening and future fiscal consolidation in supporting growth and stabilization. Many current actors for exchange rate may not be sustainable over the whole time, unless if they are better supported by fiscal consolidation and structural reforms. Also, various indicators haven't show a clear sign of problems with the competitiveness of these countries now. Large external deficit and weak supportive policies in some countries may increase these risks over time. The shift towards more flexible monetary framework is complicated by high euroisation, resulting in weak monetary transmission mechanism. In future, this underlines the need for fiscal consolidation and increased flexibility of fiscal policy in responding to the shocks as the need for structural reforms in lowering external imbalance too. Rapid credit growth, especially in foreign currency, add further pressure on the external balance and inflatory dynamic in many countries. This is challenging supervisory capacity in mitigating the risks in the financial sector. Most Southeast European countries have "space" to reduce public spending and to increase the share of growing consumption. A lower deficit will increase private sector, leading to growth as it facilitates macroeconomic management too. Also growth will increase by reducing high taxes on labor in many countries. But the biggest fiscal adjustment blow should come by reducing bigger salaries in the public sector, subsidiary and transfers.

Exchange rate regimes in the region are different, ranging from currency board in Bosnia and Herzegovina to almost free fluctuation without inflationary targeting in Serbia. The common is that due the transition process these countries have dedicated special attention to their exchange rate regime and most of them used fixed exchange rates, reflecting their large trade openness and their efforts to set up a strong monetary authority. Regardless the exchange rate regime, the appreciation of the real exchange rate of the countries in the region is significant, though slightly lower when it is compared with the EU Member States. As a result, these countries also suffer from a competitive loss. This can be clearly seen from the movements of the deficit in the current account, which is important in all these countries. For example, current account deficits in 2007 ranged from 3.1% of GDP in Macedonia to 36.2% of GDP in Montenegro.

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Using the exchange rate as the hope for inflation expectations have been effective until now, producing low and stable inflation rates (Goswami 2011:263-274). In terms of high import dependence and relatively slow implementation of structural reforms realized in increased export potential, contributed to the importance of high trade deficit, was mainly financed by higher private transfers. The transition process in Macedonia is specific because of the relatively slower process of real convergence and continuing real depreciation of the Macedonian Denar.In many cases productivity in the tradable sector is compared with growth of foreign partners with relative lower rates (Loko and Tuladhar 2005). This was due to the absence of large foreign companies and loss of important foreign markets, especially after independence. In such conditions, the only way to maintain the competitiveness of macedonian producers was the specialization and exports of lower quality products. These developments have generated inflationary pressures, which caused absence of real appreciation that was evident in other transition countries. In the past few years, Macedonia moves quickly and closer to the more advanced transition economies. As regards nominal convergence in the context of European Union integration, Macedonia faces with challenges which are common to the most economies in the region and beyond. Since 2007, there has been acceleration of the inflation rate, which is mostly caused by the global price rise of food and energy. Thus, uncertainty in the movements of these prices, and expectations of pressure caused by the process of real convergence, are the main challenges for monetary policy in the medium term.

Convergence of Macedonia and SEE6 - economic condition and recovery

The SEE6 countries exited from recession in 2013 with economic growth supported by the recovery in high-income countries, particularly those in the European Union (EU) (NBRM 2013). External demand for SEE6 exports was the key driver of this growth recovery, reflecting an improving European and global economy. An export-led recovery combined with depressed domestic demand resulted in a significant narrowing of current account imbalances in all SEE6 countries. The increases in exports and the declines in imports lowered the trade deficit of SEE countries by 4.7 percent of GDP and the current account deficits by 3.4 percent of GDP in 2013 (World Bank 2013e). Exports to the EU grew strongly, especially in Bosnia and Herzegovina, Macedonia, and Serbia. Montenegro's and Kosovo's share of exports to the SEE6 region increased. Manufactured goods were the largest share of exports from SEE6 followed by machinery and transport equipment. Jointly they comprised over 60 percent of exports in 2013 in the region. The major increase in 2013 came from export of machinery and transport equipment from Serbia. Exports in Macedonia grew also on the back of machinery and transport equipment as well as chemical materials. Mineral fuels exports were quite significant in Albania and Montenegro, while base metals were around a quarter of exports from Kosovo in 2013 (World Bank 2013c).

The reports by NBRM showed improved performance in the current account in 2013 due to the improved balance of goods and services, amid reduced net inflows in current transfers and higher net outflows in income (NBRM 2014). The reduction in the trade deficit by 3 percentage points of GDP was mainly caused by a narrowing of the energy deficit, although the non-energy had the same, however significantly milder effect. The individual components of trade registered divergent movements. Exports, driven by the

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enhanced activity of the new capacities in the economy with foreign ownership, registered an annual growth of 3.2%, while the reduced demand for energy products and the annual decline in energy prices reduced the import component, causing an annual decline of 1.5%. Divergent movements in exports and imports caused stagnation of total foreign trade on annual basis. The exports of the companies from the industrial development zones were the most important driver of Macedonian exports in 2013, increasing their resilience, amid still unfavorable global conditions that caused a decrease in the exports of the metal industry. Also, increased exports of new companies were sufficient for offsetting the significant decline in the exported petroleum products, caused by the simultaneous reduction of the exported quantities and lower export prices. Price competitiveness indicators of the Macedonian economy showed a negligible appreciation of the Denar in 2013. The CPI-deflated real effective exchange rate rose by 0.9%, while the PPI-deflated REER recorded an annual appreciation of 0.4%. The change was entirely caused by the movement of the nominal effective Denar exchange rate, as a result of the appreciation of the domestic currency against the Russian Ruble and Turkish Lira, with favorable slower movements of domestic relative to foreign prices. Depreciation of the Ukrainian hryvnia, Russian ruble and Turkish lira against the denar had a influence for the further appreciation of the nominal effective exchange rate by 2% on an annual basis,and this caused upward pressures on both REER indices (NBRM 2014). The growth of foreign consumer prices and as faster growth in foreign versus domestic prices of industrial products, led to a decline in relative prices by 2.3% and 0.4% in the domestic price competitiveness. The REER deflated by producer prices appreciated by 1.5%, while the REER deflated by consumer prices depreciated by 0.7% on an annual basis. Also, relative prices of industrial products recorded a growth of 0.5%, driven by higher domestic prices. NEER appreciation continued in August 2014, annual change driven by the depreciation of the Turkish lira and the Serbian dinar against the denar.

Economic policies can be instrumental for growth in the near- and the medium-term in SEE6. On the fiscal side, sustained reform effort is needed to address structural rigidities in the budgets of SEE6. Priorities include:

Changes in the composition of public expenditure toward investment and away from wages;
Public expenditure targeting and prioritization, as well as
Improvements in revenue collection and the broadening of the tax base, among others.

On the monetary policy side, with regional inflation at a very low 1.2 percent and big output gaps remaining, some scope for short-term easing of monetary conditions exist, especially in those countries where deficits have begun to decline (European Commission 2014).
However, caution needs to be exercised in the economies with flexible exchange rates to ensure that these do not come under pressure. In terms of financial sector policies, addressing the high NPLs would be critical to ultimately restoring the growth of credit and supporting entrepreneurship and job creation. The region that provides greater long-term rate of real economic growth, and sustainable GDP growth based on profitable production with sufficient export content has a better chance of attracting foreign capital.

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Namely, international investors rightly expect to achieve high rates of return on invested capital in that region enjoying long-term sustainable economic growth. Thus, the trend of the movement of the real exchange rate euro / dollar mostly affect the sustainable rate of real economic growth, which is associated with net capital flows. Financial stability and the efficient allocation of macroeconomic level appear in each economy as an indirect product of successful political coordination. Variables such loans, the cost of funds and the real exchange rate are not aim of any instrument; transparency limits the extent to which they could be involved in decisions. The experiences of this region confirmed that alternative monetary and fiscal regimes, giving adequate political support, can provide very well low inflation. Much more difficult for assessment are the risk characteristics of the regimes.

In Southeast Europe, the conspirators for fixed and floating regime can easily underestimate the dangers which monetary policy are facing with during pre-assessment period (Bisev and Petkovski 2003):

Hard pegging is linked with the region with credible policy management, and they insulate the economy from shocks to the nominal exchange rate. But they may accelerate the expansion of non-hedging borrowing in foreign currency, and they put a high premium on the flexibility of the real sector in terms of shocks;

Meanwhile, the dynamics of inflation can question the early adoption of the euro as an exit strategy from that pegging. Flexible exchange rate facilitates the adjustment, and as part of a coordinated political effort can help in slowing the growth of risk in the balance sheet items. But to the extent that such risks are created over time, these modes offer no more than qualified safety valve in case of exogenous or policy caused shocks;

Regarding the stability of the money, i.e. price and exchange rate stability, in Maastricht Treaty is guaranteed that the stability of the price level is the main priority of monetary policy in the Euro area. What will be the actual performances of the monetary policy of the ECB does not only depend on the formulation of monetary policy objectives but also from the real sector movements in the economy;

It can be estimated that the real effects of monetary policy will be influenced by two conflicting groups of real factors. The increasment of competitiveness of the society will act to strengthen the internal and external power of the euro, and therefore the attractiveness of the euro as an international currency too. On the other side, there is a potential danger that may arise from low rates of economic growth combined with pressures in the direction of large fiscal deficits, which were associated with lower rates of growth and a greater participation of old population;

The challenge of managing rapid financial convergence is something that calls for risk-averse macroeconomic policies. But it also depends to a large extent by strong structural policies. Structural reforms are key for strengthening the tradable sector and other productive activities, but also in providing capacity for sharing resources between sectors and generally adjustment to the economy over time;

The process of real convergence should has balanced path of economic growth, with manageable external current account and real exchange rate dynamics during the convergence, as well as

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adequate capacity for adjustment in the medium term;

Challenges for fostering sustainable growth and preserving financial stability on the road to EU accession, are with full complementarity;

What can be concluded from the first aspect of the monetary framework which is best suited for managing the real and nominal convergence on the road to the euro, starts exactly from the view that inflation targets seem to have a better set of available tools than those that peg for managing the process of convergence with balance towards adopting the euro;

The main risk for targeters are excessive fluctuations in exchange rates, but if the policies are aimed at macroeconomic stability, the probability to make this reality is reduced. Then, the possibility danger is excessive appreciation of the nominal exchange rate, which is likely to lead the country toward expensive interventions or reduction of domestic interest rate that could fuel a credit boom. Options are limited for those who peg.

Acceptance of the euro: pressure for early date or achieving higher level of real convergence?

Leaving hard pegging before adopting the euro brings danger of losing the confidence and depreciation of the currency, which can create a deep recession in negative effects on the debt of households and firms in the country (where the debt is high euroized), as in the Baltic countries (Begg 2011:376). If the output is well communicated as a transition step towards early adoption of the euro, the recession may not occur or would be mild, in the country would become better positioned to contain inflation. Here the danger is that the appreciation of the nominal exchange rate can shift thus leading to loss the competitivity or worsening already weak competitive position.

So when the question is about the time for adoption of the euro: whether to make pressure for early date or to obtain a greater real convergence? The question of optimal time for adoption of the euro must be resolved. Potentially the most difficult criterion of nominal convergence is precisely the criterion for inflation. This is because it means bringing the convergence of price levels that can be achieved either through higher inflation or exchange rate appreciation. Control of the authorities in these two areas is limited because of the unlimited flow of capital and related restrictions on domestic monetary policy. Quitting tools of foreign policy can be a problem. If the approach associated with the factors that feed inflation as structural convergence of price levels and low levels of financial deepening that drives demand for credit is still strongly present in the economy, the loss of foreign exchange policy could lead to increased destructive cycles and derailing smooth convergence process, such as difficulties related to Latvia to cool the overheating economy. This is because it seems easier to keep the appreciation of the real exchange rate inherent in the process of approaching a greater or lesser balance by allowing nominal exchange rate to appreciate than keeping inflation steady direction after leaving all the flexibility, however limited independence of monetary policy. If overheating of the economy leads to loss of competitiveness and slow growth, it is difficult to recover through price and wage disinflation after the surrender of the independence

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of monetary policy in the eurozone, as the experience of Portugal.

It is not that easy to keep the nominal exchange rate equilibrium on appreciate current direction in terms of free movement of capital and globalized financial markets. These issues further developed their own assessment of the advantages and disadvantages of:

Pressure for early adoption of the euro and address the risks of higher inflation and the need to regain competitiveness without available tool exchange rate; or

Postponement of membership in the euro and its advantages and confronting the risks arising from volatility of exchange rates.

This dilemma could be approached from the perspective - where the country is in the process of convergence. If the gaps are close to GDP per capita and price levels are still quite large as the speed of convergence is on real high level, the country will have difficulties in controlling inflation in the monetary union. Consequently, it may be proposed to postpone adoption of the euro until they reduce gaps or differences.

Research can be seen that all new members in terms of traditional optimal currency area, their stance should not be an obstacle for adoption of the euro. Empirical studies show that membership in the monetary union promotes synchronization of business cycles and financial integration. New researches underline that the strength of the endogenous variables in the euro area is strengthened by the fiscal discipline embodied in the supervisory structure of the EU by reducing the probability of characteristic fiscal shocks (Ferrando *et al.* 2004).

Considerations for adoption the euro in a small and open economy – the case of Republic of Macedonia

As part of the EU accession, from Macedonia is expected to adopt the euro as its currency some time after the accession. The time for accession to the euro depends of two factors: is the country able to meet the necessary conditions and where the benefits of EU membership outweigh the costs (Buiter and Grafe 2002).

Macedonia appears to be relatively well positioned in bidding early entry into the EU as long as its macroeconomic policy can withstand the shocks to join into the EU. The adoption of the euro should promote increased trade volume with other members of the eurozone (Schadler 2004). Considering the size of Macedonia and dependence of the trade volume, trade expansion should be seen as an important benefit of the adoption of the euro. Therefore, Macedonia expects capital inflows, including more FDI, even before the adoption of the euro; there will appear political challenge in the short term as benefit in the long run too. As a small country, Macedonia has limited room for independent monetary policy. The standard arguments for optimum currency area in view of the importance of synchronization of shocks among the members has some validity, but many transition economies that once were joined into the EU didn't experience a strong correlation of the shocks (Schadler 2005). Thus, the argument that appears is to

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be relatively early adoption of the euro if the process can be well managed. In doing so, this implies to the decisions on exchange rate policy and strong macroeconomic management. What kind of regime is needed to follow before or after accession depends of a certain part on how quickly the new Member States wishing to adopt the euro as its currency. The experience of the new EU Member States in terms of their choice of exchange rate is limited on two regimes: it can be called highly pegging, including the currency board arrangement and a floating exchange rate with monetary policy based on inflation targeting. The most advanced Member States have decided for a flexible regime and inflation targeting, while those with a higher volume of real convergence should begin to realize, such as Bulgaria and the Baltic countries, which opted for a strong pegging.

New Member States which adopt the euro were relatively well positioned in meeting the requirements of ERM II, and they have made significant progress in terms of real convergence. The consensus of researchers is that in ERM II and even before getting here, fluctuating exchange rate regime is the most appropriate for countries that are facing with greater capital inflows or euroization and there should be avoid soft pegging (Begg 2006). Leaving hard pegging before adopting the Euro can lead to confidence loss and the depreciation of the currency. The advantages of the strong pegging or fluctuation with inflation targeting poses several serious dilemmas for Macedonia, which has long maintained de facto pegged to the euro. Macedonian exchange rate regime serves reasonably well to the country. Currency maintains its value against the euro in trade and financial regime that grew with openness to the global forces. Reserves, in the time till the crisis period, increased and capital inflows are managed at acceptable costs of sterilization. But it is clear that the road to EU accession involves real rapid convergence, and it will release strong inflationary pressures through the Balassa-Samuelson effect, lower interest effects and so on (Schadler 2004). Macedonian competitiveness, measured by unit labor costs, is not in line with neighboring countries, so there is little reliance on the real appreciation of the currency without exposing the fragility of the balance of payments. To the extent that real and interest convergence will precede the EU accession, de facto pegging may come under pressure in inappropriate time. This, again, highlights the need for correction in energy prices and public conditions well ahead of access and development of measures as tax policy.

In the past few years, Macedonia rapidly moves closer to the more advanced transition economies. Several years in a row there is positive and stable growth rate. Although economic growth rates are lower compared to those of the Baltic countries, and in some countries in the region, this is a sure sign of acceleration of the process of real convergence. This process is also supported by FDI and portfolio investment as rapid credit expansion too (Hochreiter and Tavlas 2004).

Regarding nominal convergence, Macedonia is facing with challenges that are common for the most economies in the region and beyond. Thus, uncertainty regarding the movements of prices and expectations of pressure caused by the process of real convergence, are the main challenges for monetary policy in the medium term. Further, Macedonia is facing with significant transition challenges and only through effective decision of these challenges the country will be able successfully to compete on the EU market. To formulate effective policy, it is necessary researching of the growth of total factor productivity

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in Macedonia as well as the reasons for low business investment. Macedonia's membership in the EU can improve the industrial situation only if access to a large extent makes Macedonia location from which foreign investors can serve to the EU market. This means that the domestic industry, with FDI must make the necessary changes to its output. These long-term structural shifts in employment and output, can be accelerated through the accession of Macedonia to the EU, i.e. sectoral change can be an important driver of change in aggregate factor productivity and income of workers in different sectors of the economy.

Given the large gap in price and income per capita between Macedonia and the EU, price accepting will be an important source of inflationary pressure, as it faces the existing price distortions in the energy, municipal services, etc. Before accession it can move this factor as inflationary engine around the time of access where the effect of real convergence on inflation is combined with negative short-term effects of EU accession on fiscal balance, falling interest rates and so on. This will require careful management of the exchange rate. This means that, if the Macedonian real growth accelerates, Macedonia will be more attractive candidate for EU membership, but it will face with more intensive pressures to the exchange rate regime and macroeconomic policies. Labor, capital and product market, all these are transmitters of the monetary and fiscal policy, i.e. creation of a functioning and flexible markets is important, not only in terms of meeting demand competitive single market but in terms of creating a more effective government macroeconomic policy. Regarding Republic of Macedonia, it is important to keep in mind that the economic policies and reforms should be consistent with the reforms and policies of convergence and integration with the EU, as long-term strategy.

With the support of the estimation that showed elasticity bigger than 1, in a small and open economy such as the case of Macedonia, using real exchange rate as an instrument, here are recognized the performance of opportunity for export growth, increasing aggregate demand, increase economic growth. So, in future, exchange rates can be seen not only as an instrument for maintaining price stability in Macedonia, but also as a tool that will contribute to the economic stability of Macedonia, strengthening the stability of the financial system and supporting for fast convergence meaning accession to the EU.

Conclusion

The role of the exchange rate as a nominal anchor derives from the characteristics of the domestic economy, as a small and open economy that is highly dependent on the import of primary commodities. According this, Macedonian exchange rate can be used as an instrument for export performances of the country and macedonian policymakers should create policy with several aims focused on exchange rate policy because:

A competitive real exchange rate provides an incentive for exports;

The impact of exchange rates on trade should be seen in the context of continued integration of supply chains;

Exports generally include high import content and impact of foreign currency-exchange appreciation

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or depreciation on any finished product because it is complex. If the depreciation of the exchange rate makes its exports of finished products "cheaper", it makes imported components "expensive" for domestic producers;

Maintaining growth and reducing the unemployment in a small and open economy such as Macedonia depends from improved performance of exports;

Improving the performance of exports can help to preserve macroeconomic stability by closing the gap in the current account to avoid wasting supplies and to stop the growth of external debt;

Improving performance requires improving export competitiveness;

An outward oriented, market-friendly trade regime, which emphasizes the dismantling of import controls and tariffs (permitting access to inputs at world prices), and streamlined bureaucratic procedures, *i.e.* export and import procedures, modern customs administration and efficient value added tax administration will facilitate exports, including from SMEs.

How Macedonia could reach and sustain higher rates of economic growth thus speeding up the process of economic convergence too?

The researches offer options that include increasment of the labor contribution to economic growth by raising labor participation and reducing unemployment (Srinivasan and Archana 2011:49-58).The second options means improvement of allocative efficiency. This understands promotion enterprise restructuring and reforming product market regulation as including regulation in the infrastructure sector. Next options is focused on deepening trade integration by promoting export-oriented FDI and developing the supply of exportable goods, meaning that Macedonia would need to integrate its logistics infrastructure. Accelerating the process of economic convergence will be supported by fostering technological progress. The recommendations are focused on policy-makers, inviting them to identify what policies are politically feasible and to be checked for their consistency with the overall objective of raising and sustaining economic growth. Next, these strategies need to generate institutional requirements that are commensurate with the existing institutional endowment of Macedonia. This will lead to a near-term focus on deepening trade integration and fostering innovation, while measures related to expanding labor participation and employment could be adopted more gradually with a long-term perspective (Srinivasan and Archana 2011:50-53). These measures would better position the country to fully benefit from EU Accession and to better manage the effects of the global financial crisis, by strengthening Macedonia‘s international competitiveness. In addition to the policy measures directly recommended for deepening trade and fostering innovation, the following complementary policy initiatives would be required:

Advancing *enterprise restructuring* (privatization) and the promotion of stronger *market competition* (improving product market regulation and de-regulation);

Adjusting the *life long learning system* to market needs, encouraging *labor training* by firms, and improving the supply of (selected) skills by possibly reviewing *migration rules* for labor market segments where the skills-gap is binding;

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Political resistance to the trade and innovation measures associated to the proposed strategy is likely to be comparatively low, with the exception of enterprise restructuring efforts. C*ompensatory policies* for workers negatively affected by enterprise restructuring should be considered;

Preliminary evidence on the positive association between access to non-banking finance and total factor productivity suggests further examination of the role of non-banking financial institutions in the selection of investment opportunities and thus in fostering growth in Macedonia.

Summarizing, there are starting point to introducing high integration for structural adjustments and growth:

Faster productivity and quality catching – up;

Faster wage catch-up;

Faster upgrading of commodity structure leading to a faster disappearance of asymmetries in income and price-elasticities;

Impact on invisible and income accounts: more trade and transport services (balance impact neutral); more tourism in both directions; more deficits in other services (here lies one of EU's comparative advantages; more personal transfers;

Impact on capital movements: more FDI and portfolio investment; easier access to credits and better conditions for debt servicing;

Greater pressure towards reducing the "undervaluation" of the national currencies: speed up of institutional changes and market functioning will increase convergence of price structures; more pressure to achieve a higher level of international purchasing power because of greater tourist flows and more imports; more pressure to achieve monetary stability and use of the nominal exchange rate as an anchor with the view of coming closer to the Maastricht criteria;

Greater openness of EU market.

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ENTREPRENEURIAL FINANCING AND SUCCESS IMPERATIVES: NURTURING AND ENABLING THE GOOSE THAT LAY THE GOLDEN EGG

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Abstract

The last decade has witnessed the dynamic emergence of entrepreneurship research worldwide. There seems to be widespread recognition that entrepreneurship is the engine driving the economy and society of most nations. Entrepreneurial activities have been found to be capable of making positive impact on the quality of life of the people and the economy of a nation. Thus, entrepreneurship, entrepreneurial activities through venture-some and enterprising behaviour are the necessary lubricant that oils the wheel of progress economy-wide. Studies have established its positive relationship with stimulation of economic prosperity, employment generation, poverty alleviation among others. Financing is a challenge to success for any entrepreneur. It follows therefore that the absence of necessary oiling of the wheel of progress through appropriate financing will vitiate the positive contributions of entrepreneurs to economy development.

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Keywords:

Entrepreneurship, Entrepreneurial, Financing, Small Business.

1. Introduction

At the start of the 1980s, majority of European countries experienced an economic downturn. Unemployment was high and the neo-keynesian approach of deficit spending led to budgetary and monetary problems in a number of countries. Governments had to look for alternatives to intervene in the economy. Different measures at local, regional, national and European levels were set up in order to assist SMEs. It did not take long before SME policy became a patchwork quilt of complexity and idiosyncrasy. The Nigerian economy is not left out of the economic downturn, the economy is in doldrums. Government have persistently failed over the years to fulfill the obligations to manage the economy properly and cater for the wellbeing of the citizens. Financing is a challenge to success for any entrepreneur. However, entrepreneurs wishing to start a business in a distressed urban area face special barriers to access. These barriers generally include lack of verifiable market information, limited access to capital markets, cost of technical expertise, redlining and racial discrimination, reluctance and risk aversion of bankers and underdevelopment of seed financing and business angel investors. While in the United States analysis shows the existence of a wide range of types of finances, in Europe there is certainly a major need to stimulate them, as they are not sufficiently widespread. Among these financing options are: personal credit; micro-angels; bank and credit unions; government assisted financing; hybrid programmes bringing together banks, governments and foundations; and private seed and venture capital. One of the main characteristics of an entrepreneurial area is the offer of a hybrid variety of financial instruments. Policy must therefore, especially in Europe, look at innovative ways to stimulate entrepreneurship in combination with innovative financing schemes. Innovative approaches to financing, together with measures tackling the demand issue should be part of a local policy aimed at creating economic growth and employment in distressed urban areas. The North American analysis, while indicating some methods for improving access to finance (via the improvement of sources of data on market analysis and the use of tax credits), underlines that money is not the most important aspect of entrepreneurship, and that public programmes can bring capital closer to the entrepreneurs but they cannot bring the entrepreneurs success. Capital must be wedded to understanding of the market, good planning, mentoring and advice. Entrepreneurs consider that not all money is the same. They take into account several criteria when considering different sources of finance for their ventures. To achieve successful and profitable business development it is necessary to ensure that the right type of money is matched to the real risk involved. For a start-up, with no income until the product is fully develop and the first sales are made, debt finance is rarely the best source of external finance. Debt finance is usually secured on assets. The longer or the more uncertain the period to exit, the higher is the collateral required. Moreover, the riskier the project, the higher the anticipated reward needed to attract investors. Therefore, financing instruments should include a wider range of finance sources. Enhancing entrepreneurship and encouraging people to set up their own businesses does not make sense if good projects do not find

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appropriate financing. And despite recent interest in promoting venture capital and business angels, and the very liquid position of banks, the problem of access to finance is still not solved, as shown by different surveys. Evaluation of the different policies stressed the methodological problems in identifying policy impacts, the overall conclusion was rather negative. In particular, evaluations showed that only a few small businesses appeared to be willing to accept support. However, entrepreneurs wishing to start a business in a distressed urban area face special barriers to access. These barriers generally include lack of verifiable market information, limited access to capital markets, cost of technical expertise, redlining and racial d125iscrimination, reluctance and risk aversion of bankers and underdevelopment of seed financing and business angel investors.

2. Conceptual Framework

There is no consensus on the definition of small and medium scale enterprises (SMEs) as the terms small and medium are relatives and the defer from industry and country to country . The deference amongst industries could be as ascribed to the deferent capital could arise as a result of differences in industrial organisation of countries at deferent stages of economic development . what might there for be defined as SME in a developed country can regarded as a large scale enterprise in a developing country , using such parameter as fixed investment and development of the labour force . it is important also to recognizes that definitions changed over time and hence , even in a developing country what was previously classified as SME could be regarded as a large-scale industry when the quantities of relevant parameters change during the production process. In Nigeria, several attempt have been made to defined and classify SMEs , and probably due to differences in policy focus, different government agencies apply various definitions. For instance , the center for industrial research and development (CIRD) of the Obafemi Awolowo universities, Ile-ife according to Obitayo (1991), defined small-scale enterprises as enterprise with a working capital base not exceeding #250,000 and employing on full time bases , 50 workers or less . The Nigerian bank for commence and industry (NBCI) adopted a a definition of small-scale business as one with total capital not exceeding #750,000 (excluding cost of land but including working capital). The federal ministry of industry's guidelines to NBCI defined a small scales enterprises as one with a total cost not exceeding #50.000 (excluding cost of land but including working capital). The Nigerian industrial development bank (NIDB) defined small-scale enterprises as an enterprises that as investment and working capital not excceding #750,000 why its defined medium scale businesses as those operating within the range of |#750.000 to #3,0million in 1979, the central bank of Nigerian (CBN), In its credit guideline to commercial banks, stated that small scale enterprises where those with annual turnover not exceeding #500,000 while the merchant bank where to regard small scale enterprises as those with capital inverstment not excceding #2milloin (excluding cost of land) or with maximum turnover not for more than #5milloin. Empirical evidences have show that prior to the late 19th century, cottage industries, and mostly small and medium scale businesses controlled the economy of world giants like Europe and America. The industrial revolution chanced the status quo and introduced mass production. The Small and Medium Scale Enterprises (SMEs) development facilitates the globalization of human and capital resources towards economic development, in general, and the rural sector, in particular.

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They have been identified as a vehicle for employment generation and providing opportunities for entrepreneurial sourcing, training, development and empowerment. Developing nations such as Nigeria characterized as low income earners by the World Bank, value small and medium scale enterprises (SMEs) for several reasons.

Borkowski and Kulzick (2006) list the interplay between entrepreneurship and environment as follows:

a) New venture strategies are formed in response to environmental forces;
b) Entrepreneurs are negative towards and will resist political interference; and
c) Unstable environments are negatively related to growth opportunities.

3. Literature Review

Entrepreneurship is more than simply "starting a business." It is a process through which individuals identify opportunities, allocate resources, and create value. This creation of value is often through the identification of unmet needs or through the identification of opportunities for change. Entrepreneurship is a combination of mindsets, knowledge and skills. As mindsets take shape at an early age, entrepreneurship is something that should be fostered. This is the ability to rapidly sense, act and mobilise even under uncertain conditions through positive attitude and possibility thinking. Entrepreneurship can be defined as the process of using private initiative to transform a business concept into a new venture or to grow and diversify an existing venture or enterprise with high growth potential. Entrepreneurship means doing a new thing or doing thing that are already being done in a new way. Entrepreneurship has been recognized as an important aspect and functioning of organization and economies (Dickson et al, 2008). It contributes in an immeasurable ways toward creating new job, wealth creation, poverty reduction, and income generating for both government and individuals. The list of the definitions of entrepreneurship is endless. This author seeks to contribute the following six (6) definitions to the term entrepreneurship

a. An entrepreneur is the person (the subject), entrepreneurship is the process (the verb) and new venture or enterprise is the creation of the person and the output or outcome of the process. (the object). **Oluwasanya.A.T (2016).**

ENTREPRENEUR	ENTREPRENEURSHIP	ENTERPRISE
The Enabler/The Actor	The Process/The Act	The Output/Outcome
Subject	Verb	Object

Source: Oluwasanya.A.T (2016)

b. In the words of **OLUWASANYA A.T (2016)**, Entrepreneurship is the process of setting up one's own business as distinct from pursuing any other economic activity, be it employment or practicing some profession. The person who set-up his business is called an entrepreneur. The

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output of the process, that is, the business unit is called a new venture or an enterprise. The following outcomes manifest speedily:

i. A new venture or an enterprise.
ii. Value
iii. New products/services and processes
iv. Profits and other income streams
v. Growth.

c. Entrepreneurship is a focused, purposeful and creative activity of identifying a need, mobilising resources and organising production with a view to delivering value to the customers, returns for the investors and profits for the business. Entrepreneurship is therefore the outcome of a dynamic interaction between the person(Entrepreneur) and the environment. **Oluwasanya.A.T (2016**

d. Entrepreneurship is the process through which individuals identify opportunities, allocate resources, and create value. This creation of value is often through the identification of unmet needs or through the identification of opportunities for change. It is the art of being an entrepreneur which is seen as "one who undertakes innovations with finance and business acumen in an effort to transform innovations into economic goods. **Oluwasanya, A.T (2016)**

e. Entrepreneurship involves capturing ideas, nurturing and converting them into products or services and then establishing a business outlet with the fixity to take the products to the market place for consumers and customers to purchase. **Oluwasanya.A.T (2014)**

f. Entrepreneurship is the physical manifestation of an enterprising behaviour in tandem with the potencies, willingness, ingrained ability and capability to successfully run a business or venture. **Oluwasanya.A.T (2014)**.

From the foregoing, this author seeks to contribute the under-listed acronym to the term entrepreneurship.

E:xamine needs, wants, and problems.
N:ote and narrow down the possible opportunities to one specific "best" opportunity.
T:otal commitment with high work ethics
R:eliable and passionate
E:nterprising personality and behaviour
P:roactive and pragmatic
R:elationship Management expert
E:nergetic and competitive by nature
N:ever allow reactivity or limiting belief
E:mphasise on key performance indicators and critical success factors of the business.
U:nderstanding of the need for commitment and high work ethics.
R:ealistic and positive accomplishment and creative destruction
Seized by passion and fixity of purpose to make things happen positively for the business.
H:ighly focused and motivated
I:nnovator with inner drive for success.
P:ossibility mentality

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SOURCE: OLUWASANYA A.T (2012)

Entrepreneurial Concept

An enterprise also does not need to be small and new to be entrepreneurial. There are two (2) ways in which organisations can be entrepreneurial:

- *Over the longer term:* by eliminating excess bureaucracy, while striving to make the total organisation more entrepreneurial.
- *In the shorter term:* by creating entrepreneurial units that operate independently of the *'mother ship'*.

The latter approach is most conducive to self-renewal in fast changing industries because there may be no long-term future unless fast action is taken. While every-one in the organisation should be encouraged to be more entrepreneurial, in practical terms it will be more effective to initiate some separation of the tasks of delivery and self-renewal. The larger, more stable, part of the organisation can then focus on the delivery of existing services while new entrepreneurial units can lead the self-renewal efforts

Entrepreneurial.

This is the behaviour of the entrepreneur in the market place. To be entrepreneurial, an enterprise has to have special characteristics over and above being new and small. Indeed, entrepreneurs are a minority among new businesses. They create something new, something different; they change or transmute values.

Entrepreneurial endeavour consists of the following four key elements:-

i. New business venturing or corporate venturing. This is the creation of a new business within an existing organisation through redefining the company's current product, services and developing new markets
ii. Organisational innovativeness. This refers to product and services innovations with emphasis on development and technological innovations. It also involves new product development, product improvements, new production methods and procedures.
iii. Self-Renewal. This is the rapid development and transformation of an organisation through the renewal of the key concepts on which it is built. It inherently denotes strategic and organisational change connotations in forms of redefined business concepts and reorganisation
iv. Pro-activeness. This involves initiative, risk taking and being aggressively competitive while thinking and acting in anticipation of change. Proactive organisations are leaders in any industry they belong.

For an entrepreneur, below are ways of obtaining finance in Nigeria:-

a. Personal Finance/Personal savings

All that is required to fund the business is the entrepreneur's personal savings. This may be savings from

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his day job or from sale of personal assets. Personal savings from previous jobs done which have been accumulated by way of surplus overtime. When it becomes sizeable, it is then used to start the business.

b. Family and friends

One of the sources of business funds is family members and relatives. Borrowing from friends, parents, siblings, uncles, is significant and good if you come from a family where there are able and capable people to lend you. Sometimes they offer such moneys without asking for interests and you don't have service the debt. In some families, they have meetings on how to collectively support one of their own. It is a common practice in Nigeria.

c. Commercial banks

Nigerian banks often give loans to individuals for many reasons but not without collaterals. Collaterals are property or something given to the bank in place of money borrowed so that the bank can sell off that thing and recover their money. Bank loans can be classified into short, medium and long term. Commercial banks in Nigeria provide loans for entrepreneurs who are able to meet certain conditions.

d. Microfinance banks

Unlike commercial banks, microfinance institutions are meant to serve small business owners and entrepreneurs. They are not as big as commercial banks and nearly never have more than a branch or two. With a microfinance bank there are more friendly interest rates and less requirements. Due to their financial strength, they mostly provide small loans. I doubt one can get a loan of 10 million from a microfinance bank.

e. Cooperative societies

Every business person in Nigeria is familiar with cooperative societies. A group of like-minded people can pool their resources together and help one another. The key requirement is active membership of the society, paying all dues and fulfilling all obligations. In Nigeria, people often join co-operative societies and borrow so as to generate business funds. They do money sharing in turns, in that a huge percentage of their savings are given to members to start business with it.

f. Grants

Grants are non-repayable funds provided by governments/organizations to successful applicants who have gone through a screening process. Every year, millions of dollars are awarded in grant worldwide for business, research and other activities. In Nigeria, there are grants available for entrepreneurs to fund their businesses. Since applications are screened, entrepreneurs have to meet all requirements of the offering body.

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g. Non Profit/Angel Investors

An angel investor. angel investors usually get a *stake* in the business in exchange for their capital (and sometimes mentorship). An angel investor can also be a friend or family member making this financing source an overlap with family and friends above. Angel investors can collaborate with one another to form what is now called 'Angel Investor Networks'. NGOs are often owned by High-networth Individuals, so these philanthropists dole out certain amount of money from time to time to help people. (Emeka Offor or Tony Elumelu Foundation etc) Soliciting for funds from nonprofits is one of the sources of business funds because they often sponsor individuals.

h. Venture Capitalists

Venture capitalists are group of investors who invest in growing businesses with great potential. Their aim is to fast track growth in already existing businesses. Venture capitalists include groups of wealthy investors, investment banks and other financial institutions.

i. Leasing

Leasing is another source of funds; where the proprietor of a business will take some of the assets used for the period on lease coupled with an agreement on how periodical interest will be paid on the leased items. This is an option to an outright purchase of such assets.

j. Hire Purchase The hire purchase method is a popular source of funds for the entrepreneur. He

takes the required asset on credit and makes installment payment as agreed over a period until complete repayment is made.

k. Credit Purchase

It could also be through credit purchase where the proprietor is allowed to buy goods on credit from the sellers and repayment made after sales.

l. Apprentice Scheme

The apprentice scheme is another source of funds to start a new business. An apprenticeship relationship is a two-faced transaction. One is provision of labour services by the apprentice to the guardian, while the other is the provision of training services and critical business capital by the guardian to the apprentice.

m. Smedan

Small and Medium Enterprises Development Agency of Nigeria is an agency was set up by Nigerian government to support individuals who have great business ideas but may not have enough resources to execute them. SMEDAN is one of the sources of business funds in Nigeria. They are located in all 6 geopolitical zones in Nigeria and the FCT. If you have a good business idea, just forward an application to SMEDAN on info@smedan.gov.org and await their response.

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n. Partnership.

When we hear names like PZ Cussons (Paterson and Zochonis) is a good example of how partnership can transform businesses. Partnership means two individuals pooling their resources and using it to fund their business ideas which may not be funded by one person alone because of huge financial implication of such businesses. To form a partnership, the two parties must trust each other and each party's contributions must be clearly defined.

o. Bank of industry

Bank of industry gives loans to small, medium and large industries, excluding cottage industries. They also borrow to credit worthy promoters who will be required to prove their commitment to the project. Part of their objectives is to lend to clients with demonstrable ability to meet loan repayment.

p. Bank of Agriculture

Individuals who do not have money to go into agro-allied businesses may borrow from bank of Agriculture. They provide credit to segment of the Nigerian society who has little access to the services of the conventional banks. Bank of Industry is owned by Central Bank of Nigeria and Federal Ministry of Finance and supervised by Ministry of Agriculture. It's obviously owned by Federal Government of Nigeria. Bank of Agriculture operates as conventional banks and they give loans to farmers who meet certain conditions.

q. **Equity**: This is the owner's fund contribution in business. It is also called **risk capital**. This is the most reliable source of funding in business. For it put less pressure on the entrepreneur even if the business failed. This money is raised from past savings of the entrepreneur. It may be contribution from friends, relations etc. The important thing is that there is no commitment of repayment on the entrepreneur.

r. Institutional Arrangement

Government creates enabling institutions that directly or indirectly provide finance for SME operations. Institutions created to provide direct finance for SME operations include the following:

i. Bank of Industry (BOI) formerly Nigeria Industrial Development Bank (NIDB).

ii. Nigeria Bank for Commerce & Industry (NBCI) now defunct.

Nigeria Agricultural Cooperative & Rural Development Bank (NACRDB), formerly Nigeria Agricultural & Cooperative Bank (NACB).Nigeria Export-Import Bank Institutions created to facilitate the flow of funds to SMEs through capacity building: provision enabling environment includes the following:

- Small & Medium Enterprises Development Agency of Nigeria(SMEDAN)
- Nigeria Export Promotion Commission (NEPC).

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- Nigeria Investment Promotion Commission (NIPC)
- Relevant Government Ministries, Departments &Agencies involved in SME finance promotion, etc.

s. *Government Financing Programmes*

Government financing programme are either direct or indirect. Direct financing programme involves direct dispensation of cash, equipments and other forms of capital to various SME promoters. Example:

- Small Scale Industries Loan Scheme by FMF in 1971, now defunct
- Tractor Hiring Scheme by Federal & State Governments
- Keke NAPEP and other Small Loan scheme by the National Agency for Poverty Eradication Programme (NAPEP), etc.

Indirect financing, on the other hand involves offering some form of guarantee to a third party to provide finance to SME promoters in a particular sector of the economy. Examples are:

- World Bank assisted loan scheme – guaranteed and by the Federal Government
- Central Bank of Nigeria's Financing Schemes
- Agricultural credit guaranteed scheme fund (ACGSF)
- Trust Fund Model (TFM)
- Interest Draw Back Programme (IDP)
- Agricultural Credit Support Scheme (ACSS)
- Commercial Agriculture Credit Scheme (CACS)
- Small & Medium Enterprises Equity investment scheme (SMEEIS)
- Microfinance Policy, Regulatory & Supervisory Framework

The above sources are sometimes supplemented by funds and capacity building programmes provided by some Non-Governmental Organizations (NGOs) and development partners. Institutional Credit to SME's. Total credits granted by development finance institutions (DFIs) more than doubled from pre-consolidation level of N15.4 billion in 2005 to N33.9 billion in 2007. Similarly, Central Bank of Nigeria's indirect funding programme credit to SMEs rose from pre-consolidation level of N15.4 billion in 2005 to N30.1 billion in 2007.

t. SME Development fund (SMEDEF)

The small and medium Enterprises Development Agency of Nigeria (SMEDAN) is one of the main proponents of the idea of SMEDEF.

The argument here is to create a Trust Fund to be managed by a Board of Trustees for SME development. The success of such a fund will therefore depends on the success of income accruable to it and the quality of its Board of Directors' decisions for investment of the Funds for SME development.

u. Credit Guarantee for SME

The idea of Credit Guarantee had been proposed for a very long time now. any Business Membership Organizations such as Nigeria Association for Small and Medium Enterprises (NASME) have at one time or the other called on the Central Bank of Nigeria to extend the to SMEs. However, the difficulty

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herelies in the huge capital requirement for guarantee cover and the high risks associated with SME operation in Nigeria, arising from the near absence of infrastructure.

v. SME Finance Bank

NASME has toyed with the idea of establishing an SME finance bank for a long time. They have also called on the Federal Government to establish a bank purely devoted for the funding of SMEs in the country. However, the same problems of infrastructure and the uncoordinated nature of SME operations that has denied the sector access to banking system finance makes the idea unattractive to investors for now.

w. Equipment Leasing Programme

The idea here is to establish Equipment Leasing Shops where SMEs engaged in real sector operations in agriculture, processing and manufacturing can hire vital operating instruments needed by them at a minimal cost. The Brazilian government is running a similar scheme for its citizens. Stakeholders could fund those shops for procurements of the needed equipments which the Shop Operators can loan to their customers for business.

x. Warehouse Receipts Finance (WRF)

The Abuja Securities and Commodity Exchange is currently sensitizing the citizens on the benefits of WRF especially for farmers and products manufacturers in the country. The idea here is to pass a national legislation that will set up body that will register warehouse operators. Farmers can be organized into cooperative groups to take advantage of this programme to finance their post-harvest obligations to alleviate poverty and products wastages.

y. Equity Investment Financing Equity investment financing for SME projects is a programme that allows financiers or fund providers to be part owners of the projects they fund with the promoters of those projects. The SMEEIS is a classical example of equity investment financing in Nigeria.

4. Conclusive Remarks and Policy Recommendations

The study reveals the existing gap in entrepreneurial financing for the benefit of the populace and the economy, that is, the "absence" of long-term funding of equity type. The following recommendations are valid:

- SMEDAN and NASSI should as a matter of urgent duty create a way of constantly educating the entrepreneurs/members on the essence of proper accounting records/information keeping so as to facilitate the SMIEIS operation.

- That all parties to SMIEIS should make meaningful inputs to the feasibility studies to ensure credible workable package; to save time and resources to the mutual benefit of stakeholders.

- That since the banks would be on the boards as well as participate in the operations of the enterprise, some of the management inadequacies should rather be noted for remedy on take-off of the scheme, rather than allow such to delay or even make for outright decline of a potentially viable scheme.

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- That the Memorandum of Understanding (MOU) should be so couched/framed as to ensure the success of SMEs finances, and also have a planned exit, say gradual redemption annually until the last agreed period, to avoid getting them financially handicapped.

- Banks should vigorously pursue Public enlightenment programmes and continuous training of staff handling SMIEIS

- Government should allow SMEs enjoy tax incentives, subsidies and other fiscal and monetary incentives so as to reduce high cost of production.

- That the Central Bank of Nigeria and Nigeria Deposit Insurance Corporation need to strengthen and update their supervisory machineries in line with the sophistication and emerging challenges of equity Investment of SMEs.

- That there is need for strict adherence to and enforcement of all existing and future legislation on ethical standards against the current high and increasing unethical conducts in the Nigerian Financial System so as to alleviate the fears of stakeholders on the integrity of bankers.

- That there is urgent need for banks to enter into strategic alliance among themselves for cost reduction in the acquisition and usage of information technology and equipment for effective implementation of SMIEIS.

- Government should provide a congenial environment for the operation of venture capital and business angels financing (business entrepreneurial monitoring) so as to enable them to provide risky start-up capital for small business.

- Government should also ensure active operation of the SME Credit Guarantee Scheme to improve credit providers' exposure to longer term debt issued by small firm managers, in such areas as business plan development, feasibility studies, project and analysis, book keeping and accounting, performance evaluation, monitoring etc. this could be organized before entry into

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FINTECH FIRMS OPPORTUNITY OR THREAT FOR BANKS?

[7]Zoran Temelkov

Abstract

New technological innovations combined with the consequences after the last financial crisis created disruptive forces in the financial markets. Namely, during the last couple of years, vast number of FinTech start-ups have started to offer financial products and services, previously offered by the banks.

These types of non-banking financial firms are shaking the banks' comfort zone, since banks now have new competitors to worry about. But although it is heavily discussed that FinTech firms are a major danger for banks, they are even bigger opportunity for banks as well. Whether FinTech will turn out to be a threat or opportunity depends entirely on banks approach and desire for cooperation.

Key words: FinTech, bank competition, disruption, financial services,

1. INTRODUCTION

The last couple of years are showing increased level of disruptions in the financial markets. This disruption is in terms of the digital revolution which is taking place when it comes to financial services. The results from this digitalization of financial services is mostly felt by the banking sector because of the new form of entrants. Namely, banks are faced with new, technologically advanced, entrants in the financial market. These new entrants are a potential danger for banks because they are utilizing the latest technology and are becoming customer-centric service.

FinTech companies are operating with lower costs and are gradually taking over the customers from the banks. For these reasons it is said that these new companies are the biggest threat for banks. But at the same time they could be the biggest opportunity as well. Whether they will be a threat or opportunity depends on banks' future plans. Namely, banks could continue to conduct their traditional business activities and neglect this threat (thus losing market share bit by bit). Also, banks could be proactive and initiate some form of collaboration with FinTech companies.

2. THE FINANCIAL SERVICES ENVIRONMENT

The last couple of years are marked with disruptions and new challenges for traditional way of banking. Alongside the traditional methods for offering and performing financial activities and services the financial industry witnessed some major changes. These changes have occurred as a direct consequence of the financial crisis and advances in technological innovations.

After the global financial crisis, banks have been faced with numerous challenges. One such a challenge is the regulatory compliance. With other words, because regulations are constantly evolving, their implementation and compliance is becoming an expensive activity for banks (Peter Wong (2017).

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The new regulated environment has left specific segments with limited access to funds, especially access to bank products and services.

In addition, there is a trend of increased popularity of new entrants i.e. FinTech companies which are becoming direct competitors for financial services. These new competitors have loosed regulatory framework offering additional cost advantage of FinTech start-ups over the traditional banks. Moreover, this loosen regulatory framework combined with innovative technology enables the FinTech companies to provide their services to clients with limited access to bank services.

As it is noted by Drew Dahl et al. (2016), the regulation is increasing the banks' compliance cost. This new regulation developed and implemented after the crisis, impacts some for the sectors served by banks. Banks are seeing particular increase in the regulatory cost when serving some categories of clients. These clients are usually the clients who might be more risky because of different factors. For instance, banks have limited their exposure to serve small and medium enterprises (SMEs) since they are categorized as riskier borrowers (World Economic Forum, 2015).

The hindered access to finance for small and medium enterprises has forced the SMEs to seek alternative lending sources such as FinTech financing (Robert Wardrop et al. 2016). Consequently, this underserved, category is creating opportunities for FinTech companies to enter in the financial services market. Accordingly, the entrance into "untapped" market enables the new technological companies to gradually strengthen their position in the financial services market.

For this reason many banks in US and globally are feeling the pressure coming from non-bank companies regarding the financial services offerings. Nowadays, banks are witnessing increase number of vast FinTech start-ups. These start-ups are offering services which have been traditionally offered by the banks. According to CurrencyCloud (2016) the increased number of FinTech start-ups means that there could be a FinTech company for each service offered by the traditional banks. Moreover, the danger for banks is not consisted only in the fact that new entrants are offering the same or similar services. Instead, one of the dangers is that these new entrants are offering these services at lower costs and higher level of accessibility (CurrencyCloud, 2016).

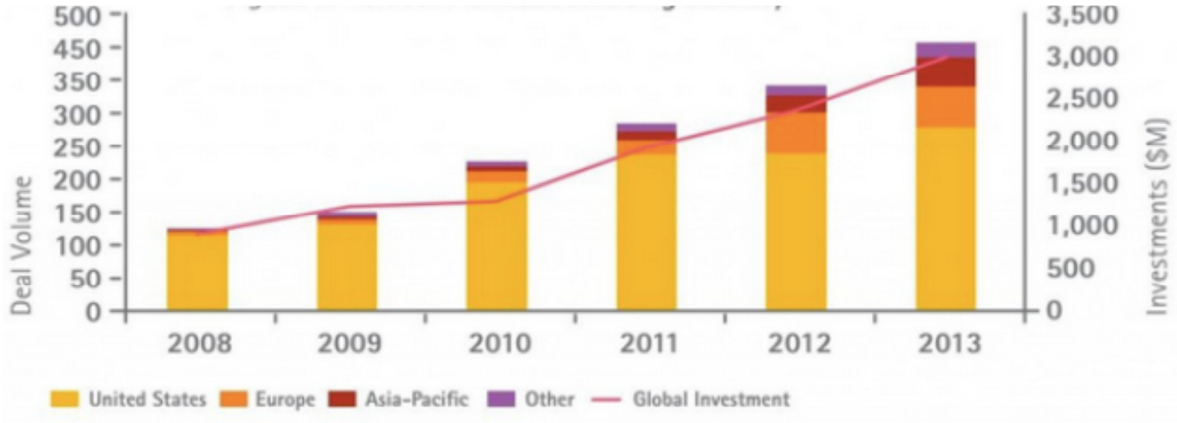
While in the past the bigger meant better, nowadays this believe is taking another direction. Namely, being a big bank has been an advantage but in an era of increased number of new entrants this might turn out to be a drawback. The danger doesn't come because of the new entrants, but because of the way these new competitors are conducting their operations. Because these new competitors are focused on utilization of technological innovations for the purpose of decreasing operating costs and eliminating the need of physical locations. Something which is major characteristics of the big banks i.e. high operating costs and a network of physical location.

Another weakness of traditional banks is that they suffer from a complex corporate structure and high degree of bureaucracy as well as higher level of operating costs (Degryse, Hans et al. 2007). Unlike banks, FinTech firms don't need to implement complex organizational structure. These movements in the financial services industry are causing different trends

One such a trend is the consolidation. Namely, the banking sector in US is witnessing increased level of consolidation, where the number of banks has decreased. Meaning that from 7,357 banks in

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2011 the number of active banks has decreased down to 6,058 banks until June 2016 (Manatt (2016). At the same time, while the banking sector is marked with consolidation, the FinTech sector is characterized with an expansion where the size of investments in FinTech sector as well as the number of Fintech firms is constantly growing. Graph 1 is providing overview about the trends in global financing activity for FinTech sector. The multiple increase in FinTech financing is evident from the graph i.e. from 1000 million in 2008 the amount of financing has increased to more than 3000 million in 2013.



Graph 1: The growth of global investment in the FinTech sector from 2008 to 2013

Source: Philippe Gelis and Timothy Woods (2014) "The Rise of Fintech in Finance How FinTech is reshaping the finance sector and how you handle your money", Kantox, pp.4.

The Investment amount has increased at faster pace for the next couple of years. The investment activities in 2016 have been more than 15 billion of dollars (Andrew Meola, 2016). It can be noted that the FinTech firms are gaining on tractions, and they are becoming highly popular finance service providers. The sheer size of investments in FinTech firms is one supporting factor about the increased popularity of the this new industry..

The financial services environment is subject to numerous changes after the 2007-08 financial crisis. Banks are faced with numerous challenges in the post-crisis period. One of the most important challenge is the regulatory compliance issues. Banks need to comply with much stricter regulatory framework. In addition, customers have lost confidence in the banking sector and they are turning to a non-bank alternatives for their financial needs.

These new trends and challenges have created a FinTech friendly environment. Thus offering the possibility for FinTech start-ups to be created and developed. Although they are capturing small size of the financial services market, they are thought of as potential disruption of the financial sector. FinTech companies are heavily considered as banks' newest and most serious competitor with the potential to take over their activities (at least in the long run). FinTech already has some adverse effect on banks operations, but the strength of the impact is yet something banks could cope with.

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3. IMPACT OF FINTECH COMPANIES ON BANKS

As a result of tighter regulation banks may try to limit the availability of their services for specific categories. This is where FinTech companies come into place, and these excluded categories are representing adequate starting point for non-bank financial companies. Moreover, with the development and growth of the non-bank FinTech lending firms, banks are faced with decrease in their customer base. This decrease in customers is also accompanied by decrease in profits, meaning that not only banks are losing customers but also they are faced with lower profits (CurrencyCloud, 2016). For instance, companies such as LendingClub are overtaking profitable business segments out of the traditional banks.

According to Currency Cloud (2016) these trends of decrease in customer base and lost profits has initiated the need for banks to make alliances with FinTech companies. Banks should seriously consider the possibility for partnering with a FinTech companies if they want to enjoy stable profit levels. Daniel Drummer, et. al. (2016) are stating that because of the swift development of highly efficient competitors, banks could realize a decrease in their revenues approximately from 29 – 35%. On the other hand, if banks start the process of digital transformation on time, not only they will maintain their position, but they could also increase their profits (Daniel Drummer, et. al., 2016).

Similar impact could be expected on the German banking sector as well. Namely, Daniel Drummer, et. al. (2016) are stating that the increased popularity of alternative providers for financial services could decrease banks revenues by approximately 30%. Thus, the expected potential loss in revenues, by itself is enough to force the banks to consider prospective collaboration with FinTech companies.

4. STRATEGIC MOVES FOR BANKS AND FINTECH COMPANIES

There are numerous expectations that FinTech firms are representing a disruptive force for the banking sector. While this is not entirely false it is not entirely true as well because of the characteristics of banks and Fintech companies. This is in a way that each participant has its own advantages and disadvantages. The fact is that FinTech companies are offering financial services through different channels and thus perceived as a major danger for banking sector. But on the other hand, banks are in the financial services business for decades (even centuries), and this experience has created some major advantages. The most important being that banks have large customer base.

So, the statement that FinTech companies are biggest danger for banks currently is neither true nor false. Whether it will become true or false, depends on the steps undertaken by the banks and the FinTech firms in the next couple of years. If they opt for strategic alliances and mergers they could see a synergetic effects. If they proceeded to compete against each other in the race for providing financial services, winner is yet to be determined.

Starting from the basics, traditional functions performed by banks are: accepting deposits and providing loans, making a maturity transformation and accepting the associated risks. These risks, if not controlled and managed adequately, could result in bank runs. While banks are highly dependent on savers for the purpose of gathering funds, FinTech companies are not dependent on deposits (Hiroshi Nakaso, 2016). This is because some FinTech companies are dealing with payment services while other

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might offer intermediation services such as P2P lending platforms, crowdfunding platforms etc. (Hiroshi Nakaso, 2016).

In addition, because of the way Fintech companies conduct their operations, they are able to offer personalized financial services (Hiroshi Nakaso, 2016). This personalization can be achieved by analyzing the big data, gathered through various tools. Because FinTech companies are based around the utilization of technological innovation, they are more likely to provide customized solutions for their customers. On the other hand, it can be rather difficulty for banks to offer customized products and services because they lack flexibility.

The aforementioned is representing only the basics when it comes to the limitations or benefits of being a bank or FinTech company. Entering into strategic alliance or some other form of cooperation can produce different benefits for both parties involved. Table 1 is providing overview of potential benefits and risks that could go along with cooperation between banks and FinTech companies.

Table 1: Potential benefits and risks arising from bank/FinTech cooperation

Main benefits brought by cooperation between banks and FinTech companies	Main risks/concerns brought by cooperation between banks and FinTech companies
Enhanced brand reputation	Cultural fit
Expanded mobile banking functions	Cybersecurity issues
Lower capital expenditure (e.g., due to reduced need for bank branches)	Difficulty in hiring qualified personnel to make the collaboration effective
Lower cost of doing business Increased access to customers in new geographies	High risk of investment
Increased access to customers in younger age groups	Legal/regulatory issues
	Technical complexity of integrating FinTech functions

Source: Manatt (2016) "Growing together: Collaboration Between Regional and Community Banks and FinTech", Manatt, Phelps & Philips, LLP.

Some of the major advantages for both banks and FinTech companies when opting for collaboration would be in the area of costs and customer base. Namely, alliances would provide the opportunity for decrease in capital expenditure and lower cost for conducting business activities. On the other hand, the adverse effects could be unveiled in areas such as security, investment risk level, regulatory and compliance issues.

The adverse effects should not be a reason for banks to avoid FinTech companies, instead they should work together to form an alliance and eliminate the potential risk. Regardless of the risks, the strategic importance arising from potential partnership and cooperation with a FinTech company is being recognized by banks. This is evident from the fact that many banks are entering in some form of

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partnership or collaboration with a FinTech firms. For instance, Radius Bank has started a cooperation with the online lender Prosper in the area of personal loans offerings (Manatt, 2016). In addition, Regions Bank is merging with Fundation in their plans to provide small business loans (Manatt, 2016).

Basically banks have two choices. The first one is that they try to keep their market share though changes in their current business processes. The second choice is the possibility for a bank to enter into a strategic alliance with a FinTech company. Seeing the potential to increase the profits and customer base, instead of battling the new competitors, some banks are already initiating steps to enjoy the benefits offered by technological innovations.

5. CONCLUSION

Throughout the years banks have managed to find their place in the financial market by offering specific financial services and products. For many years banks enjoyed a comfortable position with limited number of competition or entrants that could jeopardize their profits. Nowadays banks are witnessing disruption in their comfort zone. This disruption is coming from new types of firms based around the utilization of technological innovation for financial services. For the time being, one of the biggest misconception is that FinTech companies are taking over bank business. While it is true that they are strong direct competitors and they are hindering bank's comfortable zone, Fintech firms are working with only slight portion of financial services available (Peter Wong, 2017).

Although at the moment banks could continue to do their business activates the traditional way, they are facing major danger in the long run. The danger is coming from the growth potential of these new FinTech companies who are growing at a faster pace each year. Instead of waiting and see what happens and instead of underestimating the disruptive power of FinTech companies, banks could develop a close collaboration with them. There is already a trend where banks are partnering up with a FinTech firm. Thu, at the end only the proactive banks will be standing, while the reactive banks will fall behind and lose their market share, customer base and revenues.

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CULTURE AND ENTREPRENEURSHIP DEVELOPMENT IN TIV LAND, BENUE STATE-NIGERIA: AN OVERVIEW

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Abstract
Individuals are born into certain already constructed 'environments', which are an important source of culture and cultural learning, and therefore, have a considerable impact on the individual's behaviour, beliefs and decisions. Culture is one factor that explains why different societies or groups have different entrepreneurial instinct. The study explored the relationship between culture and entrepreneurship development in Tiv land, Benue State. Specifically, the study identified cultural values such as religion, peer group, family system, saving and investment culture and gender role values and examined the level at which they affect entrepreneurship development in Benue State. The study is based on review of related literature on the relationship between culture and entrepreneurship. The findings of this study indicates that cultural factors discussed in the study play a significant role in determining the emergence of entrepreneurs and the development of entrepreneurship in Benue State. The study concludes that culture not only influences entrepreneurship levels but also has an influence regarding the preferred paths to entrepreneurship, such as new venture starts. The study recommends that parents and children in Tiv land should develop a new set of positive values that attract and facilitate entrepreneurship development in the state, and entrepreneurs in Tiv land should be aware of the multiple influencing factors in the State and develop the ability to correctly gauge opportunities.
Keywords: Culture, entrepreneur, entrepreneurship, entrepreneurship development.

Introduction

Entrepreneurial behavior has dramatically increased in the last few decades due to its importance for

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development in many countries that have emerging trends in their socio-economic development (Turker & Selcuk, 2008). The world is realizing the importance of entrepreneurship which is the source of self-employment as well as economic development (Ali *et. al.* 2010). Entrepreneurship thus occupies an important place in the process of economic development. It has become a key concept in social and human development discourse and it is considered a factor of economic and human development (Abubakar, 2010). Entrepreneurship is increasingly being identified as a primary engine of economic growth (Wenneckes, *et al.* 2007). Consistent with this position, Osemeke (2012) asserts that entrepreneurship in individual and national development is very strategic both in developed and developing countries because it is an antidote to poverty and underdevelopment. The desire to start a business is usually influenced by the socialization process, social networking, environment, parental support and family business experience. According to Mitchell *et al* (2002) for starting a new business many factors influence entrepreneur intention like desirability, feasibility, and entrepreneurial experience, but it varies from culture to culture and nation to nation. Every country has its own culture, its values, norms and beliefs that affect the entrepreneurial intention, at some stages the culture plays an important role in decision making. Morris (2005) explains that there is a major difference in cultural values and the norms across the cultures which influence entrepreneurial activity within that country or region. Cultural values are the essential elements about entrepreneurship which influences the behavior of people in a society (Turker & Selcuk, 2008). Differences in cultural traits are usually given as explanation for disparities in entrepreneurship orientation of nations, regions or ethnicity. Hence, many cultural entrepreneurship studies that seeks to determine the influence of ethnicity, religion and race on entrepreneurship attitude of different people, have been undertaken (Hofstede, 1991; Morris: 2000).

Business value formation is influenced by the socio-cultural and personal background factors which are; age, ethnicity, religion and education of the individual (Alwis & Senathiraja 2003). The moulding of the entrepreneur is found to be deeply rooted in the socio-cultural factors surrounding people in a society. According to Hayton (2002) culture is such a factor that causes differences. Hayton (2002) states that economists, sociologists and psychologists observed different levels of entrepreneurial activities in different countries. Hayton explains these differences with four different associations. These include; needs and motives, beliefs and behaviors, cognition, and cultural values. However the focus of this paper is on cultural values due to the widely held beliefs that cultures have an effect on entrepreneurship (Thomas & Mueller, 2000; Guiso, Sapienza, & Zingales, 2005; Davidsson, 1995). Hayton (2002) explains that certain cultural values, as described by Hofstede, leads to more entrepreneurial activities and he explains why those cultures have more entrepreneurial activities.

Different theories have argued that entrepreneurship development is affected by cultural values. Parsons (1951) in his theory argued that entrepreneurial development is a function of the form of society and characteristics of its culture. Parsons (1951) who made extensive studies of socio-cultural institutions asserts that the family plays a significant role in nursing entrepreneurs. Levine (1969) in his theory argued that children's socialization affects their abilities and entrepreneurial pursuits. He concluded by maintaining that if a higher status is to be achieved through an outstanding performance in one's occupational role, there is every tendency of parents imparting in their children elements of

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industriousness and initiatives. The environment in which an individual is reared determines his urge toward entrepreneurship. Economic opportunities single-handedly are therefore not sufficient conditions for development to flourish through entrepreneurship. Thus, the situation also requires some favourable socio-cultural factors for entrepreneurship to flourish.

It is argued that culture plays a great role in molding entrepreneurial mindset among the youths and impliedly, it could hinder the development of entrepreneurship when its influence is negative. Because societies are endowed by nature with different physical environments, members of society must adopt environmentally relevant patterns of behaviour to achieve success. These environmentally relevant patterns of behaviour lead to the formation of different cultural values in different societies, some of which influence the decision to create new businesses. Thus, culture, as distinct from political, social, technological or economic contexts, has relevance for economic behaviour and entrepreneurship (Shane, 1993). According to Ottih (2014) in Nigeria great strides have been made in the development of the entrepreneurial culture, and indigenous entrepreneurs have set up businesses in such low and medium technology sectors as plastics, food processing, textiles, breweries, auto and machine parts production, and pharmaceuticals, among others. The ensuing competition in the products and markets, and the improved environment created by the government are giving fillip to industrial and economic development. Ottih (2014) further explained that while some cultures have positive attitudes towards ownership of businesses, crafts, and generally working with hands and tools, some other groups accord very low status to such occupations. A culture that extols and values hard work, personal achievement and successful business formation will definitely attract more of their people into entrepreneurship than cultures that are not supportive of business venturing. Such negative attitude inhibits the emergence of the entrepreneurial class from such groups. He added that the Ibos of Nigeria have a very positive attitude toward business and they have established many businesses in many parts of Nigeria. There other cultures or tribes in Nigeria that place high value on hard work and entrance into business. These include the Egba and Ijebu sun-cultures of the Yoruba cultural group in Ogun State and the Akoko sub-culture in Ondo State. In the North and South-South geo-political zones, the Hausa-Fulanis, Ijaws and other tribes are also found to be enterprising.

Much of the research in entrepreneurship that considers cultural variables has followed Hofstede's (1980, 2001) seminal work showing how culture is manifested in various forms, and how cultural values at individual or societal levels are influenced by national culture. According to this view, cultural differences across societies can be reduced to four quantifiable dimensions: uncertainty avoidance, individualism, masculinity and power distance. The dimension of uncertainty avoidance represents preference for certainty and discomfort with unstructured or ambiguous situations. Individualism stands for a preference for acting in the interest of one's self and immediate family, as distinct from the dimension of collectivism, which stands for acting in the interest of a larger group in exchange for their loyalty and support. Power distance represents the acceptance of inequality in position and authority between people. Masculinity stands for a belief in materialism and decisiveness rather than service and intuition. Using Hofstede's (1980) concept of culture, researchers have in general hypothesized that entrepreneurship is facilitated by cultures that are high in individualism, low in uncertainty avoidance, low in power-distance and high in

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masculinity (Hayton, George & Zahra, 2002). In Benue State, Nigeria the business environment holds so many entrepreneurial opportunities. With various business assistance policies in the State, the relatively cheap and abundant raw materials, cheap labour, and the proliferation of financial and commercial institutions; the business environment is encouraging for business pursuits.

It is obvious that extant research on culture and its consequences on entrepreneurship are mainly carried out in the western countries. So far, little is known of any similar studies in Africa, particularly in Nigeria. The gap between the cultural orientation of the developed countries and Africa is exceedingly wide and this makes the relevance of such results not applicable in the African perspective. This realisation necessitated this study to empirically analyse the influence of culture on entrepreneurship development, with reference to Tiv people of Benue State in Nigeria. A review of empirical works focusing on the effect of culture on entrepreneurship development is the focus of this paper. The objective of this study is to achieve these questions: What are the cultural values that affect entrepreneurship development in Tiv land, Benue State? What is the relationship between cultural values and the development of entrepreneurship in Tiv land, Benue State? These are the questions that this review hopes to answer. This will contribute to our understanding of the cultural factors and their likely impact on entrepreneurship development in Benue State. The findings of this review would benefit policy makers and government, entrepreneurs and business owners, university and research scholars and businesses among others on the effect of culture on entrepreneurship development. Generally, the results and recommendations would contribute towards our understanding of the socio-cultural factors and how they affect entrepreneurship development.

To achieve this objective, the paper is divided into three major parts. Part one focus on the literature review covering the concepts of culture and entrepreneurship development. Part two focuses on the methodology of the study while the last provides the conclusion and recommendations as well as suggestions for further studies.

Literature Review

The review of literature in this study would attempt an understanding of the basic concepts underlying culture and entrepreneurship development. This section therefore, attempts to elucidate on the concepts of culture, entrepreneur, entrepreneurship and entrepreneurship development. The objective is to highlight and explain the concepts relevant to our understanding of the culture phenomenon. The review gives us the opportunity to understand what the concept of culture is, who or what an entrepreneur is and most importantly, the meaning of entrepreneurship development and the relationship that exists between culture and entrepreneurship development as well as cultural values in Tiv land that affect entrepreneurship development.

Concept of Culture

The term culture has been defined in a number of ways. According to Azende (2007) culture is the sum of attitudes, customs, and beliefs that distinguishes one group of people from another. Culture is transmitted, through language, material objects, ritual, institutions, and art, from one generation to the next. Hofstede (2001) defines culture as the collective programming of the mind which distinguishes the members of one group or category of people from another. The mental programming referred to by Hofstede consists of shared values, beliefs and norms. These mental constructs influence how people socialized within a

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particular culture perceive events; they also help to determine what behaviors are considered appropriate or inappropriate in various social situations. According to House, Javidan, Hanges and Dorfman (2002), culture has five basic characteristics: it is learned, shared, based on symbols, integrated, and dynamic. This study employs the four dimensions of culture identified by Hofstede (1980, 2001) to indicate their influence on entrepreneurship development. These dimensions are: uncertainty avoidance, individualism, masculinity and power distance. These dimensions are discussed in detail below:

Uncertainty Avoidance

Uncertainty avoidance specifies the preference for certainty and uneasiness with unstructured or ambiguous situations. Furthermore, it explains a society's lack of tolerance for uncertain, unknown, or unstructured situations. Hofstede (2001) defines uncertainty avoidance as feeling uncomfortable with uncertainty and ambiguity, and therefore valuing beliefs and institutions that provide certainty and conformity. Hofstede intimated that cultures vary in their level of acceptance for uncertainty and concluded that schemes for embracing ambiguity are at least, partly influenced by cultural programming. Societies attempt to control uncertainty through structures systems in the form of rules, technologies, laws and rituals. The essence of this practice is to standardize the behaviour and attitude of members of a particular community or society. Cultures that promote uncertainty avoidance favour orderliness in their organizations, institutions and personal relations, and will always prefer well-anticipated events.

Individualism-Collectivism

Individualism stands for society in which the ties between individuals are loose. Individualistic cultures lay emphases on self-centeredness and mostly focus on individual goals. Accordingly, Hofstede (2001) defined individualism as the relationship between the individual and the collectivity which prevails in a given society. Hofstede argued that entrepreneurs would prefer competition over cooperation, and to believe in noninterventionist governments. They would also be expected to believe that planning is more important than luck in success, and to have less concern about failure than non-entrepreneurs.

Masculinity-Femininity

Masculinity according to Hofstede (2001), measure evaluates the general inclination to act either aggressively (masculine) or in a nurturing manner (feminine). Masculinity does not determine specific distinctions between male and female, but, behaviours that have been stereotypically linked to males and females. Individuals in highly masculine societies are assertive and behave in an ostentatious manner. In addition, they set high performance standards and act vigorously to achieve these standards. Conversely, in cultures with a low masculinity, emphases are on social relationships, cordial organizational climates and job security. Individuals in such cultures are reluctant to set goals, in fact; their achievement motivation is comparatively frail.

Power Distance

Power distance defines the acceptance of disparity in position and authority between people in an organisation or society. Power distance is a measure of the interpersonal power or influence between superiors and their subordinate (Hofstede 2001). According to Hofstede, it explains how a superior in a social ladder can influence the behavior of a subordinate compared to the extent that the subordinate can also influence the behavior of the superior. In the view of Kreiser et al (2001), highly power distance

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cultures exhibit an unequal distribution of power, strong hierarchies and also, control mechanisms are present. They indicated further that, there is minimal communication among organizational levels and emphasis is placed on subordinates being respectful and compliant to those in positions of power.

The entrepreneur

Generally, an entrepreneur is one who creates, organizes and takes the risk of a business or an enterprise. The word 'entrepreneur' has its origin from the French word *entrepredre* literarily meaning between-taker or go-between. It was originally used to designate an organiser of musical exhibitions or entertainment. The application of the word 'entrepreneur' in business and economic sense only began in the 18th century. The Irish economist who lived in France, Richard Cantillon, is considered to be the first to employ the term in this context. This application was followed by other views resulting to three broad perspectives of the entrepreneur as a risk bearer, an organiser and an innovator (Michael, 2006). Michael (2006) views an entrepreneur as a person who creates small business. He explained that entrepreneurs are calculated risk-takers-they strive to maximize potential of their venture while simultaneously minimising risk. They are able to recognise opportunities as they arise and create goods or services in order to take advantage of the opportunity before competitors catch on to it. According to Kpelai (2009) an entrepreneur is an investor or group of investors that identify opportunity, gather the necessary resources, create a new or improves on an existing business venture to satisfy some needs in an economy. He identified characteristics of entrepreneurs to include; risk taking, innovation, desire for independence, need for achievement, self-confidence, interpersonal skills, gap fillers and Type A behaviour. It is clear from the above definitions that an entrepreneur is an innovator, and he introduces new ideas, new products, new skills, technology and opens up new markets or improves on existing ones. The entrepreneur is typically driven by certain forces such as the drive for achievement, the desire for freedom and autonomy, or the desire for wealth. According to Thomson (2002) entrepreneurs are individuals who survey their potential business environment, identify opportunities to improve it, marshal resources, and act to maximize operational opportunities. In support of the above, Fasua (2007) concluded that an entrepreneur is: a middle man; creative person; a person who perceives and is alert to opportunities; a special person; an innovator; a resourceful and original person; an imaginative person; a risk taker; a reward seeker and a coordinator of resources. From the above definitions, it is clear that, entrepreneurs are enterprising individuals who show a readiness to take risks and to start a new or an old business with some modifications towards meeting identified needs in their immediate environment.

Entrepreneurship

Entrepreneurship has been viewed by several authors in different ways. According to Kpelai (2009) an entrepreneur is an investor or group of investors that identify opportunity, gather the necessary resources, create a new or improves on an existing business venture to satisfy some needs in an economy. He identified characteristics of entrepreneurs to include; risk taking, innovation, desire for independence, need for achievement, self-confidence, interpersonal skills, gap fillers and Type A behaviour. Shane (1993) defines entrepreneurship as the capacity and willingness to develop, organise and manage a business

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venture along with any of its risks in order to make a profit. It is a dynamic process of creating incremental wealth by assuming major risk and providing value for some product or service which itself may not be new or unique, but requires that value must somehow be infused by the entrepreneur by securing and allocating the necessary skills and resources (Kuratko & Hodgetts, 1998). In line with Kuratko and Hodgetts' view, Akpor-Robaro (2004) defined entrepreneurship as the capacity or ability to see opportunities and from there, originate a new business idea and organize resources to implement it (innovative/creative entrepreneurship); or to organize resources in a new way to implement an existing business idea (imitative entrepreneurship). It involves creating a new product or presenting an existing product in a new way with value added. Entrepreneurship Development (ED) thus refers to the process of enhancing entrepreneurial skills and knowledge through structured training and institution-building programmes (Osemeke, 2012). It basically aims to enlarge the base of entrepreneurs in order to hasten the pace at which new ventures are created. This accelerates employment generations and economic development. Entrepreneurial development 'focuses on the individual who wishes to start or expand a business. Entrepreneurship development according to Mata (2008) is concerned with the study of entrepreneurial behaviour, the dynamics of business set-up, development and expansion of the enterprise.

Theoretical Framework

This study is anchored on the cultural theory of entrepreneurship. In his theory, Weber (1930) explained that society plays a big role in developing entrepreneurs. The theory posited that the emergence and behaviour of entrepreneur is determined by culture. In Weber's view, culture has great impact on the attitude and behaviour of individuals and their disposition to life. This is because the individual draws his values from the social values, morals and institutional framework within which he lives. Culture is a determinant of the nature of decisions to be made in life, including the decision to be or not to be entrepreneur. He argued that entrepreneurial development is a function of the form of society and characteristics of its culture. Weber (1930) cited value system as an element of culture which directly influences the behaviour of individuals towards being entrepreneurs. Such value characteristics as hard work, thrift and an ascetic life of self-denial are all prescription for entrepreneurship. Essentially, the point of Weber's theory is that socio- cultural environment whether from political dimension or cultural/religious dimension would affect the development of entrepreneurial attitude and behaviour/character by establishing values that either enhance or inhibit entrepreneurship spirit and drive.

Relationship between Culture and Entrepreneurship Development

The desire to go into business or to form a company is often enhanced by an individual's culture, family, peers and nature of education and training. Essentially, people grow up within some cultural setting and social beliefs and values which define and shape the way and manner in which they live. Consequently, socio-cultural factors, in relation to entrepreneurship, point to all the elements within the social system and culture of a group of people which positively or negatively influence entrepreneurship development or entrepreneurial behaviour and performance (Nongo, 2002). Hofstede (2001) noted that human behaviours are influenced by socio-cultural practice and some actions cannot be divorced from their socio-cultural context. Because societies are endowed by nature with different physical environments, members of society must adopt environmentally relevant patterns of behavior to achieve success. These

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environmentally relevant patterns of behavior lead to the formation of different cultural values in different societies, some of which influence the decision to create new businesses. Culture is one factor that attempts to explain why some groups have entrepreneurial instincts, a dedication to hard work, to savings, to striving toward material accomplishments, while some others devote their energies to leisure, to ostentatious consumption and to the possession of power among such other orientations. It also includes social attitudes toward private business, wealth and craft as opposed to working in large private or governmental bureaucracies. While some cultures have positive attitude towards ownership of businesses, crafts, and generally working with hands, and tools, some other groups accord very low status to such occupations. A culture that extols and values hard work, personal achievement and successful business formation will definitely attract more of their people into entrepreneurship than cultures that are not supportive of business venturing. Such negative attitudes inhibit the emergence of the entrepreneurial class for such groups.

In their study McGrath, MacMillan and Scheinberg (1992) defined cultural differences between entrepreneurs and non-entrepreneurs along Hofstede's (1980; 1991) four cultural dimensions: individualism-collectivism; power distance; uncertainty avoidance and masculinity-femininity. According to Hofstede (1980; 1991), the individualism dimension describes the type of relationship existing between an individual and others in a society; the power distance dimension measures the interpersonal power of inequality between people while the uncertainty avoidance index indicates one's stance towards the unknown future and a preference for structured and unambiguous situations and finally the masculinity dimension measures the division of roles between the sexes in a society. Individuals from a high power distance cultural background may refrain from expressing disagreement with goals and/or therapy activities, even if they do not plan to implement suggested goals in the long term. Individuals with a low power distance cultural background may more openly express agreement and disagreement with clinician advice and suggestions, ask questions, and expect to be involved in the development of intervention plans.

In an individualist society, there is an expectation that individuals look after themselves and connections between individuals are loose; while in a collectivist society, individuals are integrated into strong, cohesive groups, which may often involve extended family (Hofstede, 2001). In more masculine societies, people value challenges and recognition and strive for advancement and earnings. In masculine societies, both men and women are assertive and competitive; however women are less so than men. The uncertainty avoidance dimension indicates the level of comfort with unstructured situations, in which unstructured situations are novel, unknown, surprising, and different from usual (Hofstede, 2001). Individuals from a strong uncertainty avoidance cultural background may feel a strong need for a definitive prognosis, time line, and outcomes expectations. Individuals from a weak uncertainty avoidance cultural background may feel more comfortable with the unknown and have less need for a definitive prognosis.

Cultural Values in Tiv Land and Entrepreneurship Development

Every society has cultural attributes that either encourage or stifle the development of entrepreneurship. Also, among the Tiv people of Benue State, there are aspects of culture identified as affecting the

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development of entrepreneurship in the State such as religious, family system, values and festivities, family roles and religious beliefs.

Religion

Every religion has its own base values that influences actual behaviour of its confessors; therefore, we may expect differences among religions regarding the entrepreneurship participation rate. For example, Hindus seem to have a lower participation rate in entrepreneurship compared to Christians (Audretsch, Boente & Tamvada, 2007). Religion has a particular role it plays in determining whether or not individual(s) in a specific society, with a value system peculiar to it, become an entrepreneur. Social institutions affect the way individuals perceive the role of the entrepreneur and how much individuals desire to become such. The documented richness of entrepreneurial motivations suggests that entrepreneurial behaviour responds to a rich set of cues from the social environment of which religion is a component. There is no doubt that these religions had affected the value system of these societies and this accordingly accounts for the disparity in the development of entrepreneurship spirit in these societies (Abdullahi & Suleiman, 2015). Religion inevitably affects positively, personal values like honesty, perseverance, bravery, foresightedness and general ethical standards (Altinay & Wang 2011). Bwisa and Ndolo (2011) asserted that, religion is one of the factors that determine the basic values and beliefs of people. Hence, religion is vital in determining the extent to which individuals take entrepreneurship as a career or not. According to Nikolova and Simroth (2013), adherence to religion and its practices often expose followers to new behavioural pattern, which alters their life style in all its ramifications. Entrepreneurship as highlighted by Valliere (2008) creates freedom and autonomy and these two factors afford the entrepreneurs the ability to tailor their businesses to explicitly reflect their religious objectives. Religion is considered as an influencing factor on entrepreneurship in line with Weber (1930) who acclaimed that religion encourages all traits that translate into entrepreneurial activities (Bwisa & Ndolo, 2011). Religious values build the need for achievement in individuals based on the premise that, a person's life is measured by his end result. This means that, whatever a person does in life, finally calculates as part of his positive or negative scores depending on the outcome of the decision taken (Weber 1930).

In Tiv land, the entrepreneurs create new business environments based upon their faith and reflecting the values (family, good character, and helping others) that they saw as the manifestation of their faith. The individualized nature of religion for these entrepreneurs allowed for them to bring their faith into their businesses and reinterpret their work through their faith. Religious networks serve as valuable support capable of enhancing discovery of business opportunities to their member (potential entrepreneurs). Majority of entrepreneurs in Tiv land are Christians and the religious values they learn in church help them to establish businesses as a demonstration of their faith. Usually, they are encouraged to imbibe the virtues of hard work, dedication and perseverance. They carry out their businesses based on the specific Christian understanding of 'good character' because their different religious bodies teaches this value, and inspiring them to show it in all parts of their life, including their work. Most of the entrepreneurs pray and use "holy water" or "anointed oil" in their businesses so as to obtain favour from God.

Peer Group

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A peer is both a social and a primary group of people usually of similar age, who have similar interests, background and social status with whom a person associates and who are likely to influence the person's beliefs and behaviour. They can also be referred to as "age grades". Every youth is affected by peer pressure which has an influence on his life including entrepreneurial drive. Peer groups contain hierarchies and distinct patterns of behaviour, 18yr olds are not in a peer group with 14yr olds even though they may be in school together (Griebel *et al.* 2014). Children usually identify models within groups and imitate them because the behaviour of such models are rewarded and seem worthy of emulation. They also interact with peers and social groups involved in entrepreneurial activities and listen to their business problems, prospects and successes. They overtime, begin to develop interest and appreciation for the entrepreneurial career path (Ottih, 2014). The age grades serve as a source of determination and encouragement for entrepreneurs in Tiv land because most of them belong to age grades. The age grades also give financial support to them in times of need.

Family System

This has to do with family environment of the entrepreneur, which involves the number of children and dependents in the family. The family system in Nigeria is different from the Western conception of the extended family system, where relationships are marked by degrees of relationship. In the Nigerian extended family system, once a common ancestry is established, the degree of separation becomes irrelevant and this serves as the basis of interaction among members. The 'Care Syndrome' according to Obayan, (1995), which is a feature of Nigerian extended family, is a burden on entrepreneurship development. Obayan (1995) further explain that the Nigerian extensive family system presupposes dependence of other family members on the successful member, thereby affecting negatively on the invested fund. It was found that western education has altered in a way the form of interactions among members of extended family but features such as loyalty, reciprocity and sharing still pervade interactions among group members. The 'Care Syndrome' among family members in Tiv land encourages the tendency towards dependency. Rather than for every family member to engage in productive activity, one notices a trend where the less successful members look up to the most successful member(s) of the group for sustenance. The expectations of this family system from its members are found to be incompatible with entrepreneurship ideal based on pure economic principle of rationality. The cultural obligation of support among family members in Tiv land is that of 'help one another'. This is a situation where one is expected to take care of family relations and in-laws and this may negatively affect business operations.

Saving and Investment Culture

Saving means the portion of disposable income not spent on consumption of consumer goods but accumulated or invested directly in capital equipment or in paying off a home mortgage, or indirectly through purchase of securities.

According to Olusoji (2003), savings represent that part of net income that is not spent on current consumption, but when applied to capital investment output increases. In other words, saving is a sacrifice of current consumption that provides for accumulation of capital. It is the act of preserving income for future use. On the other hand, investment is the commitment of capital to the purchase of an asset in order to gain profitable returns (Yio, 2014). Investment is the purchase of an asset with the hope

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that it will generate income or appreciate in the future. It involves committing money into an investment vehicle in the hope of making a financial gain with the possibility of losing it. Saving facilitates consumption smoothing, which is particularly important in developing countries where incomes are often at subsistence levels and falls in consumption could have disastrous consequences. Saving also allows the self-employed to accumulate funds for making investments in their businesses or covering shortfalls in operating cash flow.

Many Nigerians today live below the poverty line not necessarily because they have low incomes or poor salaries, but perhaps they lack savings and investments culture (Imegi & Okanta, 2015). The Department for International Development- DFID (2012) reported that about 34.9 million adults population in Nigeria do not save. Developing a saving culture can go a long way in helping people set up businesses from the scratch. According to Utov (2000) the Tiv people are not economical in their spending hence; most of them exhaust their finances on 'drinking joints', 'wine bars' women, tobacco, drugs or even tasty food, all in the name of enjoyment. This lack of investment spirit thus discourage entrepreneurship hence, money meant for economic activities is usually diverted to the entertainment of others. In a study by Torkula (2004) he found that the value systems in Tiv society do not encourage their participation in business because of extravagant lifestyles and a negative attitude towards savings and investment. He however stated that the culture is gradually changing as some youths who are unemployed have recently established their businesses in the state. It is imperative that the Tiv people have a re-orientation towards savings and investment so as to improve entrepreneurial activities in Benue State. Azende (2007) in his study asserted that the Tiv man has suddenly copied the celebration of funeral as a show-off occasion. Tiv people now design a grave better than a living house; some people even borrow from banks for burial ceremonies, while others sell their stocks to buy a costly casket denying them the capital gain accruable to the investment. The end result is that such families pay debts for years and as such deny themselves of other productive engagements. This usually reduces the amount of money or capital available for business expansion or it reduces the amount of available investable funds in the state.

Gender Role Values

Generally, the role of men and women in various environments varies widely. Certainly, in many societies women do not enjoy parity with men as participants in the economy. The extent to which they are allowed to participate in economic activities affects their drive to become entrepreneurs. Also, values about family role for men and women affect entrepreneurial emergence generally, and between men and women. Values about family role determine how families divide responsibilities for the provision of economic wellbeing of the family unit. This varies among cultures. While in some societies and cultures the men are given the total role of bread winners and the women restricted to home keeping, in other societies the bread winner role is borne by both the man and the woman, thus allowing the woman a space to engage in entrepreneurial activities (Akpor-Robaro (2012). In some cultures there is the general belief among their men that business women are prone to sexual abuse by men. This makes them to discourage women from business activities to prevent them being in contact with men. The evidence of socio-cultural influence on entrepreneurship is also visible from the point of view of entrepreneurship among women in Nigeria. In Tiv land, the ownership and engagement of women in entrepreneurial businesses is evident in different

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ventures especially small scale businesses. Women have the freedom to operate their businesses and there is no cultural belief that forbids women from the ownership of any business. This is in contrast to most tribes in the Northern part of Nigeria where women are less involved in entrepreneurial activities because of the traditional belief that a woman is not to be seen outside. Therefore, to allow women own and run businesses is to allow them interact with the public and to be counter cultural. This cultural belief has negative influence on entrepreneurial drive among women in the north of Nigeria (Akpor-Robaro (2012).

Methodology

The methodology adopted for this review was based primarily on review of articles related to culture and entrepreneurship development. The choice of the articles reviewed and included in this paper help in explaining the relationship between culture and entrepreneurship development. The inclusion of empirical articles in the empirical review section is to highlight the major findings reported by the previous studies, which will help in achieving the study's objective of assessing the influence of culture on entrepreneurship development. The selected articles proxied culture and socio-cultural factors such as power distance, uncertainty avoidance, individualism, masculinity, family system, festivities, as significant in influencing entrepreneurship development. The choice of the inclusion of the empirical studies is therefore, based on the culture and entrepreneurship measures defined above.

Conclusion and Recommendations

The study examined the relationship between culture and entrepreneurship development. The study finds out that different cultures have different ways to influence the entrepreneur intention and different ways to impact on intentions towards business start-ups and ownership. This study provides a broad overview of the potential pattern of relationships between cultural dimensions and entrepreneurship development. Building on previous conceptualizations and empirical findings, the study concludes that there is lack of agreement on the effect of culture on entrepreneurship development in different societies. The study indicates that culture not only influences entrepreneurship levels but also has an influence regarding the preferred paths to entrepreneurship, such as new venture starts. Culture is therefore important in influencing the decision of individuals in becoming entrepreneurs or not. Entrepreneurial intention is developed among entrepreneurs through the interaction with culture.

In line with the findings of this study and the conclusion arrived at, the following recommendations are made: The amount of money spent on festivities should be reduced so that more investible funds will be used for setting up ventures in the state. Both parents and children should develop a new set of positive values that attract and facilitate entrepreneurship development. Parents should make every possible attempt to make their children "hard working" in order to reduce the "care syndrome" which tends to increase the dependency of many on their family members. Individuals, families and entrepreneurs must engage in thorough self-examination and assessment to ascertain and determine the relevance of existing values and cultural system to their economic progress and wellbeing, and select and retain only those values that are capable of helping society to achieve its economic progress and development. Religious bodies should also teach their members the virtues of hard work and determination and to imbibe a saving culture.

Suggestions for Future Research

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The current study focuses on how cultural factors such as religion, peer groups, family system, gender roles and savings culture influence the intention of any individual to start a new business. This study only emphasizes on Tiv culture, and culture related factors and their effect. Further studies should use different cultural variables. A moderating variable such as self-efficacy should be included in further studies. There is a need to carry out further studies to determine the effect of culture on entrepreneurship development in other parts of Nigeria. Finally, a comparative study can be carried out on the effect of culture on entrepreneurship development in Nigeria using different tribes in Nigeria.

Practical Implications of Findings

This study contributes to the literature pertaining to the relationship between culture and entrepreneurship. The study also helps entrepreneurs to understand the effect of culture on entrepreneurial intentions and behaviour. The insights of the study creates an understanding that culture, is the fundamental mechanism of principles linking to a specific community, and builds the progression of distinct personality uniqueness and motivates people in the way to utilize in behaviors which are not noticeable in different societies.

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COMPARATIVE ANALYSIS OF THE MONETARY POLICY OF THE NBS AND THE ECB

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Abstract

As a prerequisite for joining the EMU, states must meet certain convergence criteria, because there are significant differences among countries, which have their political and institutional origins, which can affect integration efficiency. All this imposes the need for a comparative analysis of the situation in which Serbia is in relation to the Eurozone. This paper should provide a useful basis, to what extent monetary policy of the NBS agrees or deviates from the monetary policy of the ECB and the EMU, which represent final goal of Serbia on the path of European integration. A comparative analysis of the monetary policy of the National Bank of Serbia and the European Central Bank will be carried out by statistical methods that will show the degree of (in) connection between the two policies and their interconnection, and on the basis of certain common variables.

Key words: monetary policy, ECB, NBS, ANOVA.

1. Introduction

The modern central bank is a product of the 20th century, regardless of the fact that some of the central banks have a much longer history; only about a century ago the world got a true idea of the functions and scope of the work of the central bank. Historically observed, central banks have developed in two ways. The first one, through a slow process of evolution from commercial banks that, having gained additional

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power and responsibility in relation to the functioning of the financial system, became central banks. Second way - through the adoption of laws that have been established from the outset as institutions with the attributes of the central bank (Beck et al., 2004). In the past, central banks were expected - in accordance with law, custom, or both - to use their instruments to achieve multiple goals, such as high growth and employment, securing funds for state expenditures and solving balance of payments problems. Today, the legal and actual independence of central banks is considerably higher than it was twenty years ago, and their primary goal has become price stability.

With the creation of the European Monetary Union, the national central banks have become part of the new central banking system, which is called the Eurosystem. It is made up of the European Central Bank and the national central banks of the Member States that have adopted the euro. These national central banks have lost their monetary sovereignty and no longer make independent decisions. In addition to this system, the European System of Central Banks (ESCB), which includes all member states of the European Union, operates. All EU countries are not members of the EMU at the same time, and except Denmark, Sweden and the UK, they all want to become part of it.

2. Literature Review

The most widespread indices of central bank independence refer to the level of independence determined by law. Real independence can often deviate significantly from legal independence. Such deviations are more significant in developing countries than in industrialized economies. The reason for this is probably better implementation of laws in industrialized economies. Other types of behavior-more focused, focus on the pace of change in the governor's central bank relative to the statutory dynamics (used only for developing countries) and the political sensitivity of the central bank governor. The second index is defined as the frequency of cases in which the Governor changes over a short period after a political change. None of these indexes fully represent the true independence of the central bank, but, when taken together, provide a more complete picture of the differences in central bank independence between countries over time.

In addition, Cukierman, Miller and Neyapti (2002) compare the legal independence of the central bank in former socialist economies with developed economies in the eighties; reveal a significantly higher level of independence in the second group. Real independence depends not only on legal status, but also on various formal and informal institutional arrangements such as the exchange rate regime, the ability of the bank to effectively engage in open market operations, the position of fiscal policy, and the existence of explicit institutional arrangements (out of regulation) which makes stability of the price recognizable by the central bank. A prominent example of this latter are various methods of targeting inflation, adopted by some twenty countries following the implementation of this innovation in New Zealand and Canada in the late 1980s.

The trend towards central bank independence was due to a combination of global and regional factors. The two main global factors underlying the trend include, firstly, an increasing need around the world for the stability of the price triggered by stagflation from the 1970s and the poor economic performance of

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some high-inflation countries, both in Latin America and in other parts of the world economy. Unlike the 1960s and 1970s, the 1980s and 1990s, the view was that inflation and associated uncertainties slowed down growth. The relatively good performance of low-inflation countries, such as Germany and Japan, upheld that attitude by the 1980s (Stella, 2002).

The other factor is globalization, which implied the gradual abolition of control over cash flows and the expansion of international capital markets. These processes have been enhanced by the need for price stability and the greater importance of central bank independence as a signal of macroeconomic responsibility towards domestic and foreign investors. As Maxfield (1998) considers, this factor was particularly important in developing countries whose political systems were eagerly waiting to accelerate access to international capital markets. The International Monetary Fund (IMF) also accepted the view that a high level of independence was desirable and actively promoted the central bank reform in many emerging economies.

Several regional factors have contributed to increasing independence:

• The breakdown of institutions designed to protect nominal stability, such as the European Monetary System (EMS) and the Bretton Woods system, have increased the search for alternative institutions;
• The good result of a very independent Bundesbank has shown that the independence of the central bank can function as an effective instrument for ensuring nominal stability,
• The acceptance of the Maastricht Treaty by the European Economic Community (EEC) implied that many of the countries in the Community must improve the independence of their central bank as a prerequisite for membership in the European Monetary Union (EMU). The inclusion of this provision in the Agreement is linked to the good results of the Bundesbank and Germany's central position within the Community
• After a successful stabilization of inflation, especially in Latin America, policy makers have sought institutional arrangements that can reduce the likelihood of high and sustained inflation in the future. The increase in the independence of the central bank seemed at the time as a natural way to achieve this goal;
• In the former socialist countries, improving central bank independence and creating central banks on the basis of best western practice was part of a wider attempt to create the institutional framework needed for the proper functioning of the market economy. The fact that many banks have been given de jure independence is undoubtedly corroborated by evidence from industrialized economies that have indicated that inflation and legal independence are negatively linked, and that independence and growth are either positively related or not related in general.

3. The monetary policy of the European Central Bank vs. Monetary policy of the National Bank of Serbia

3.1. Structure and functioning of the European Central Bank and its monetary policy instruments

The formation of the European Economic and Monetary Union was a unique experiment, which introduced a new monetary regime with a single currency in much of Europe. The transfer of monetary

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policies from a national level to the level of the EU required a major change in European central banking. A supranational monetary organization was established, the European Central Bank (ECB), which with the 13 national central banks that adopted the euro and thus lost its monetary sovereignty and the possibility of independent decision-making in the monetary sphere, constitutes a new supranational central banking system, called the Eurosystem. In addition to this system, the European System of Central Banks (ESCB) operates, which today encompasses in all EU Member States. The European Central Bank is a specialized, independent institution that has the task of defining and implementing monetary policy, managing exchange operations and ensuring the well functioning of payment system.

The primary task of the European Central Bank is to ensure price stability, i.e. guarding the value of the euro as the single currency of the Member States of the European Monetary Union. By joining the EU, and preparing for membership in the monetary union, the central banks of Member States and potential candidates must harmonize monetary policy and functioning in order to harmonize with the Eurosystem. They have to adjust the monetary regulation instruments, emphasizing the importance of open market operations (in particular, the refinancing operation) and reducing the percentage of required reserves. In addition to meeting the convergence criteria, the national currency of the accession countries must be in the normal range of ERM II two years before entering the Eurozone. ERM II represents a system of flexible courses allowing the fluctuation of national currencies against the euro by up to 15%. The new exchange rate mechanism (the so-called ERM-II), is established on the basis of the Amsterdam European Council resolution of 16 June 1997, replaced the old mechanism of the European Monetary System on 1 January 1999.

The process of accession of new EU member states to the monetary union is quite complicated - all steps towards the EMU must be accepted by the country concerned, the European Council, the European Central Bank and the European Commission (Cukierman, 2002). The entry of each country is based on an individual basis. Engaging in ERM II before the end of economic reforms is a very dangerous move for the accession countries; therefore it is necessary to complete all economic processes and reforms, especially those that are the result of the former socialist regime. There are numerous problems and risks that central banks face, arising from the uncertainty surrounding the changed economic environment in which the monetary policy operates and which must be adapted:

- There are national differences in the transmission of monetary policy.
- There is a risk that countries will be affected by asymmetric shocks.
- The question arises whether, due to the decentralized nature of the system, national interests will dominate in implementation of the monetary policy.
- Increased expectations for income growth, rising credit supply, and declining risk premiums lead to a sharp rise in demand for loans, although cyclical developments sometimes affect the reduction in demand. Whether used for investment or for consumption, these, always available, loans create pressure on national revenues and expenditures.
- The development of the financial system can lead to the possible impact of imperfect capital markets. There may be major deviations in the risk premium and the exchange rate if the

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willingness to accept the euro changes. Also, moral hazard is constantly present as a potential problem.

- Political risks must also be taken into account. Fiscal policy, coupled with a monetary policy, in order to reduce inflation, leads to an increase in interest rates, resulting in unreasonably high short-term capital inflows and unrealistic appreciation. Increased inflows of funds can lead to a rise in demand and an increase in inflation.
- Finally, experiences from other regions should serve as a useful framework for future decision-making.

The Central Bank of Accession States, with their mandate of financial stability, must provide analyzes and data that point to national players, both public and private, on potential or emerging risks. All the dynamics of the financial flows and the movement of the exchange rate must be clearly outlined so that the process of changing the exchange rate regime would be carried out with the full support of the whole nations. The accession countries must support their involvement in the Eurozone by closely monitoring and analyzing the experiences of other advanced economies, including the current states of the Eurozone, and their experience in real and financial convergence (Geraats, 2002).

They need to provide an optimal allocation of resources, whose inflow is expected from the over-appreciated real exchange rate or low risk premium. Regardless of the potential difficulties and momentary ambiguities and stagnation in the negotiations between Serbia and the European Union, Serbia must make the most effort to approach the convergence criteria prescribed for EMU membership. Therefore, the analysis of the monetary policy convergence of Serbia and EMU monetary policy is necessary.

The following aggregates are included in the money supply:

- M1 = Cash in circulation + Demand deposits,
- M2 = M1 + Short-term deposits, which can be withdrawn from the account within 3 months + Term deposits up to two years + Other short-term deposits,
- M3 = M2 + Recovery deals + Money Market Funds + Securities with a maturity of up to two years + Other eligible instruments.

In achieving the ultimate goals of monetary policy, central banks use different instruments of monetary regulation. Their application or combination, depending on the way they are created, affects the quantum of money supply, which will ensure optimum economic development, observed from the aspect of stability and economic growth. The choice of instruments depends on the conditions in which the economic and financial system functions. Therefore, there are differences in monetary regulation instruments in some countries. The European Central Bank has at its disposal a wide range of instruments (Cukierman and Lippi, 2005). The Governing Council of the ECB, with its decisions, defined the monetary policy instruments that the ECB and the Eurosystem use in practice, as well as the conditions for their application. To achieve its objectives, the ECB uses open market operations ,liquidity loans, mandatory reserve.

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3.2. Structure and functioning of the National Bank of Serbia and its monetary policy instruments

The position, organization, powers and functions of the National Bank of Serbia, as well as the attitude of the National Bank of Serbia towards the organs of the Republic of Serbia and international organizations and institutions, are regulated by the Constitution of the Republic of Serbia and the Law on the National Bank of Serbia ("Official Gazette of the Republic of Serbia" No. 72/2003 , 55/2004, 44/2010, 76/2012 and 106/2012). The National Bank of Serbia is independent and independent in the performance of its functions as defined by the Law on the National Bank of Serbia and other laws, and for its work it is responsible to the National Assembly of the Republic of Serbia. The main goal of the National Bank of Serbia is to achieve and preserve price stability. In addition, without prejudice to the achievement of its primary objective, the National Bank of Serbia contributes to the preservation and strengthening of the stability of the financial system. The bodies of the National Bank of Serbia are Executive Board, Governor and Board of Governors.

The Executive Board determines the reference interest rate and other interest rates applied by the National Bank of Serbia in the implementation of monetary policy. In addition, the Executive Board, on the proposal of the Supervisory Board, issues the regulations of the National Bank of Serbia in the field of control and supervisory function, in accordance with the laws regulating the performance of these functions (Blinder., 1998).

The Executive Committee decides on the granting of preliminary approvals as well as on the granting and revocation of operating licenses to banks, the granting and confiscation of insurance companies for licensing activities, the granting and revocation of licenses for the conduct of financial leasing activities, the granting and confiscation of management companies Voluntary pension funds a work permit and a license to manage those funds (National Bank of Serbia, 2013). The Executive Committee makes decisions at sessions, with the majority of votes of all members. In the case of an equal number of votes, the Governor shall decide. The Governor, as Chairman of the Executive Board, signs the decisions made by the Executive Committee. He is obliged to submit to the Council reports on the implementation of monetary policy, reports on the approval and revocation of operating licenses for commercial banks, the legality of work and the solvency of commercial banks and other financial organizations. On the other hand, the Council is not a fully independent body because it is elected by the Serbian Parliament and is obligated to submit a report on its work at least once a year. In order for the Council to independently and impartially make decisions, its members can not have a conflict of interest on any basis, and therefore can not be employed by the National Bank. The Governor's Council consists of five members, including the President, elected by the National Assembly on the proposal of the National Assembly Committee responsible for finance. Council members are elected for five years, with the right to re-election (Statistical Office of the Republic of Serbia).

Monetary policy instruments of the National Bank of Serbia are:

- mandatory reserve,
- open market operations,

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- collateralized loans for maintaining daily liquidity,
- depositing surplus liquid assets of banks with the National Bank of Serbia, discount rate, minimum credit terms of the bank, and
- harmonization of retail loans with the share capital of the bank.

The National Bank of Serbia uses the following three monetary aggregates:

- M1 = Cash in circulation + Sight deposits,
- M2 = M1 + Dinar deposits,
- M3 = M2 + Foreign currency deposits.

The National Bank of Serbia has the following functions:

- determines and implements monetary and foreign exchange policies;
- manage foreign reserves;
- determines and implements, within its competence, activities and measures in order to preserve and strengthen the stability of the financial system;
- issues and revokes work permits and performs control of the creditworthiness and legality of operations of banks and performs other activities in accordance with the law regulating banks;
- issues and revokes the licenses, i.e. powers to perform insurance activities, and supervises the performance of such activities and performs other activities, in accordance with the law regulating insurance;
- issues and revokes operating licenses for voluntary pension fund management companies, supervises this activity and performs other tasks, in accordance with the law governing voluntary pension funds;
- issues and revokes licenses for leasing operations, supervises the performance of these operations and performs other activities, in accordance with the law governing leasing;
- performs the tasks of protecting the rights and interests of the users of services provided by banks, financial leasing companies, insurance companies and companies for managing voluntary pension funds in accordance with the law;
- Issues banknotes and coins and manages cash flows;
- regulates, controls and improves the smooth operation of domestic and international payment operations in accordance with the law;
- performs the tasks determined for the Republic of Serbia by law or contract, without jeopardizing their independence and independence.

4. Statistical analysis of the interdependence between monetary policies of the NBS and the ECB

Statistical analysis of the interdependence of monetary policies of the National Bank of Serbia and the European Central Bank was carried out in the statistical program (SPSS) based on variables that are

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relevant to evaluate the strength of the relationship between these two monetary policies. The monetary aggregates of both central banks and foreign reserves in millions of euros are taken into account. The aforementioned evaluation of the interdependence between the two monetary policies has been carried out on the basis of several of the following analyzes:

- Correlation analysis - Pearson coefficient
- Regression analysis
- Hi square test
- Distribution probability and scatter diagram.

The statistical model and the conducted analysis are based on previously set hypotheses on models of the interdependence of monetary policies:

- H0- There is a minimum level of connection between the two monetary policies to given values of monetary aggregates (in millions of euros)
- H1- There is a statistically significant link between the two monetary policies to the values of monetary aggregates (in millions of euros)

4.1. Correlation analysis of NBS vs. ECB

The coefficient of free linear correlation, as a relative measure, takes values from -1 to +1. If it takes positive values, the correlation between phenomena is either direct or positive (both phenomena exhibit concurrent variations). In the case where $r < 0$, the connection is inverse or negative (when one phenomenon increases the other decreases, and vice versa). If there is a functional connection between the observed phenomena (all the empirical points are right on the right line), we are talking about perfect correlation. Then the coefficient of correlation takes the value -1 (if the connection is inverse) or +1 (if the connection is direct). The correlation coefficient is absolutely closer to the unit means that the correlation between the phenomena is stronger. Against this, the closer it is to zero, the linear relationship is weaker.

In the following tables, the degree of connection between individual variables of the two monetary policies, such as the monetary aggregates of the NBS and the ECB, and the NBS foreign exchange reserves, were analyzed. From this example, based on the significance level (Sig. = 0.000), the zero hypothesis is rejected, i.e. the assumption that there is a minimal correlation between the given variables. On the other hand, it can be seen that the value of the correlation coefficient is quite large but negative or inverse for a given variable, which only speaks of the opposite in the movement of their values. (-0.889, -0.733)

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Correlations

		M1ECB	M1NBS
M1ECB	Pearson Correlation	1	-.889**
	Sig. (2-tailed)		.000
	N	27	27
M1NBS	Pearson Correlation	-.889**	1
	Sig. (2-tailed)	.000	
	N	27	27

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

Correlations

		DevrezNBS	M1ECB
DevrezNBS	Pearson Correlation	1	-.733**
	Sig. (2-tailed)		.000
	N	27	27
M1ECB	Pearson Correlation	-.733**	1
	Sig. (2-tailed)	.000	
	N	27	27

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

Source:Authors' estimation

4.2. Regression analysis of NBS vs. ECB

Descriptive Statistics

	Mean	Std. Deviation	N
DevrezNBS	1258.78	346.199	32
DeppovECB	2191616.75	90172.663	32
M1ECB	5930917.88	504110.136	32
M2ECB	9662175.00	406707.023	32
M3ECB	10306646.78	401770.341	32

The following tables of the regression model, which in this case examines the impact of the NBS

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foreign exchange reserve on the monetary aggregates of the ECB, are the most important when it comes to interpreting the results. Namely, the coefficient of multiple correlation R, which shows the linear correlation between the original values of the dependent variable and the model of the predicted value of the dependent variable is 0.800, which indicates a very strong connection. The coefficient of determination shows that a good 80% of the variability of the NBS foreign exchange reserves category can be explained by the regression model, that is, the independent variables belonging to the monetary aggregates of the ECB. The value of the corrected determination coefficient (0.770) is very close to the value of the normal coefficient of determination, due to the favorable relationship between the independent variables and the total number of NBS foreign exchange reserves (the number of independent variables is 4, and the number of observations 32).

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.894[a]	.800	.770	165.949	.800	26.979	4	27	.000	.695

a. Predictors: (Constant), M3ECB, DeppovECB, M1ECB, M2ECB

b. Dependent Variable: DevrezNBS

Regarding the ANOVA procedure within the regression model, it examines the validity of the regression model from the statistical standpoint. This is about proving the hypothesis that:

$$H_0: R^2 = 0 \text{ ili } H_1: R^2 \neq 0$$

Based on the output results in the Sig. = 0,000 column, the conclusion is that the zero hypothesis is rejected and that the coefficient of determination is greater than 0, which has been proven. This confirms that the regression model explains a significant amount of variability of the dependent variable.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2971904.495	4	742976.124	26.979	.000[a]
	Residual	743550.974	27	27538.925		
	Total	3715455.469	31			

a. Predictors: (Constant), M3ECB, DeppovECB, M1ECB, M2ECB

b. Dependent Variable: DevrezNBS

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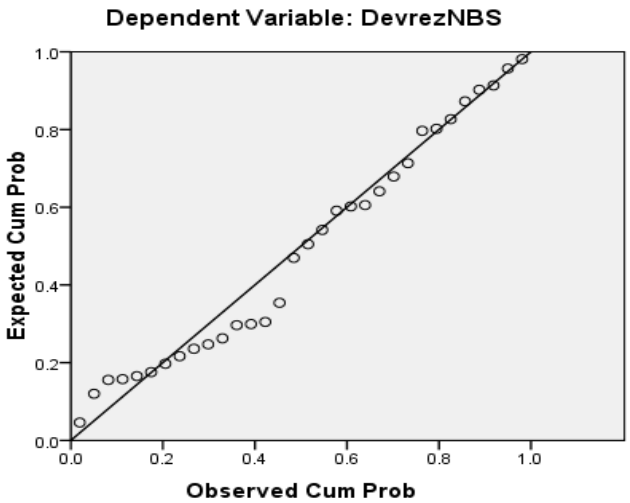
In the last table of coefficients, standardized beta coefficients are noted that show the significance of the influence of individual independent variables on the dependent variable. In fact, these coefficients reduce independent variables to identical phenomena, so that all independent variables are treated the same way with the same scaling scale. Quite logically, some values of the β coefficients are negative, which is consistent with the correlation coefficients from the results shown above. As for factors affecting foreign exchange reserves, the monetary aggregate M1 ECB takes over for the greater primacy in relation to the progress of others.

Coefficients[a]

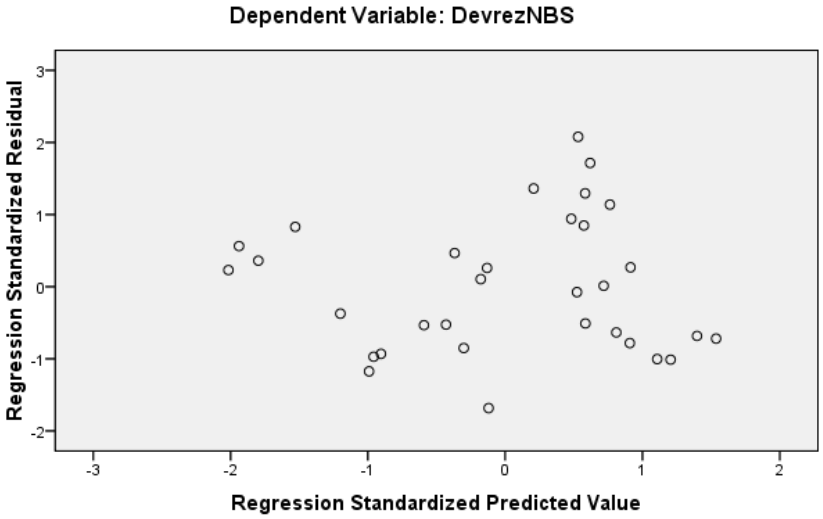
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	29024.613	10619.055		2.733	.011	7236.112	50813.114					
	Deppov ECB	-.005	.000	-1.184	-9.361	.000	-.006	-.004	-.606	-.874	-.806	.463	2.160
	M1ECB	.002	.002	3.258	1.281	.211	-.001	.006	-.191	.239	.110	.001	872.388
	M2ECB	-.006	.002	-7.231	-2.815	.009	-.011	-.002	-.196	-.476	-.242	.001	890.329
	M3ECB	.003	.001	3.198	3.019	.005	.001	.005	-.223	.502	.260	.007	151.400

a. Dependent Variable: DevrezNBS

The distribution of residuals on the P-P Plot and on the dispersion diagram shows the absence of a normal distribution of residuals in the form of rectangles and the formation of the residual curve line on the scattering diagram. In this way, the existence of heteroskedasticity is confirmed.



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Source:Authors' estimation

5. Conclusion

The Central Bank has dominant position in organizing, directing and regulating the contemporary financial flows of all countries of the world. Central banks have a number of functions, and among the most important is the conduct of monetary policy. The Central Bank is a state institution that oversees the banking system and is responsible for the amount of money and loans that exist in the economy as a whole.

Monetary policy is the basic task of regulating the amount of money in circulation, maintaining a balance between commodity and money funds, to enable the smooth flow of goods traffic and stable economic flows. Monetary policy uses a number of instruments in performing the basic function, regulating the necessary amount of money in the economy. The monetary and economic stability of the country depends on their type, number and efficiency, as well as achieving the envisaged rate of its economic growth.

Comparative analysis of the practices and policies of the National Bank of Serbia and the European Central Bank can further strain further measures and policies of the NBS towards the proclaimed criteria of convergence of the European Union. In the further management of monetary policy, the National Bank of Serbia, in addition to suppressing inflationary tendencies and expectations, needs to focus more on the harmonization of its regulations and practices with the regulations of the European Monetary Union. Also, in order to fulfill the conditions and criteria for introducing the euro as a single currency, it is necessary to achieve a larger role of open market operations as an instrument of monetary policy, with a special emphasis on fine-tuning. Insisting on greater institutional, operational and personal independence in the work of the National Bank of Serbia is something that makes up the modern functioning of a central bank to which should strive and continually improve.

In essence, the functions of the National Bank of Serbia should be reduced to achieving quantitative (regulation of the required amount of money) and qualitative (structure of money and credit) objectives and tasks. The efficiency of achieving these functions can generally be gained through the level of inflation as a

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synthetic indicator of the general state of the economy. In close connection with the exercise of its functions, it is important to underline that monetary policy can - in no case - be an element of socialization of risk in the economy.

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A STUDY ON ANALYSIS OF SUPPORTABLE EMPLOYEE ENGAGEMENT MODEL IN McDONALD

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ABSTRACT

Employee engagement is a property of the relationship between an organization and its employees. An "engaged employee" is one who is completely consumed by and eager about their work thus makes positive move to promote the organization's notoriety and hobbies. It is a work environment approach bringing about the right conditions for all individuals from an organization to give of their best every day, focused on their organization's objectives and values, roused to add to organizational accomplishment, with their very own upgraded feeling prosperity.

Employee engagement has turned into a key segment in today's business situation. As rivalry strengthened, bosses understood the significance of employee to manage and develop in the information economy Success of any organization in the globalized economy can be accomplished by building an ability rich organization that draws in, holds and connects with employees. Engaged employees are eager and ready to add to the achievement of the organization and are, in this manner, genuine resources for an organization (Rama Devi, 2009).

To improve employees work, employee must be engaged appropriately. This study concentrates on the variables which are huge to make an engaged workforce. The study is unmistakable in nature and the information has been gathered from 268 employees from McDonald. Chi-square, ANOVA, Correlation was utilized to discover the employee engagement. 147 employees concur that organization gives appealing chances to development and change.

KEYWORDS:

Employee Management, Engaged Workforce, Employee Value Proposition, Employee Engagement

INTRODUCTION

Human resource officials in India keep on battling with ability management issues, especially maintenance. The mission to locate the most ideal approach to hold employees has taken HR savants through ideas, for example, employee inspiration, employee fulfillment and employees delight. The most recent thought is, "Employee Engagement process idea that holds that, it is the extent to which an employee is candidly clung to his organization and energetic about his work that truly matters. Engagement is about rousing employees to give a valiant effort. The nature of yield and upper hand of an organization relies on the nature of its kin. It has been demonstrated that there is an inborn connection

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between employee engagement, client dedication and benefit. There are 3 sorts of employees; they are as per the following

- Engaged
- Not Engaged
- Partially Engaged

Engaged - employees who work with passion and feel a profound connection to their organization. They drive innovation and move the organization forward.

Not engaged – employees who attend and participate at work but are timeserving and put no passion or energy into their work; and

Partially Engaged – employees who are unhappy at work and who act out their unhappiness at work.

By (2005), these employees undermine the work of their engaged associates regularly. Employee engagement can be characterized as far as what individuals do at work, something many refer to as the part hypothesis. Part hypothesis audits distinctive parts that individuals participate in at work, and it clarifies reasons why individuals take part in specific parts and not in others. They are as follows,

- Job holder role
- Team member role
- Entrepreneur role
- Career role
- Organization member role

The vast majority of the writing utilizes a multidimensional way to deal with characterizing employee engagement, where the definition exemplifies a few components required keeping in mind the end goal to accomplish 'genuine engagement'. For instance, the CIPD (2007a) characterizes employee engagement as a mix of duty to the organization and its values in addition to an ability to assist partners. By perspective, engagement is about more than employment fulfillment and is a more perplexing idea than inspiration. Additionally, Schmidt (2004) characterizes engagement as uniting fulfillment and responsibility. Whilst fulfillment addresses a greater amount of an enthusiastic or attitudinal component, duty gets the motivational and physical components.

Right Management (2006) characterizes genuine engagement as each individual in the organization understanding and being focused on the achievement of the business technique, and this goes past more than simply basic employment fulfillment and consolidates parts of responsibility, pride and backing about the organization's items and brand. Whilst the onus is on the organization to oversee correspondence successfully to include employees and adjust them to the organization, this unmistakably requires data and criticism from employees too to make the procedure work. Engaged organizations have solid and real values, with clear proof of trust and decency taking into account shared admiration, where two way guarantees and responsibilities in the middle of businesses and staff are comprehended and satisfied.

There are two primary factors that drive employee engagement. These factors are based on statistical analysis and widely supported by industry research.

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- **Engagement with The Organization:** It measures how engaged employees are with the organization as a whole, and by extension, how they feel about senior management. This factor has to do with confidence in organizational leadership as well as trust, fairness, values, and respect - i.e. how people like to be treated by others, both at work and outside of work.
- **Engagement with "My Manager":** It is a more specific measure of how employees feel about their direct supervisors. Topics include feeling valued, being treated fairly, receiving feedback and direction, and generally, having a strong working relationship between employee and manager based on mutual respect.

An organization needs more than just engaged employees in order to succeed. There are two additional areas that relate to employee performance and that are closely linked to engagement.

- **Strategic Alignment:** Does the organization have a clear strategy and set of goals? Do employees understand the strategy and goals? Do employees understand how the work they do contributes to the organization's success?
- **Competency:** Do managers have the skills needed to get the job done? Do they display the behaviors needed to motivate employees?

THEORITICAL MODEL

Aon Hewitt characterizes engagement as the mental state and behavioral results that prompt better execution. The Aon Hewitt Engagement Model beneath analyzed engagement results as Say, Stay and Strive.

Engaged employees: Say—talk absolutely about the organization to colleagues, potential employees and clients; Stay—have an extreme feeling of having a place and yearning to be a part of the organization; and Strive—are propelled and apply exertion toward accomplishment in one's occupation and for the organization. Engagement drivers inside of management control—brand, authority, execution, the work, the nuts and bolts and organization

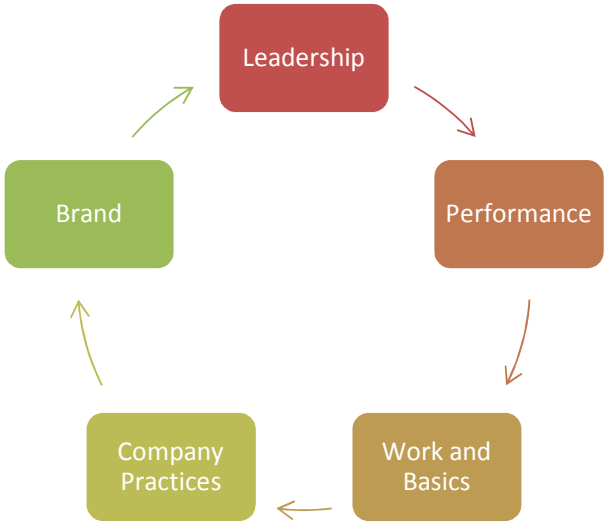


Figure 1: The Aon Hewitt Employee Engagement Model

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REVIEW OF LITERATURE

Sarika Patil (2012) endeavored to give the sensible perspective about ability management and maintenance. The most profitable resource of a 21st - century organization, whether business or non-business, will be its ability specialists and their efficiency. Skilled specialists are the key wellspring of upper hand for the today's organizations. Today, skilled specialists represent real piece of the workforce in created countries. Capable specialists will do things fantastically, if just they are overseen well. Human resource director need to comprehend their requirements and desires and convey the same. Information laborers are high on ability sets and capacities that others are discovered needing in. Along these lines, the Human resource chiefs need to oversee them viably and proficiently and held them for the future development of the organization. Information specialists are without a doubt the soundest resource for an organization. This advantage can be acknowledged or transformed into an obligation. Everything comes down to one basic thing – oversee them legitimately.

Irshad, Muhammad January (2011) the article portrayed the relationship between human resource practices and employees maintenance in a given organization. The examination checked on pertinent writing to distinguish components of HR practices that impact employee maintenance. Over the previous decade, the route in which individuals are overseen and created at work has come to be perceived as one of the essential components in accomplishing change in organizational execution.

John Hausknecht, Julianne M., Michael J. Howard (2008) directed a study on execution based and work related contrasts. A substance model of a maintenance variables is created in the setting of past hypothesis and exploration. Coding of open-finished reactions from 24,829 employees in the cordiality business landed backing to the recognized structure and uncovered that occupation fulfillment, extraneous prizes, constituent's connections, organizational duties, and organizational distinction were the most much of the time specified purpose behind remaining. Headway opportunities and organizational renown were more basic explanation behind staying among superior workers and non-hourly laborers, and extraneous prizes was more regular among hourly employees. The discoveries highlighted the significance of separating human resource management rehearses when the objective is to hold those employees valued most by the organization.

Ravneeta Dhankhar (2008) inspected the accompanying components: profession advancement opportunities, viable ability management systems, enlistment, on loading up and introduction, interest in preparing and improvement, remuneration and advantages, work life parity, society of the organization, administration, correspondence, picture of the organization, self-sufficiency and strengthening, Gallup reviews, individual causes, part of HR head and administrators, business related arrangements and flexi time, execution examinations and vocation development and advancement opportunities. Diverse organizations lay accentuation on components relying on their suitability of maintenance. Taking into account our comprehension the, proposals are drawn which give an all-encompassing perspective on practices that organizations ought to embrace to keep the abnormal state of employee maintenance and duty.

Jean Mariehiltrop, (1996) investigated that superior organizations are constituently outflanking their rivals on various human resource components, including the level of cooperation and openness between

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associates, the preparation and improvement opportunities they offer to employees, and the level of genius effectively in HR arranging. Adding to this ability starts with the acknowledgment of powerful human resource management.

Eileen Appelbaum (2000) considered 15 steel factories, 17 attire makers, and 10 electronic instrument and imaging gear makers. Their motivation was to contrast conventional creation frameworks and adaptable superior generation frameworks including groups, preparing, and impetus pay frameworks. In every one of the three businesses, the plants using high-contribution rehearses demonstrated predominant execution. Likewise, specialists in the high-inclusion plants demonstrated more inspirational demeanors, including trust, organizational duty and natural satisfaction in the work. The idea has picked up fame as different studies have exhibited joins with efficiency. It is regularly connected to the idea of employee voice

Two investigations of employees in the disaster protection industry inspected the effect of employee observations that they had the ability to decide, adequate learning and data to carry out the occupation viably, and rewards for superior. Both studies included expansive examples of employees. In both concentrates, high-contribution management practices were emphatically connected with employee confidence, employee maintenance, and firm money related execution. Watson Wyatt (2002) found that high-duty organizations out-performed those with low responsibility by 47% and 200% in the study.

UNDERSTANDING EMPLOYEE ENGAGEMENT

Employee engagement depends on trust, uprightness, two way responsibility and correspondence between an organization and its individuals. It is a methodology that builds the odds of business achievement, adding to organizational and singular execution, profitability and prosperity. It can be measured. It fluctuates from poor to extraordinary. It can be sustained and drastically expanded; it can lose and discarded.

Employee Engagement is all about the following

- Understanding one's role in an organization, and being sighted and energized on where it fits in the organization's purpose and objectives.
- Having a clear understanding of how an organization is fulfilling its purpose and objectives, how it is changing to fulfill those better, and being given a voice in its journey to offer ideas and express views that are taken account of as decisions are made.
- Being included fully as a member of the team, focused on clear goals, trusted and empowered, receiving regular and constructive feedback, supported in developing new skills, thanked and recognized for achievement.
- Strong and authentic values, with clear evidence of trust and fairness based on mutual respect, where two-way promises and commitments – between employers and employees – are understood and fulfilled.
- Positive attitudes and behaviors leading to improved business outcomes, in a way that they trigger and reinforce one another.
- Employees feeling pride and loyalty working for our organization, being a great advocate of the organization to our clients, users and customers, going the extra mile to finish a piece of work.

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- Drawing on our employees' knowledge and ideas to improve our products and services, and be innovative about how we work.
- Drawing out a deeper commitment from our employees so fewer leave, sick absence reduces, accident rates decline, conflicts and grievances go down, productivity increases.
- Organization actions that is consistent with the organization's values. It is about kept promises, or an explanation why they cannot be kept.

RESEARCH METHODOLOGY

In this study descriptive research design was utilized. 100 employees of McDonald, Pune, India were chosen as test size. The inspecting strategy utilized as a part of this study is arbitrary examining technique. 5 point likert scale extending from strongly agree to disagree was utilized as a part of creating poll which comprises of an assortment of inquiries relating to occupation, colleague, office, organization and general discernment about employment.

OBJECTIVES OF STUDY

- To study and understand the employee engagement at McDonald.
- To determine the Supporting ability and coordination which is been provided by the co-workers at McDonald.
- To analyze the relationship between the employee and superior at McDonald.

Table 1: Demographic Segments at McDonald

Variables	Classification	Frequency
Age	18-20	114
	20-22	109
	22-24	26
	24-26	19
	Total	*268*
Gender	Male	220
	Female	48
	Total	*268*
Marital Status	Single	238
	Married	30
	Total	*268*
Department	Cash	86
	Supply	67
	Kitchen	84
	Delivery	31
	Total	*268*

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Employment Status	Full time	182
	Part time	86
	Total	*268*

FINDINGS OF THE STUDY

A random sample of 268 was taken for the study, out of which 220 of the respondents were male and 48 of the respondents were female. It is found that 86 employees were sent in cash department, 67 employees are conveyed in supply office, 84 employees are sent in kitchen division, and 31 employees are sent in conveyance office. Greater part of the respondents fall in the classification of 18-20.

DATA ANALYSIS AND INTERPRETATION

These data suggest some interesting dynamics in the engagement equation. More employees are saying positive things about their employers and more are striving for greater performance, but the percentages that see a long-term track with their organization is leveling off at just over half of employees. We are seeing an increasing percentage of employees who engage in terms of positive statement and extra effort, but may not be with an organization very long. Employee engagement is improving marginally but generally stabilizing to pre-recession levels, and the results indicate significant room for improvement for the average organization.

Table 2: The Correlation Table

Variables	Having right tools and resources to do job attractive opportunities for growth and improvement	My superior regularly recognizes me for doing a good job & I have the authority to do my best work	I have the training & skill I need to do and excellent job & My talents and abilities are used well work in my current position
Sig. (2-tailed)	0.628	0.049	0.000
Pearson Correlation	0.030	0.120*	0.270**
N	268	268	268

From the analysis it is found that training is identified as the key factor in engaging employees so as to enhance their skill in doing an excellent job.

Table 3: The Annova Table

No	Variable	F	Sig.

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1	I have the right tools and resources to do my job well	1.547	0.215
2	I have the training and skill I need to do an excellent job	2.220	0.111
3	The amount of work I am expected to do is reasonable	1.767	0.173
4	My talents and abilities are used well in my current position	1.573	0.209
5	I feel that my work is important to the success of this company	2.993	0.002
6	I am satisfied with the level of pay I receive	1.141	0.321
7	I clearly understand what my superior expects from me	2.264	0.106
8	My superior has a friendly working relationship with team members	5.694	0.004
9	My superior gives me regular feedback on how I am doing	2.870	0.058
10	My superior regularly recognizes me for doing a good job	1.469	0.232
11	There is good communication between me and my superior	7.756	0.001

From the analysis it is found that there is good communication between employees and their superior with a friendly working relationship among the team members. Hence, employees feel that their work is important to the success of this company.

SUGGESTIONS OF STUDY

It is found that larger part of the respondents concurs that organization gives alluring chances to development and change, so the management can consider providing so as to propel the employees more opportunities.

- Understand the trends affecting your talent strategy
- Focus on the engagement behaviors required for performance and business success.
- Deliver on a compelling employee value proposition (EVP).
- Create a culture of engagement
- Protect the foundational elements.
- Build engaging leaders

There is a general belief that there is a connection between employee engagement as an individual level construct and business results, Therefore there is reason to expect employee engagement to be related to individuals‘ attitudes, intentions, and behaviors. Although engagement leads to both individual outcomes (i.e. quality of people‘s work and their own experiences of doing that work), as well as organizational level outcomes (i.e. the growth and productivity of organizations). Employee engagement acts as a mediating variable for the relationship between the six work conditions and works various outcomes and like burnout, should be related to outcomes such as increased withdrawal, lower performance, job satisfaction and commitment.

CONCLUSION

Employee engagement additionally influences the mentality of individuals. Engaged employees trust that they can have any kind of effect in the organizations they work for. Trust in the learning, aptitudes, and capacities that individuals have in both themselves as well as other people is an effective indicator of

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conduct and ensuing execution.

Employees who are engaged with their occupation and boss are more beneficial in light of the fact that they are inspired past individual variables. They are more engaged and more persuaded than their disengaged partners. This implies they work all the more effectively and because of the achievement of the organization. Engagement is a key trendy expression in 21st century management. Key human resource management lays on the conviction that individuals are the way to accomplishing upper hand. Employees should be seen as advantages for be produced, not expenses to be controlled. This free course investigates three key topics: employee engagement, employee inclusion and aggregate parts of employee relations. Engagement is a key popular expression in 21st century management. Vital human resource management lays on the conviction that individuals are the way to accomplishing upper hand. Employees should be seen as resources for be created, not expenses to be controlled. This free course investigates three key subjects: employee engagement, employee contribution and aggregate parts of employee relations.

It is more vital in today's idea is past drawing in and holding essential ability, connecting with ability in the right practices for future business difficulties will be a state of core interest. Versatility, deftness, pace, importance and incremental value are at the focal point of an advancing employee engagement. It is comprehended that the majority of the employees are completely engaged in every one of the components.

Enhancing employee engagement is not just about enhancing efficiency, despite the fact that organizations with an abnormal state of engagement do report 22% higher profitability. What's more, solid employee engagement advances an assortment of results that are useful for employees and clients. Case in point, very engaged organizations have twofold the rate of achievement of lower engaged organizations. Contrasting top-quartile organizations with base quartile organizations, the engagement element turns out to be exceptionally discriminant.

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AN ASSESSMENT OF WOMEN EMPOWERMENT IN PUBLIC INSTITUTIONS: THE CASE OF BENISHANGUL GUMUZ REGIONAL BUREAUS

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Abstract
The study deals with the assessment of women empowerment. It was designed to analyze the women participation in making decision, the role of government in empowering women, the influence of socio-cultural factors and the challenges affecting the women in leadership positions. The research design was mixed approach. Descriptive survey including both quantitative and qualitative method was employed. The sampling technique was both non-probability and probability incorporating random sampling technique. The study used primary data sources collected through questionnaires from the sample of 145 respondents. Hence, the finding shows that there is less emphasis for women empowerment in the organizations. In addition, the cultural and organizational factors affect women in leadership position. It is also further analyzed that even though women had confident for becoming leaders, there is no concern for mentoring, coaching, and training made by the organizations. It is recommended that all the concerned bodies need to give due attention for empowering women.

Key words:
Employees, Public Institutions, Women Empowerment, Leadership, Women Participation

1. Introduction

In most patriarchic societies, females are regarded as the inferior of the species. Because of this, women are denied access to both honored and utilitarian role open only to males. Such roles as administration and disposal of property, leadership roles in societal affairs including religion and governance are exclusively belong to males. Even the right of choice in respect to entry to conjugal union is denied to women. While it is known that such discriminatory practices exist in these countries, their prevalence and cultural value systems and norms that perpetuate them are not adequately understood.

Sustainable and all round developments of a society cannot be brought about without the full and

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unreserved participation of both woman and man in the development process, and such a balanced development should also call for the elimination of all forms of discrimination, and the protection against all forms of violence against women. According to World Bank (WB, 1998), although women constitutes working hours, two to produce half of the world's food and above all, suffer from all forms of discrimination and from the absence of adequate protection against violence.

According to Meaza (2009), Ethiopia is party to all major human right treaties including the most important women's conventions, i.e. Beijing Declaration and Platform of Action (BDPA), which requires governments to attain a 30% benchmark for women public decision making positions. Moreover, various literatures argue that as compared to prior decades, the participations women in decision making throughout the world are somehow increasing. But, in spite of the incremental progress towards women's participation in public spheres, it is largely remained outside of formal leadership roles due to various factors.

Accordingly, as it was stated by (Meaza, 2009), the main factors which have contributed for such disparities include: structural barriers, unequal socio-economical opportunities, and inadequate access to mentors and support networks. Furthermore, the same source have depicted out that rigid work place structure and gender stereotypes that relate socially defined characteristics with certain groups in most cases also dissociate women from leadership roles.

The importance of this research bases on the bases the idea that attitudes toward women in leadership affect women's participation in leadership, and in turn, women in positions of leadership engage in policies that positively affects women (Caiazza, 2004). This reciprocal effect farther the process of gender equality in the work force, and promotes an environment where women are supported to move into autonomous and independent activities. This process gradually leads to further acceptance of women in business or political leadership.

2. Statement of the problem

Women's leadership and effective participation is increasingly on the development agenda of governments, bilateral and multilateral agencies, and non-governmental organizations, including women's rights groups. Evidence from programs and research demonstrates the important role women play as key actors and decision-makers in the development process across a wide range of sectors (Gill, 2009).

In the political arena in particular, there is growing momentum among governments to foster and ensure women's participation and leadership in governance structures. Establishing quotas for women's representation at different levels of governance has been a strategic tactic in achieving this goal in many countries. Affirmative action to ensure women's political representation is an important step in democratizing and engendering local governance. However, it has not been adequate to ensure women's leadership and their effective participation in local governance as elected women representatives (Sarpanches & Jayal, 2006). Thus, women empowerment continued to face several institutional and social barriers. At the institutional level, the capacity of local governance structures to implement reforms,

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institutionalize accountability systems, decentralize functions and facilitate women's active engagement plays a role in determining whether women are able to emerge as political agents and actors (Mukhopadhyay, 2005).

3. Literature Review

This chapter explains the systematic review of relevant literatures and empirical studies. It deals with the general situations of the women in Ethiopia, leadership and power, etc.

According to Carey (2007), women leaders are more assertive and persuasive, have a stronger need to get things done and are more willing to take risks than male leaders. Women leaders were also found to be more empathetic and flexible, as well as stronger in interpersonal skills than their male counterparts.

It is unusual in rural villages in Africa to find the man literally walking ahead of women. Different motives may be postulated for this, but eventually it demonstrates the intensely held conception of leadership as masculine. De La Rey (2005) lists the qualities commonly linked with leadership as effective communication skills, task completion, responsibility, problem solving, originality, decision making, vision, self awareness, confidence, experience and power. Although it is likely to build up these qualities in any human being in spite of gender, in male dominated societies, as is often the case in African societies, male leadership and styles prevail, and are regarded as the more acceptable forms of leadership.

Transformational leadership

Transformational leadership is defined as a leadership approach that causes change in individuals and social systems. In its ideal form, it creates valuable and positive change in the followers with the end goal of developing followers into leaders. Enacted in its authentic form, transformational leadership enhances the motivation, morale and performance of followers through a variety of mechanisms. These include connecting the follower's sense of identity and self to the mission and the collective identity of the organization; being a role model for followers that inspires them; challenging followers to take greater ownership for their work, and understanding the strengths and weaknesses of followers, so the leader can align followers with tasks that optimize their performance (Antonakis, *et al*., 2003).

Women's Participation in Public Administration at Global Level

Some developing countries have made great strides in women's participation in decision-making positions in public administration. For instance, Costa Rica has reached 46 percent women in decision-making positions, Botswana 45 percent and Colombia 40 percent. Progress can and is thus being made in many countries; hence gender equality and gender parity can be a realistic goal for countries currently lagging behind (Arab, 2011).

According to the Worldwide Index of Women as Public Sector Leaders recently developed by Ernst & Young (Arab, 2011) across the G20 major economies, women account now for around 48 percent of the overall public sector workforce, but they still represent less than 20 percent of public sector leadership. Conversely, across the Organization for Economic Co-operation and Development (OECD) countries, women hold 65 percent of all administrative and secretariat positions in central public administrations.

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The status of women's participation in Africa

Participation of women in public decision-making is one of the areas in which progress has been made in Africa. Rwanda became a shining example by achieving gender parity, interpreted as the 50% goal set by the AU Solemn Declaration on Gender Equality. At 56% women representation in parliament, Rwanda is also the global leader. For this achievement, the President of Rwanda has received several awards, most recently at the International Colloquium on Women's Empowerment, Leadership, Development, International Peace and security in Monrovia, Liberia from 7-8 March, 2009.

Six other African countries have achieved 30% representation, usually interpreted as fulfilling the "critical mass" threshold set by the BDPA. These countries include South Africa, (45) Angola (37.3%) Mozambique (34.8%), Uganda (30.7%) Burundi (30.5%) and the United Republic of Tanzania (30.4%). South Africa witnessed a 12% increase in women's representation in parliament, from 33% to 45%, during the April 2009 elections. South Africa is on track to achieve the 50% target set for 2015 according to the 2008 SADAC Declaration.

Countries with over 20% representation rate include Eritrea, Ethiopia, Lesotho, Mauritania, Namibia, Seychelles, Senegal and Tunisia.

Countries that have made progress have either instituted affirmative action/quotas in their constitutions or adopted rules to enforce gender quotas in their dominant parties. For instance, in Burundi, Rwanda, Tanzania and Uganda, constitutional provisions established quotas to ensure women's representation mostly within the range of 30%. In South Africa, the Municipal Structure Act established a 50% quota for local government while the African National Congress (ANC) established a 30% quota at the level of parliament. Similarly, in Mozambique, the Front for the Liberation of Mozambique adopted a 30% quota for women.

In Africa, there is modest progress in women's representation in the executive branch. Liberian President Ellen Johnson-Sirleaf became the first woman Head of State in modern Africa when she assumed power in 2003. Further, the number of women Ministers has increased in countries such as South Africa (44.8%), Cape Verde (35.7%) and Lesotho (31.6%).

Women's Participation and Decision-Making in Local Governments

Although this report pays particular attention to gender in decision-making positions at the national level, recent data and analysis that reflect variations in patterns of women's participation in local public administration is worth highlighting. A recent UNDP Asia-Pacific Regional Centre publication shows that "for most people (…) local governments are far more important arenas for matters having a direct impact on their livelihoods than national parliaments, especially when local governments are responsible for the delivery of key services."(Boman, A., 2013). In some countries the rate of women's participation is higher at the sub national level than in the central public administration.

Another UNDP publication on the presence of women in decision-making at the local level in Latin America and the Caribbean (Bosnia and Herzegovina, 2009) shows that while there have been important gains in legislative sub national bodies (councils), progress has been mixed in the executive sub national branch (mayors and governors). In 1998, five percent of executive leaders at sub national levels in the region were women; by 2012, the proportion increased to 11 percent. If the same rate of increase is

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maintained, it would take approximately three decades to achieve a critical mass (30 percent) of women in these posts. Likewise, the report found that the 30 percent minimum threshold has not been achieved in decision-making positions in legislative branches of sub national governments.

General Situation of Women in Ethiopia

Women comprise about 49.9% of the estimated Ethiopian population of 77.1 million (CSA, 2007). Among the total heads of households, 25.5% are females with 23% of them in rural and 39% in urban areas (ibid.). Like their counterparts in developing countries, women in Ethiopia face a set of multiple, cross cutting and interrelated problems. These problems limit Ethiopian women's access to services, productive and educational and employment opportunities. Hence most of them do not participate in decision making.

In general, Women in Ethiopia occupy low status in the society. In spite of their contributions to the well being of their family and community affairs in general, women experience lower socio-economic status as a whole and hence is marginalized from making decisions at all levels. Women are facing multiple forms of deprivation. Gender based discrimination, lack of protection of basic human rights, violence, lack of access to productive resources, education and training, basic health services, and employment are widespread (National Committee for Traditional Practices Eradication (NCTPE), 2003).

Ethiopian women suffer from work stereotype and gender distribution of labor, more are occupy in economically invisible work. Women experience lower socioeconomic status in general and hence is marginalized from making decisions at all levels. Nonetheless, women are poor in terms of access to resources, services and employment. Women are underrepresented in the formal sector of employment. The survey conducted by the Central Statistical Authority (CSA, 2004) showed that women account for less than half (43%) of the total employees in the country. Considering the percentage of female employees from the total number of employees by employment type, the highest was in domestic activities (78%) and followed by unpaid activities (59.3%). In other types of formal employment (e.g. government, NGOs, private organizations), the percentage of female workers is less than 35.

On the other hand, the survey showed overrepresentation of female workers in the informal sector. About 58% of working women work in the informal sector whereas the percentage of working men in the informal sector was 37.7 % (ibid). The breakdown of the federal government employees by occupational groups also indicated gender disparity. From federal government employees found in the clerical and fiscal type of jobs 71.3 % were female, while the percentage of females was slightly more than half (51%) in custodial and manual type of jobs. Women make up 25% and 18% of the administrative and professional and scientific job categories, respectively, indicating that upper and middle level positions are overwhelmingly dominated by men (Federal Civil Service Commission, 2005). This concentration of women in the informal sector and low level positions has implication on their earnings. In this regard, the survey showed four out of ten women civil servants earn Birr 300 a month compared to two out of ten for men (Federal Civil Service Commission, 2005).

Generally, regardless of women's immense cont particularly land, and are underserved with agricultural extension, credit, labor, oxen and farm implements. Women's representation in the and federal civil services is also lower than men; in comparison to the large number of unemployed women. The increase

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in the number of women employees over the years is insignificant. Women's employment in the form Service is lower than men (NCTPE, 2003).

Challenges to Women in Leadership

A range of issues arise in restraining women's potential to aspire to positions of leadership. Sadie (2005) maintained that at the bottom of the restrictions that women face is the patriarchal system where decision-making powers are in the hands of males. In this context, traditional beliefs and cultural attitudes concerning the role and status of women in society are still common and many women who are part of this system are finding it difficult to diverge from this culture and tradition they be ostracized. Regardless of women's education and access to the job market the woman's role is considered to be the typical one of homemaker. The man on the other hand is the bread-winner, head of household, and has the right to public life.

Confining women's identity to the domestic sphere is one of the barriers to women's entry into politics, and politics by its nature catapults one into public life. Commonly cultural attitudes are antagonistic to women's involvement in politics. Some women were capable of transcending cultural barriers and climbing to positions of leadership whether in politics or other spheres of public life, but more often than not it meant having to cope with cultural expectations with their leadership roles.

According to Emmett (2001) the majority religions have stereotypical functions for men and women where women are professed as less equal than men, often being kept apart in the way functions are assigned. In her account of women's experience of religion, Emmett examined the ceremonies executed for and by men in diverse religions such as Hinduism, Islam and Christianity. Her judgment was that men are usually empowered by religion in various ways. Women do not benefit from such dispensation, being disempowered by religious structures and practices.

4. Research Design and Methodology

Research Design

In this study, a mixed design involving both quantitative and qualitative approach was employed so as to collect broad data and uses to confirm findings from different data sources. **Research Method**

The descriptive survey method was selected with the assumption that it is helpful to acquire sufficient information from large number of respondents and to describe the existing status of women empowerment and opinions related to the ongoing practices of women in decision making.

Sources of Data

Data for this research was collected from both primary and secondary sources. The primary source was collec'ted from the women employees and political leaders of bureaus understudy. The secondary sources were reports, annual magazines, and human resource managerial department records.

Study Population

Study population is an aggregation of elements from which the sample was actually selected. Accordingly, the study population of this research paper was all permanent female employees which currently exist in a total of 20 public institutions of Benishangul Gumuz Regional State with the total number of 604. In addition, the sample was selected from the leaders of the organizations.

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Sample size

To carry out this study 604 female employees which are currently working in public institution of the Regional Bureaus, about 25% (151) from all public institutions was selected as a sample respondent. This is decided for the reason that the researcher believes 25% is enough for the reliability of the study and can show the real situation of factors that hold back women from leadership and public decision making positions and actual status of women in the town. The managers of each organization were also selected as respondents which was 20. Hence, the total sample size for the study was 165.

Sampling Techniques

To select sample respondents from total study population, both probability and non-probability sampling methods was employed. Under the probability sampling method simple random sampling particularly lottery method was employed to select sample women from female employees. Simple random sampling avoids biasety and helps to generalize data gained from sample respondents avoiding an error which could arise from sampling. In addition purposive sampling was used to select the managers of the organizations under study.

Data Collection Techinques

The data gathering tool for this study was questionnaire and related document analysis. The questionnaire was hold both closed and open ended design. The questionnaires was selected for that it helps to gather data with minimum cost faster than any other tool. Moreover, all the respondents were literate. So, they can read and answer the questionnaire more freely to express their idea on the issue. Besides, the interview was employed to collect the data from the managers of the organization to realize the female employees' responses.

Method of Data Analysis

The research conducted was of descriptive type. Accordingly, for realization and successful accomplishment of the study, data collected from different primary sources were recorded, edited, organized, analyzed, interpreted and presented in relation to research questions. This is done both quantitatively and qualitatively by using descriptive statistical tools such as tables, frequencies, charts and percentages for data collected through questionnaires. The qualitative data collected from the unstructured interview, document analysis and open ended question items was analyzed and interpreted qualitatively.

5. Results

1. Items related to the extent of women participation in decision making

Table 1: The extent of women participation in decision making

No	Questions	Scales									
		Strongly Disagree		Disagree		Undecided		Agree		Strongly Agree	
		Frequency	percentage	Frequency	percentage	Frequency	percentage	Frequency	percentage	Frequency	percentage

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1	Women are sufficiently represented in leadership position.	57	39.04	52	35.85	3	1.99	14	9.96	19	13.14
2	Women are posted/represented uniformly across all public sectors at regional level.	58	40.23	64	43.82	5	3.18	8	5.97	10	6.8
3	Women are fairly represented in positions of greatest influence /legislative, executive, and judiciary organs/.	51	35.45	55	37.45	5	3.18	26	17.93	8	5.87
4	Women leaders are active and exemplary model in making public decisions.	44	30.27	38	25.89	7	4.78	23	15.93	33	22.75
5	Women leaders have potential to guide, set the vision and to aspire other women to the position of leadership.	40	27.49	46	31.87	8	5.87	32	22.31	19	12.35
6	Women at different leadership positions are confident full in decision	33	23.1	51	35.45	12	8.36	19	13.14	30	20.69
7	Women at senior level positions are doing to empower other women.	40	27.49	40	27.49	4	2.39	29	19.9	32	22.31

Source: Field Survey (June, 2015).

As it has been indicated in table 4.1, almost all respondents 74.89% of the women are sufficiently represented in leadership position rate either disagree/strongly disagree. Only 1.99% of the respondents have no opinion, 9.96% rated that women are sufficiently represented in leadership position and the remaining 23.1% agree/strongly agree with the question.

Similarly, the majority of the respondents (84.05%) disagree or strongly disagree with the statement that 'Women are posted/represented uniformly across all public sectors at regional level' while about 3.18% of them have no opinion and 12.77% of the respondents agree or strongly disagree with the statement.

Moreover, 23.5% of the respondents agree or strongly agree with the statement that 'the Women are fairly represented in positions of greatest influence /legislative, executive, and judiciary organs'. However, the majority of respondents 72.9% of the respondent disagrees or strongly disagrees with the statement whereas about 3.58% of them have no opinion.

Regarding the statement 'women leaders are active and exemplary model in making public decisions

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about (56.16%) disagree/strongly disagree, 4.78% have no opinion, and the remaining 39.03% agree/strongly agree with the statement.

Similarly, the respondents rate the statement 'Women leaders have potential to guide, set the vision and to aspire other women to the position of leadership. 34.66% of them agree/strongly agree with statement, 5.97% have no opinion, and 59.36% disagree/strongly disagree.

Table 4.1 also indicates that 58.55% of respondents either disagree or strongly disagree with the statement 'women at different leadership positions are confident full in decision'. 8.36% of respondents decline from expressing their level of agreement, and 33.04% of them agree/strongly agree with the statement. In response to the statement 'women at senior level positions are doing to empower other women' 42.21% agrees/strongly agree, where as 55.37% disagree/strongly disagrees, and the remaining 2.39% have no opinion.

2. Items related to the role of government in empowering women

Table 2: Emphasis given for women by the Government

No	Questions	Scales									
		Strongly Disagree		Disagree		Undecided		Agree		Strongly Agree	
		Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
1	Women are accessible to relevant training and development towards leadership.	24	15.87	71	49.2	9	6.35	14	9.52	27	19.05
2	Women are provided clear awareness of the vision and mission of their organization.	18	12.70	28	19.1	7	4.76	60	41.27	32	22.22
3	Our Bureau has consistent plan to empower women as leaders.	23	15.87	71	49.2	5	3.17	30	20.67	16	11.11
4	Our organization set sustainable motivation system for women empowerment.	39	26.98	69	47.6	5	3.17	21	14.29	11	7.14
5	Our organization attend and tries to fulfill the need, and concern of women in leadership.	23	15.87	69	47.6	9	6.35	28	19.05	16	11.11
6	Our organization encourages and values the women employees for their creativity and contributions in leadership position.	28	19.05	74	50.8	12	7.94	18	12.7	13	9.52
7	Our leaders invest their time and energy in helping women to overcome weakness and improve their potential.	32	22.22	86	60.3	9	6.35	7	4.76	9	6.35
8	Our organization openly supports successful mentoring relationships for leadership position.	44	30.16	75	50.8	6	4.76	14	9.53	6	4.76

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9	Our leaders are committed to encourage women's overall development.	30	20.64	81	55.5	9	6.35	16	11.11	9	6.35

Source: Field Survey (June, 2015).

As it is can be seen from table 4.2 above, the majority of respondents 65.07% disagrees/strongly disagrees with the statement 'women in their organization are not accessible to relevant training and development towards leadership'. Whereas 28.57% replied that the women are accessible to training and development to become leaders and the remaining 6.35% has no opinion.

Similarly, the majority of the respondents (63.49%) explained that women in their organization have clear and understandable awareness about the mission and vision of their organization. In contrast, 31.8% argued that the women employees have no clear understanding of their organizational mission and vision and the remaining 4.76% have no opinion about the statement.

Moreover, the respondents (65.07%) in major hand responded that their organization has no consistent and successful women empowerment plan for becoming leaders. 31.78% agree/strongly agrees on the statement that their bureau has a consistent plan to empower women as leaders and the remaining 3.17% has no opinion.

With regard to the statement 'our organization set sustainable motivation system for women empowerment' 74.58% of the employees disagree/strongly disagree whereas 3.17% have no opinion on the statement, and 21.43 % agree or strongly agree.

Table 4.2 also indicates that the majority of employees disagrees/strongly disagrees rating 63.47%, the organization attend and tries to fulfill the need, and concern of women in leadership. Whereas the 30.16% agrees/strongly agrees about the statement and the remaining 6.35% of the respondents have no opinion.

Similarly, the respondents 69.85% hardly believed that the organization is encourage and values the women employees for their creativity and contributions in leadership position. 7.94% of the respondents have no opinion and the remaining 22.22% respondents relied that their organization is encouraging and giving values for women's' creativity and contributions.

Table 4.2 also shows that the majority of the women respondents (82.52%) replied that their leaders do not invest their time and energy in helping women to overcome weakness and improve their potential. Whereas 6.35% of the respondents have no opinion on the statement and the remaining 11.11% agree/strongly agree with the statement.

Moreover, the respondents rated 80.96% disagrees/strongly disagrees with the organization openly supports successful mentoring relationships for leadership position, 4.76% have no opinion and the others 14.29% agree/strongly agree that their organization is supporting them for becoming in leadership position.

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Lastly, the majority of women employees 76.14% disagree/strongly disagrees about their leaders are committed to encourage women's overall development. 6.35% have no opinion on the statement and the remaining 17.46% agrees/strongly agrees that their leaders are committed to support women for development.

3. The influence of Socio-cultural Status on women empowerment

Table 3: The influence of Socio-cultural Status

No	Questions	Scales									
		Strongly Disagree		Disagree		Undecided		Agree		Strongly Agree	
		Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
1	Women are expected for leadership role position in the society.	21	14.29	85	58.73	7	4.76	23	15.87	9	6.35
2	Women are socially and culturally suffering from work stereotype and discrimination of labor.	16	11.11	19	12.70	9	6.35	80	55.55	21	14.29
3	Work is performed better if women lead.	14	9.52	30	20.63	5	3.17	60	41.27	36	25.40
4	Women are culturally allowed to communicate freely in daily activity of their position.	30	20.63	69	47.62	7	4.76	21	14.29	18	12.40
5	Our religions support to empower women to leadership position	25	17.46	59	41.27	14	9.52	38	25.40	9	6.35
6	Women can lead challenging working environment.	21	14.29	14	9.52	9	6.35	65	44.44	36	25.40
7	Women are competent enough to acquire the necessary leadership skills	11	7.94	5	3.17	9	6.35	80	55.55	40	26.98

Source: Field Survey (June, 2015).

From the table 4.3 above, the majority of the respondents disagrees/strongly disagrees with that women are expected for leadership role position in the society which is indicated by 73.02%. 4.76% of the respondents have no opinion and the remaining 22.22% agrees/strongly agrees with the statement. Women are involved in community managing role based on care and maintenance of human beings and provision of items of collective consumption, men on the other hand play a community leadership role in which they organize at the formal political level within the framework of structural system. This implies that women are involved in voluntary community activities in which they are not paid, while men are involved in a position of community leadership with paid capacity.

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Moreover, 69.84% of the respondents agree/strongly agree with the statement 'women are socially and culturally suffering from work stereotype and discrimination of labor', 23.81% either disagree or strongly disagree where as 6.35% show no opinion.

Similarly, 66.67% replied by saying agrees/strongly agree with that statement about the work is performed better if women lead. The remaining 3.17% have no opinion and 30.15% disagrees/strongly disagrees on the statement. Hence, because the majority of women respondents are not at head level they think that the work is better to be performed by men than women.

The table 4.3 above also shows that 68.25% of the respondents disagrees/strongly disagree on the statement about 'women are culturally allowed to communicate freely in daily activity of their position'. 4.76% of the respondents have no opinion and the remaining 26.69% agree/strongly agree on the statement. This shows that there is cultural impact about the future discrimination on women to freely communicate with the others.

Moreover, it is also indicated that the majority of the respondents 58.73% disagree/strongly disagree on the saying that their religious does support the empowerment of women for leadership position. Whereas 9.52% of the respondents have no opinion and the remaining 31.75% agree/strongly agree. So, there is the religious impact preventing women to become leaders in the concerned organizations.

From the table 4.8 above, the majority of the respondents 69.84% believed that they can lead the challenging working environment whereas 6.35% have no opinion and the remaining 23.81% disagree/strongly disagree on the statement.

Furthermore, the majority of the respondents 82.53% agree/strongly agree with the statement 'women are competent enough to acquire the necessary leadership skills'. 6.35% of the respondents have no opinion and the remaining 11.11% disagree/strongly disagree. This means that women to their knowledge are enough to acquire the necessary leadership skills.

4. Challenges of women in leadership

Table 4: Challenges of women in leadership

No	Questions	Scales									
		Strongly Disagree		Disagree		Undecided		Agree		Strongly Agree	
		Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage	Frequency	Percentage
1	Women are marginalized from decision making at all levels of public administration.	16	11.11	21	14.49	7	4.76	78	53.97	23	15.87
2	Women are more responsible to take risk of carrying burdens of their families.	11	7.94	7	4.76	5	3.17	46	31.75	76	52.38
3	Women are more accessible to their resource ownership and development.	21	14.29	53	36.51	14	9.52	39	26.98	18	12.70

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4	The hard work and long hours duty of leadership inhibit women's progression to top leadership.	46	31.75	63	42.85	9	6.35	18	12.70	9	6.35
5	Family responsibilities are barrier to women empowerment.	30	20.64	48	33.33	5	3.17	41	28.57	21	14.29
6	Traditional beliefs and cultural attitudes in society influence women's in decision making.	25	17.46	18	12.70	7	4.76	72	49.21	23	15.87

Source: Field Survey (June, 2015).

From the table 4.4 above, the majority of the respondents 69.84% agree/strongly agree with the statement 'women are marginalized from decision making at all levels of public administration. 4.76% of the respondents have no opinion and the remaining 25.6% disagree/strongly disagree with the statement. Form this it can be deduced that the female in the selected organizations are less appointed in leadership position which influences them from decision making.

Similarly, 84.13% of the respondents agree/strongly agree with the statement 'women are more responsible to take risk of carrying burdens of their families. 3.17% of the female respondents have no opinion and the remaining 12.7% disagree/strongly disagree. Hence, from this is concluding that if the women get the leadership position in the community they can have the ability to bear the risk.

Moreover, the almost half (50.8%) of the respondents disagree/strongly disagree that women are more accessible to their resource ownership and development. Whereas 9.52% of the respondents have no opinion and the remaining 39.68% of the them agree/ strongly agree on the statement. Hence, it can be said that there are limitations on the women in using their resource freely and developing their skills and knowledge at the expected level and to be competent with men employees.

Table 4.4 also shows that 74.6% of the sample respondents disagree/strongly disagree with the statement 'the hard work and long hour's duty of leadership inhibit women's progression to top leadership'. Only 19.05% of the respondents agree/strongly agree and the remaining 6.35% have no opinion. Thus, it can be seen that the women are not as such influenced by the lack of skills and knowledge but because they are not entitled in leadership positions.

Furthermore, the majority of women employees disagree/strongly disagree with the statement that family responsibilities are barrier to women empowerment. Whereas only 3.17% of the respondents have no opinion and the remaining 42.86% of the respondents agree/strongly agree with the statement.

Moreover, the majority of the respondents (65.08%) agree/strongly agree with the statement 'traditional beliefs and cultural attitudes in society influence women's in decision making'. Only 4.76% of the respondents have no opinion and the remaining 30.16% disagree/strongly disagree on the statement.

From the table 4.4 above result it can be inferred that women are influenced by factors as culture, lack of experience, education, training so that they are not in a position of making decisions. The analysis also shows that women believed that they have the ability to take risk of carrying burdens of their families even though there are cultural systems hindering their empowerment. It is also seen that because the women empowerment is less in the selected organizations they are less accessible to their resource

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ownership and development at the societal level. Moreover, it is also found that even though the job of leaders is hard and takes huge amount of time, the women believed that this is not the matter for them to inhibit women's progression to top leadership but other factors influence their empowerment.

The finding furthermore indicates that family responsibilities are not barrier to women empowerment but there is the lack of concern for women empowerment form organizational side i.e. there is no mentoring, training, experience sharing, coaching, and development, of women employees in the selected organizations. Lastly, women believed that there are traditional beliefs and cultural attitudes in the society affecting the women's in decision making.

In the same way, the data obtained through the interviews made with the bureau heads pointed out that women at top leadership positions are few in number. Which agree with the evidence from document analysis (14.59%) of women are participate in leadership position in bureaus under study.

Discussion and Interpretations

From this it is possible to infer that women employees working in the selected institutions are not sufficiently represented in leadership position. It is further implied that, the majority of the employees hardly believed that the women are posted/ represented uniformly across all public sectors at regional level. The analysis shows that women are not fairly represented in positions of greatest influence /legislative, executive, and judiciary organs. They argued that the women leaders are not as such active and exemplary model in making public decisions.

Moreover, the employees believed that the women leaders have no enough potential to guide, set the vision and to aspire other women to the position of leadership. They also argued that women at different leadership positions are not confident full in decision making process. Lastly, employees argued that women at senior level positions are not doing to empower other women i.e. coaching and, mentoring the future women leaders is less by the present women leaders.

As interview conducted with vice Bureau head of women, youth and children Affairs on (June 2, 2007) government at all levels are exerting much effort for the empowerment of women and encouraging progress has been registered as compared to the near futures. But in empowering women at leadership position still it need integrated effort of all stakeholders. The responses obtained from open ended question and document analysis also shows that, for the empowerment of women at leadership position, it needs the commitment of all concerned bodies, especially leaders at key leadership positions.

From the findings, thus, one recognize that due attention should be given by all stakeholders to empower women at all levels of leadership positions.

From the above table 4.7 it is found that women in their organization are not accessible to relevant training and development towards leadership. Although women have the clear understanding of the organizational mission and vision, the organization has no consistent plan to empower women as leaders. The analysis also implied that organization has not set any sustainable motivation system for women

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empowerment, attend and tries to fulfill the need, and concern of women in leadership. Even tough, there are rules and regulations that indicates the women empowerment in the organizations, they are not encouraging and valuing the women employees for their creativity and contributions in leadership position.

Furthermore, the leaders are not investing their time and energy in helping women to overcome weakness and improve their potential. In addition, there is less emphasis for openly supporting successful mentoring relationships for leadership position of women; leaders are not committed to encourage women's overall development to become more good leaders.

The data collected from the open-ended questions reveled that, the government has devoted to realize the equal participation and getting benefit from their involvement at all level, by designing polices and strategies that realize the benefit of women. But in reality women are not empowered to leadership positions.

So, based on the above analysis, it can be said that leaders at top level and all the concerned bodies have to devote their time and energy to work cooperatively to empower women.

From this it can be inferred that women are not expected to be leaders in the community due the cultural impact. Data analysis also tells that women are socially and culturally suffering from work stereotype and discrimination of labor because of the socio-cultural systems in the society.

Women employees also argued that the job will be better done if the women lead the organization. It is also found that women are believed to be culturally not allowed to communicate freely in daily activity of their position. In addition, the religious institutions are not making awareness for the women to hold the leadership position. Irrespective of the cultural factors women can challenge the working environment if they get chance of leadership position. Moreover, women are expected to be competent in acquiring the necessary leadership position. Therefore, there are cultural facts that influence the women involvement in empowerment.

As the responses obtained from open-ended questions and interview of bureau heads women are competent enough and devoted for their goals if they are not socially and culturally deprived from the chance of empowerment.

From the findings, thus, one recognize that cooperative effort has to be taken by medias and all concerned bodies to raise the awareness in the community on the importance of empowering women.

Furthermore, this is supported by the report "…HTPs are deep-rooted in cultures and traditions passing through generations. They have implications for the inequalities suffered by women in education and employment as well…." (MLWDO, 2006).

From the table 4.9 above result it can be inferred that women are influenced by factors as culture, lack of experience, education, training so that they are not in a position of making decisions. The analysis also shows that women believed that they have the ability to take risk of carrying burdens of their families

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even though there are cultural systems hindering their empowerment. It is also seen that because the women empowerment is less in the selected organizations they are less accessible to their resource ownership and development at the societal level. Moreover, it is also found that even though the job of leaders is hard and takes huge amount of time, the women believed that this is not the matter for them to inhibit women's progression to top leadership but other factors influence their empowerment.

The finding furthermore indicates that family responsibilities are not barrier to women empowerment but there is the lack of concern for women empowerment form organizational side i.e. there is no mentoring, training, experience sharing, coaching, and development, of women employees in the selected organizations. Lastly, women believed that there are traditional beliefs and cultural attitudes in the society affecting the women's in decision making.

In the same way, the data obtained through the interviews made with the bureau heads pointed out that women at top leadership positions are few in number. Which agree with the evidence from document analysis (14.59%) of women are participate in leadership position in bureaus under study.

From the findings, thus, it is possible to conclude that women are marginalized from decision making at all levels of public administration due to the lack of access to empowerment, the influence of traditional beliefs and cultural attitudes in society. So, based on the above analysis, it can be said that all the concerned bodies have to work by integration to tackle the challenges of women empowerment, such as lack of access to participate in decision making position, getting relief from more responsibility to take risk of carrying burdens of their families, traditional beliefs and cultural attitudes in society influence women's in decision making.

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MACROECONOMIC VARIABLES AND ISLAMIC BANK STOCK RETURNS: PANEL DATA EVIDENCE FROM GCC COUNTRIES

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ABSTRACT

The study provides an empirical evidence of the relationship between macroeconomic variables and bank stock returns in the context of GCC countries using a panel data approach. The data for this study is retrieved from the DataStream World Bank Data archive. The data of 66 banks for the period 2005-2014 was examined using GLS estimation for the analysis. The findings revealed that there is relationship between macroeconomic variables and Islamic bank returns; hence the form of the relationship is positive. The positive relationship implies that most banks in GCC countries engage in numerous off-balance sheet transactions and implement efficient and effective methods of risk management which reduces their exposure to changes in macroeconomic variables.

Keywords: Macroeconomic, money supply, interest, inflation, exchange

1. INTRODUCTION

One of the essential areas in finance and economics is the stock market; and the attempt in predicting its performance have enticed important consideration of various economic and financial analysts representing a common part of financial studies. Essentially, supply and demand determines the price of a stock (Al-Shubiri, 2010). The amount of shares issued by a firm created supply of stock, while the amount of people who wish to buy the shares created the demand. In this case, sellers and buyers assess information on the company, the industry, the business environment, as well as their own goals of investment (Palepu, Healy and Peek, 2008; NYSE, 2006). The first thing to consider when making decision on buying or selling a stock is the financial healthiness of the company. Cash flow analysis, ratio

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analysis and strategy analysis are key liquidity determinants to evaluate the financial healthiness of the firm by considering the previous, current and future performance of the firm (Palepu et al., 2008). Another essential factor that is considered in firm evaluation is the industrial performance (Palepu et al., 2008). When an industry is declining investors may wonder why the firm is not growing even when it is financially healthy. Adding to the specific industry or firm, general trends signifying fluctuations in the overall political and economic environment will be carefully monitored by the investors. These signals can indicate the healthiness of the economy (NYSE, 2006). Meanwhile, macroeconomic variables measured the performance of the economic environment. There are numerous studies that evaluate the link between stock performance and these variables over a kind of diverse time horizons (Mollick and Assefa, 2013; Abugri, 2006; Asprem, 1989). This study concentrates on how stock return of banks is affected by some of these macroeconomic variables specifically money supply, inflation rate, interest rate, and foreign exchange rate.

Previous studies have shown that some important factors determine stock return, however the exact amount cannot be ascertain (Foong et al, 2012). There are two theories which commonly explain the nature of stock return, which include arbitrage pricing theory (APT) and capital asset pricing model (CAPM); both theories stipulate an association between risk and expected return. Though, the features of CAPM has made it to be seriously criticize as the model only uses market return as the determinant of stock return fluctuations (Foong et al, 2012). This deficiency shows that CAPM is less efficient in full explanation of the price of risky asset. Butt, Rehman, Khan, and Safwan (2010) argued that numerous significant factors explain stock returns fluctuation farther than a single market factor. Thus, APT is an alternative multifactor asset pricing model that can be applied to ascertain the variation in stock return. In formulating the APT, the assumption of Ross (1976) is that the uncertainty in return of assets was due to common firm-specific factors and macroeconomic factors. However, Opfer and Bessler (2004) found that APT was generated with a limited amount of economic factors or variables.

According to Ihsan et al. (2007), the general understanding is that systematic financial and economic news influence stock return. In addition, Butt et al. (2010) also stressed that a number of various direct or indirect factors that predict a significant part of stock returns have influence on stock returns. The Gulf Cooperation Council (GCC) countries formulate similar regulations in terms of administration, legislation, religion, tourism, customs, trade, and finance; but diverse in terms of level of size, historical background, resource endowment and economic development. They are all market-based and fastest growing economies in the world with a high level of oil and natural gas export dependency which their economic integration is rationalized through a “Common Market” (Arab Times, 2008; The Peninsula, 2015). Therefore, the economy performance of these countries is significantly sensitive to the developments within and outside their borders. When the economies of these countries turn down, it may affect the performance of stock markets in this cooperation (Foong et al., 2012).

Most economist and financial analysts conclude that banks costs, revenues and profitability are directly affected by the unanticipated changes in macroeconomic variables (Choi and Yoon, 2015; Chude and Chude, 2013 Kasman et al., 2011; Saunders and Yourougou, 1990). Due to globalization and liberalization which leads to volatility of the financial market in present years, majority of banks that

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typically perform their operations in overseas usually face exposure to these macroeconomic factors. Thus, changes in macroeconomic variables could have a negative influence on the banks viability if their influence cannot be removed through methods of risk management (Gilkenson and Smith, 1992).

The exposure of banking institutions to changes in macroeconomic variables can be reduced through implementation of effective and efficient methods of risk management and involving in numerous off-balance sheet transactions (Kasman et al., 2011). However, there is more vulnerability on the part of financial institutions in developing countries because of their insufficiency in such techniques and instruments and it is not amazed that severe financial crises often occur in these countries. Therefore, it is imperative and worthy to examine the effect of macroeconomic variables on the stock return of banks in GCC countries since most of the countries under this cooperation are developing countries, and the findings can have significant effects on policy formulation and financial stability of banks and regulatory authorities in GCC countries.

In spite of the clear necessity to understand the influence of macroeconomic variables on the stock return of banks, only limited studies examined overtly the influence of macroeconomic variables on stock returns of banks and their volatility in the case of developing markets (Adam and Tweneboah, 2008; Al-Sharkas, 2004; Maysami et al., 2004). Though, many of the research on this problem only focused on developed markets (Choi and Jen, 1991; Laurenceson, 2002; Gunsel and Cukur, 2007; Humpe and Macmillan, 2007). Therefore, this study contributes to the literatures on Islamic banking and finance in many ways. Firstly, it provides a new evidence of influence of macroeconomic variables on Islamic banks returns. Secondly, it also proffers a new proof of the relationship between macroeconomic variables and Islamic banks returns in the context of GCC countries which is of interest because of the increased economic cooperation in accordance with the GCC agreement, the successful financial reform, and the distinguished structure of their stock markets. Thirdly, it uses a panel data approach through GLS estimation in examining the model for the removal of unobservable heterogeneity.

2. LITERATURE REVIEW

2.1 Money Supply and Bank Stock returns

Money supply is the aggregate quantity of money accessible in an economy. In an economy that apply the restrictive monetary approach, reducing the growing level of money supply will lead to reduction in the supply of fund and expansion of businesses. A restrictive monetary approach increases market interest rate and cost of capital for firms (Foong et al., 2012; Chude and Chude, 2013; Choi and Yoon, 2015). However, a reduction in money supply may reduce inflation rate, which then result in lower expected rate of return through the reduction in interest rate (Foong et al., 2012; Chude and Chude, 2013; Choi and Yoon, 2015).

Financial scholars and economist are highly determined to know whether stock return is affected by money supply, and many studies have proven that it does (Keran, 1971; Pesando, 1974, Chen et al., 1986; Fama, 1991; Arestis and Demetriades, 1997; Priestly, 1996; Choudhry, 1999; Omole, 1999; Cassola and Morano, 2004; Van Nieuwerburgh et al., 2005; Gan et al., 2006; Ikoku, 2007; Gay, Jr., 2008; Maku and Atanda, 2009; Osisanwo and Atanda, 2012). Any changes in money supply has a close relationship with stock price fluctuation, a direct influence on stock market, and an indirect influence on bond market based

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on the adjustment of interest rates (Choi and Yoon, 2015). When the decrease in real interest rates is as a result of the increase in money supply, investors will anticipate an increase in stock returns (Chude and Chude, 2013). However, stock prices will be affected negatively when money supply increases excessively because it could induce inflation. Therefore, the stock market volatility can be increased by money supply (Choi & Yoon, 2015).

Some studies found a negative relationship between money supply and bank stock returns (Maghayereh, 2002; Humpe and Macmillan, 2007; Abugri, 2008), while some other studies found a positive relationship (Muradoglu and Metin, 1996; Al-Sharkas, 2004; Maysami et al., 2004; Širucek, 2013), and some studies found no relationship (Muradoglu et al., 2001; Ozbay, 2009; Choi and Yoon, 2015). Based on these various findings, it shows there are mixed results on the relationship and the nature of relationship between money supply and bank stock returns.

2.2 Interest rate and Bank Stock Returns

Interest rate is the price a borrower needs to pay or the time value of money that bank pay for the depositors. Interest rate is used to control the investment, inflation and unemployment and to affect the performance of economy. In some years now, the globalization and liberalization of financial markets has triggered exposure to many sources of risk (Cheng, Tzeng and Kang, 2011). The influence of interest rate and money supply on banks' stock returns has been of main concern to regulatory authorities, bank managers, investors and academic communities, since the failure of numerous banks has been specifically attributed to the adverse influence of their fluctuations especially interest rates (Kasman, Vardar and Tunc, 2011; Elyasiani and Mansur, 2003).

Several hypotheses and models can theoretically explain the influence of changes in interest rate and exchange rate on bank stock returns (Kasman et al., 2011). Primarily, based on Merton's (1973) Intertemporal capital asset pricing model (ICAPM), interest rate risk can be included in ICAPM as a possible additional market factor, as a change in the interest rate can signify a change in the set of investment opportunity. As a result of this, investors need extra compensation for risk bearing due to the changes. Similarly, the consequences of APT can give evidence of may be interest rate or exchange rate are priced factor in the bank stocks' equilibrium price (Sweeney and Warga, 1986). In regards to equilibrium, interest rate and exchange rate sensitivities exert a significant impact on the common stocks of financial institutions including banks (Kasman et al., 2011; Yourougou, 1990).

Some authors also explain the sensitivity of banks' interest rate on stock return based on the arrangement of their balance sheet by using the nominal contracting hypothesis (Bach and Ando, 1957; Flannery and James, 1984; French et al., 1983; Kessel, 1956). This hypothesis indicates that the sensitivity of banks' interest rate on stock return is determined by the number of net nominal assets the bank held (Kasman et al., 2011). Banks common stock returns are affected by the effect of wealth distribution triggered by unexpected inflation when banks hold nominal assets and nominal liabilities (Kasman et al., 2011). However, since most financial institutions have not complete the process of internalization, there is high probability that interest rate sensitivity is different among banks. Thus, the financial operations and nationality of banks will influence the degree of the differences.

In addition, this has been proven when some authors (Lloyd and Shick, 1977; Chance and Lane, 1980;

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Lynge and Zumwalt, 1980; Flannery and James, 1984; Booth and Officer, 1985; Scott and Peterson, 1986; Bae, 1990) use the two-index model (i.e. both the market and the interest rate factor) suggested by Stone (1974) to examine the bank equity returns based on the hypothesis of constant variance error term. While some authors (Lloyd and Shick, 1977; Chance & Lane, 1980) find that the index of interest rate has a little contribution to the process of generating stock returns of financial institutions, some other authors (Lynge and Zumwalt, 1980; Flannery and James, 1984; Booth and Officer, 1985; Scott and Peterson, 1986; Bae, 1990) uniformly find that the index of interest rate does no contribution to the process of generating stock returns of financial institutions. According to Akella and Chen (1990), these dissimilarities in results can be traced to the variations sample period and interest rate variables, structural changes in the banking sector, and / or model specification.

However, empirical studies provided that there is substantial evidence for banks' stock returns exhibiting statistically significant negative relationship with interest rates variations (Fama, 1981; Geske and Roll, 1983; Flannery and James, 1984; Brewer and Lee, 1986; Scott and Peterson, 1986; Kane and Unal, 1988; Saunders & Yourougou, 1990; Kwan, 1991; Akella & Greenbaum, 1992; Choi et al., 1992; Al-Sharkas, 2004; Maysami et al., 2004; Abugri, 2008; Ozturk, 2008; Adam and Tweneboah, 2008). Ozbay (2009) argued that there are plausible reasons for hypothesizing a negative relationship between interest rates and stock returns. One of it is that an investor perceived a decided discount rate as an expected rate of return (Stowe et al., 2007). As the main interest rates is adjusted by the government, the risk-free rate changes. Any increase in interest rate leads to increase in risk-free rate, which would then result to higher market rate. With all things being equal, the expected stock price should fall because of the increase in the expected return. On the other hand, if there is fall in interest rates and all things being equal, the expected stock price should increase due to the drop in the expected rate of return. Moreover, the expected rate of return increases when there is increase in risk premium.

Furthermore, interest rates influence banks' operations. If interest rate increases, *ceteris paribus* the cost of capital will be higher. Thus, there is need for a bank to intensify effort in a higher interest economy to achieve higher returns. It is also expected that the negative relationship between interest rates and market returns should be through either the effect of discount factor or inflation (Choi and Jen, 1991; Humpe and Macmillan, 2007). It has been proven that most study on interest rate and bank stock return is consistent with the theory as the studies for both developed and emerging markets report negative relationship between stock returns and interest rate.

2.3 Inflation rate and Bank Stock Returns

The presence of inflation in an economy increases the value of the contingent claims. Therefore, the proportionate increases in prices should not affect the actual rate of equity returns. However, Hong (1977) stressed that the monetary assets of a firm such as cash, debt, securities and receivables are independent of changes in the level of price. Hence, changes in inflation only affected the actual part of the firm.

Surprisingly, studies have shown evidence of a negative relationship between nominal stock return and inflation (Fama and Schwert, 1977; Gultekin, 1983). According to Fama (1981), this negative relationship can be explained through two channels. Firstly, the negative inflation –real activity induced the relationship through the money demand theory and the quantity theory of money, and stock returns have

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positive relationship with real variables such as output and expenditure as elucidated in the finance theory. Secondly, nominal risk-free rate and discount rate may increase through increase in inflation. This will then decreases stock price as stock price may be regarded as the discounted value of the estimated dividends.

There are mixed findings regarding the impact of inflation on stock returns. The study of Hoguet (2008) found a negative correlation between stock return and inflation, implicating that higher inflation rate reduces expected growth earnings and increases required real rates of returns. Many findings also find negative relationship (Maghayereh, 2002; Al-Sharkas, 2004; Nishat and Shaheen, 2004). In contrast, some studies found positive correlation between inflation and stock returns (Firth, 1979; Maysami et al., 2004; Adam and Tweneboah, 2008). Moreover, some set of studies also found insignificant relationship between stock returns and inflation (Ozturk, 2008; Tursoy et al., 2008).

2.4 Foreign Exchange Rate and Bank Stock Returns

The enormous rises in liberalization of capital movements and globalization of trade have position currency value as a determinant factor influencing equity prices and profitability of business (Kim, 2003). The international competitiveness of firms is affected by the fluctuations of exchange rate. It influences firm value since currency values fluctuations leads to the change in future cash flows. The theory of economy suggests that exchange rates fluctuations will lead to change in profitability and investments, reflecting in the financial performance. As a result of this, stock returns are affected by movements in the firm's operations (Agrawal, Srivastav and Srivastava, 2010). This has been proven by previous and often referred research of Dornbusch and Fisher (1980) using a flow oriented model. They stress that the future cash flows, competitiveness and exports of local firms improves when there is depreciation in the value of the local currency. This will lead to increase in prices of stock, as a reaction to the increase in anticipated cash flows. On the other hand, the foreign demand of exporting firms decreases when the local currency appreciates (Cheng et al., 2011; Solnik and McLeavey, 2009). This decreases the stock return as well as the profitability. Meanwhile, for a firm that deals in importation its firm value sensitivity to changes in currency is in contrary (Yau and Nieh, 2006).

The volatility of exchange rate can influence both the stock returns of domestic and international firms (Agrawal et al., 2010). Local firms with not international operations, transactions, assets and liabilities also face the exposure to changes in exchange rate since the price channels of their input and output, chains of demand and supply or the competitors prices may be influenced by changes in exchange rate. Grammatikos et al. (1986) and Chamberlain et al. (1997) were the initial studies that focused specifically on the exposure of foreign exchange rate on banks' stock return. Their findings showed that foreign exchange exposure influences US banks' returns. Chamberlin et al. (1997) relate the sensitivities of exchange rate of Japanese banks with US banks through the use of both monthly and daily data. They revealed that a significant part of the stock returns of US banks seemed to be sensitive to the changes in exchange rate; while only a smaller number of stock returns of Japanese banks are sensitive to changes in exchange rate.

Kasman et al. (2011) examine the influence of both changes in exchange rate and interest rate on the stock returns of banks in Turkey applying the GARCH and OLS estimation models. Their findings

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showed that changes in exchange rate and interest rate significantly and negatively influence the conditional stock returns of banks. Their result also implies that the volatility of exchange rate and interest rate are the main determinants of the volatility of the stock returns of banks.

3. METHODOLOGY

A panel data approach is used in this study to find the empirical evidence between the relationship between macroeconomic variables and bank stock returns in the six GCC countries (Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and United Arab Emirates). The economic and bank data collected from the six countries is a yearly data from the period 2005 - 2014. The data was retrieved from the DataStream and the World Bank data archive. Bank stock returns were retrieved from the DataStream while macroeconomic variables were retrieved from World Bank data archive. Initially, the data consist of 71 banks from the six countries but due to missing and non-availability of figures that completely and partially affected some banks, it was sorted to 66 banks with 421 observations. Table 1 depicts the countries and the numbers of banks for this study.

Table 1: Number of Banks per Country

	COUNTRY	Firm- year Before Sorting	Firm- year Before Sorting	Banks After Sorting	Firm-year After Sorting
1	Bahrain	13	130	13	124
2	Kuwait	10	100	9	89
3	Oman	7	70	5	48
4	Qatar	9	90	8	77
5	Saudi Arabia	12	120	11	107
6	United Arab Emirates	20	200	20	190
	Total	**71**	**710**	**66**	**634**

The measurements of the dependent variable and independent variables of this study are shown in Table 2 below:

Table 2: Variables Measurement

No	Variable	Measure	Connotation
1	Stock Return	Log of bank stock returns at time t	R
2	Money Supply	Log of money and quasi money at time t	M2
3	Interest Rate	Log of real interest rate at time t	INT
4	Inflation Rate	Log of Inflation rate at time t	INF
5	Exchange Rate	Log of exchange rate at time t	EXRATE

Descriptive statistics is used to test the frequency distribution, while GLS estimation were used for testing the variables in the model, in order to examine the significant of the independent variables.

Hypothesis established for the macroeconomic variables and bank stock returns goes thus:

H1: There is relationship between macroeconomic variables and bank stock returns.

Hence, the following model was developed:

$$\text{Log } (R)_{it} = \beta_o + \beta_1 \log(M2)_{i,t} + \beta_2 \log(INT)_{i,t} + \beta_3 \log(INF)_{i,t} + \beta_4 \log(EXRATE)_{i,t} + \varepsilon_i$$

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4. RESULTS AND DISCUSSION

The descriptive statistics for bank stock returns and macroeconomic variables is shown below in Table 3.

Table 3: Summary Statistics

Variable	Mean	Std. Dev.	Median	Minimum	Maximum	Variance
Banks in GCC Countries						
Bahrain	18.3752	176.525	0.454	0.042	1827	31161.02
Kuwait	1.0707	4.623	0.519	0.225	44.13	21.3725
Oman	0.3235	0.1726	0.2705	0.109	0.927	0.0298
Qatar	57.1444	34.7647	52.6	11.5	193.89	1208.59
Saudi Arabia	31.5146	21.4447	12.61	9.79	139.99	459.877
UAE	21.2856	23.7077	12.235	3.0283	176.604	562.055
Macroeconomic Variables						
Money Supply	25.5008	2.1126	26.5042	21.9797	28.1888	4.4630
Interest Rate	1.3782	9.0827	1	-19.9269	43.5012	82.4946
Inflation Rate	3.7663	3.4752	3.0570	-4.8633	15.0501	12.0769
Exchange Rate	2.3124	1.6457	3.6388	0.2738	3.7515	2.7082

Stock returns of banks in GCC countries showed average of 184% in Bahrain, 107% in Kuwait, 32% in Oman, 57% in Qatar, 31.5% in Saudi Arabia, and 21.29% in UAE. This implies that most of the banks in these countries have robust market value during the periods reviewed. The average of money supply for these countries is 25%, while the median is 26.5%. The average of interest rate stood at 1.38% while the median is 1%. The inflation rate of GCC countries is averagely 3.77%, while the median is 3.06%. The changes in exchange rate are averagely 2.31%, while the median is 3.6%.

Table 4: Correlation Matrix of Macroeconomic variables

	R	M2	INT	INF	EXRATE
R	1.0000				
M2	0.0611*	1.0000			
INT	-0.0187**	0.0437**	1.0000		
INF	0.0187**	-0.0663*	-0.2957	1.0000	
EXRATE	0.1438	0.7777	0.0192**	0.0697*	1.0000

Note: **, * indicate significant at 5% and 10% respectively

The correlations that exist among the macroeconomic variables and bank stock return are depicted in Table 4 above. The findings show that R (stock return) has a positive correlation with M2 (0.0611) and INF (0.1438) at 5% and 10% significant level respectively, but a negative correlation with INT(-0.0187)

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at 5% level. M2 has a positive correlation with INT (0.0437) and a negative correlation with INF (-0.0663) at 5% and 10% significant level respectively. INT and EXRATE have a positive correlation (0.0192) at 5% significant level. Meanwhile, INF and EXRATE are positively correlated at 10% significant level.

Table 5: Regression analysis of Each GCC Countries using GLS estimation

	Constant	log(M2)	log(INT)	log(INF)	log(EXRATE)	R2	Prob > chi2
Bahrain	-12323.69	-28.3951	-3.91310	-10.599	-13272.74	0.6321	0.2303
	0.021	0.608	0.099*	0.461	0.025		
Kuwait	-7.8307	0.0287	-0.0046	0.0673	-5.1132	0.5717	0.0130
	0.023	0.916	0.000***	0.789	0.023**		
Oman	-6.8975	0.1080	-0.0051	0.0855	-3.2062	0.4635	0.045
	0.050	0.585	0.035*	0.468	0.033**		
Qatar	-1593.85	-1.88054	-0.4564	-0.1430	469.087	0.5217	0.000
	0.032	0.858	0.004***	0.000***	0.032**		
Saudi Arabia	-267.888	-3.96787	0.1488	-0.3404	215.1513	0.3416	0.000
	0.079	0.361	0.000***	0.000***	0.016**		
UAE	-18966.41	5.72631	0	-3.8922	14472.26	0.4866	0.000
	0.000	0.279	0	0.000***	0.072*		

Note: ***, **, * indicate significant at 1%, 5% and 10% respectively.

Table 5 shows the results of the regression analysis of each GCC countries using GLS estimation. Based on the result, interest rate (INT) has a negative influence on the bank stock returns in Bahrain at 10% significant level. In Kuwait, interest rate and exchange rate negatively influence bank stock return at 1% and 5% significant level respectively. Similarly, in Oman interest rate and exchange rate affect bank stock return at 10% and 5% significant level respectively. Meanwhile, the bank stock return in Qatar is influenced negatively by both interest rate and inflation at 1% significant level but positively influenced by exchange rate at 5% significant level. In Saudi Arabia, the banks stock return is affected is positively affected by both interest rate and exchange rate at 1% and 5% significant level. Moreover, inflation and exchange rate negatively and positively influence the stock return of banks in UAE at 1% and 10% significantly level respectively. It also shows from the estimation that money supply does not influence any of the stock returns of banks any GCC countries.

Table 6: Regression analysis of all GCC countries together with GLS estimation

Variable	Cofficient	Std. Error	z	Prob.

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C	-28.64324	8.771944	-3.27	0.001
log(M2)	8.967363	2.722946	3.29	0.001***
log(INT)	0.3339414	0.0540316	6.18	0.000***
log(INF)	0.1202774	0.0603038	1.99	0.046**
log(EXRATE)	1.201805	0.1773017	6.78	0.000***
R-squared	0.8084			
Wald chi2 (4)	4365.45			
Prob > chi2	0.0000			
Observations	421			

Note: ***, **, * indicate significant at 1%, 5% and 10% respectively

Table 6 shows the regression analysis of all banks in GCC countries to examine the influence of macroeconomic variables on their stock returns. The result shows that the adjusted R-squared is 80.84%, indicating a robust relationship and that these macroeconomic variables explain larger proportion of the variation in banks' stock returns in GCC. All the macroeconomic variables influence banks' positively at 1% significant level except for inflation at 5% significant level.

Money supply explicates a greater proportion of the stock returns, indicating that most of the volatility of the bank stock returns was caused by money supply. Money supply has a positive significant relationship with bank stock returns of GCC. This result implies that the higher the money supply, the higher the bank stock returns. The plausible reasons for this is that change in money supply is a major sign for change in stock price because it has a direct influence on stock market and an indirect influence on bond market based on the adjustment of interest rates. When the increase in money supply leads to decrease in real interest rates, an increase in stock returns will be expected. However, stock prices will be affected negatively when money supply increases excessively because it could induce inflation. Therefore, the stock market volatility can be increased by money supply. Furthermore, increase in money supply implies availability of excess liquidity for stocks purchase, ultimately leading to higher stock prices because of the higher demand of both real good and common stocks markets. However, as Fisher's equation assumed that money supply could increase inflation and then increases nominal interest rate; the increase in interest rate results into higher expected rate of return, and then lower stock price.

Interest rate has a positive significant relationship with bank stock returns of GCC. The plausible reason

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for this is that interest rate sensitivity does exert a significant impact on the common stock of the banks, which could be caused by the effect of wealth distribution triggered by unexpected inflation when banks hold nominal assets and nominal liabilities. Meanwhile, inflation has a negative significant relationship with bank stock returns of GCC. This indicates that the higher the inflation rate, the higher the bank stock returns. The plausible reason for this is that positive inflation –real activity induced the relationship through the money demand theory and the quantity theory of money, since stock returns have positive relationship with real variables such as output and expenditure as elucidated in the finance theory. However, in a normal circumstances, low inflation rate decreases both nominal risk-free rate and discount rate, which will then increase stock price since stock price could be regarded as the discounted value of the estimated dividends. Foreign exchange rate as a positive significant relationship with bank stock returns of GCC. This implies that the foreign exchange exposures of GCC banks influence their stock returns since most part of the stock returns are sensitive to the changes in exchange rate during the periods.

5. CONCLUSION

This study has provided theoretical and empirical evidence that there is a relationship between macroeconomic variables and Islamic bank stock returns. The aim of this study is to examine the relationship between macroeconomic variables and bank stock returns using a panel data approach. The data for this study is retrieved from the DataStream World Bank Data archive. The sample consists of listed banks in GCC countries. The data of 66 banks for the period 2005-2014 was examined using GLS estimation for the analysis. The findings revealed that there is relationship between macroeconomic variables and Islamic bank returns; hence the form of the relationship is positive. The positive relationship implies that most banks in GCC countries engage in numerous off-balance sheet transactions and implement efficient and effective methods of risk management which reduces their exposure to changes in macroeconomic variables. The implication of this study is that maintaining an effective and efficient risk management method should be a priority for all banks because weak risk management

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methods affect bank stock returns specifically through the macroeconomic variables.

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INNOVATION AND TRAINING IN ENGINEERING MANAGEMENT: AN ESSENTIALITY, A NECESSITY OR A CHOICE?

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ABSTRACT

Recent chaos which is the consequence of traditional structures in industrial organizations brings about negative consequences for engineering and technical training system and several challenges are the gifts of such situation. In such organizations in which educators waste a lot of time to cope with, a great amount of recorded organization knowledge is not used and education system loses energy under the effects of decisions made in organization before. The question is that how innovation enables the organization to achieve long term competitive merits in such a variable business world. In this paper, by focusing on different aspects of innovation, the role of innovational management in educational systems of technical or engineering industrial organizations will be elaborated.

Key words: Innovation, Educational Innovation, Engineering Training, Strategy

1. INTRODUCTION:

Disarrangement derived from customary structures in industrial organizations will result in negative consequences for technical and engineering educational systems and caused various challenges. In these structures in which educators allocates a large amount of time in coping with, a lot of organization recorded knowledge will be missed and side effects will eventually prevent organizational decisions made before.

In today's world, while industries are on the rise corresponding to technology development, there exists some challenges such as fast evolutions of technology, depolarization of the world, flexible production, automation, Information technology wide application in industry, production of products competitive in global market, non-oil economics, etc. (Davami, 1999). The mentioned challenges on one hand and organization's need to stay on its rank even to improve it on the other hand caused the important and strategy concept 'innovation' to require special attention in management process of engineering educations and trainings.

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Since, achievement of such goals involves change and reconstruction and technical and engineering educational systems; regarding this approach the question is that how innovation can enable industrial organizations achieve long term competitive merits. In order to accomplish this question, following considerations should be examined:

- Identifying trainings which involves novel ideas
- Clarifying new paradigms which can grant a focal point to new approaches
- Conservative destruction of customs which restrict creative thought
- And finally, presenting samples and comparisons which assist redefinition of what seems possible.

By examining and performing above suggestions a proper background for responsiveness is prepared.
By this approach, innovation concept in engineering trainings will be discussed in the first section of the paper. In the second part, essentials and necessities of training innovations are discussed. Studying current challenges and processes by which innovation are shaped in system of organization's technical and engineering education constitute the main pivot of paper's third part. Following the paper, expected achievements are discussed; summing up the discussion some suggestions are presented with the hope of enjoying improved educational innovations in management.

1.2. Terminology

Innovation: Thompson identifies innovation as a process during which organization selects a better choice or even a different one and brings it into practice in order to eliminate shortcomings of the selected approaches or to improve them (Thompson, 1993). Butler expresses innovation as establishing new alteration in organization strategy based processes (Butler. 2006). Based on O'Reilly, innovation is the result of 'internal development resulted from research and development', 'thought of managers and employees on how activities are flourished' and 'changes in competitive essence' (Branson, 2002).

2.2. Training Innovation

Educational innovation can be identified as not going after principles, processes and habitual trainings or in other words, it is knocking off usual forms of tasks (Rashid Kaboli, 1999). Based on this definition, innovation includes factors such as " target setting and planning", "motivating and synchronizing attempts", "arranging and controlling over activities", "resource allocation", " putting knowledge into practice", "establishing communication and relationship development", "talent discovery and assist their promotion" and " stabilizing external demands". Stewart believes educational innovation as accessible knowledge in education systems; it brings advantages forth, and augments educational systems capabilities in supplying addressees with their needs (Stewart, 1998). He considers educational innovation enjoying four primary pivots:

- Opportunities which are novel on nature
- Processes which decreases costs
- Revolutionary ideas which optimizes relationships and data
- Structural changes which boots the quality and reduces the costs

3. INNOVATION IN ENGINEERING EDUCATION AND TRAININGS

The most significant way in bringing efficiency to technical and engineering Trainings seems to be

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reproducing dominant processes. Processes such as determining the needs, planning, administration, and evaluation are simulators which transform principle-based educations to daily actions. Extraordinary emphasis on instructions establishes laws which dominates over the task and involves education systems. The greatest challenge seems to be presenting novel ideas. Some issues such as uncommon thought, updated principles and paradigms and eliminating limiting prodigious are influential in engineering education and trainings as much as they are crucial in other types of innovation. Authors believes that educational innovation as a part of creativity can act as the basis of new principles just when it motivates revolution in customary believes which surrounds a border of active and regular processes and methods and results in sustainable competitive merits. In such a situation, a management system based on innovation is considered as the best way to establish coordination between strategy and structure.

It empowers the technical and engineering training systems to identify cause and effect relationships which results in values being internalized in education and training. Thus, a unified innovation-based system settles a pattern and a unified language for composing and transferring data on defining value for education and training. By this approach, following purposes are obtained more effectively and faster for technical and engineering education systems:

- Knowledge of scientific foundation of principles and mastery over fundamental studies
- Applying updated engineering training methods(analysis, calculations, modeling, experimental design and studies) and making use of experiment
- Identifying pressures of cultural and economic factors related to engineering systems
- Sensitivity to technical responsibilities, organizational capabilities and presenting novel ideas
- Developing professional engineering patterns in organizations and their arrangements (Davami, 1999).

Flores,Nayak and Sayles consider the following factors as effective ones on creating innovaion in educations and trainings:

- Managers and employees' tendency in abandoning current knowledge
- Strategic connection of organization with engineering trainings
- Stopping investment on customary programs and methods
- Focusing on customers needs
- And organizations acquision ability(Stewart, 1998).

The above mentioned factors are used in both dynamic and abstruse environments. Since a dynamic environment is unpredictable, requires an organic structure and sue to its complexity it needs decentralized structure.

Generally, the essence of training innovations should match with organization's real engineering needs and it should provide the organization with quantity and quality developments by granting the environment cultural-economic acceptance and preparing technical knowledge background. Since, engineering scientists and engineers' activities should be focused on the country's framework of needs, thus a logical and strong relationship should exist between innovation and the country's training system so that a proper condition be provided for organization's engineering training system (Davami, 2005).

4. TYPES OF INNOVATION IN ENGINEERING TRAININGS

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Although innovation in engineering trainings is related to its processes alteration, but its greatest part relates to gradual change in structures or a combination of techniques, ideas and methods. Thus, three types of innovation are introduced:

4.1.Subject innovation

Most of subject related innovations include gradual changes which add new features or mixture in subject or context. These types of innovation always exist due to necessity of students while it can add to organization's competitiveness.

4.2. Procedure Innovation

It includes methods and approaches of planning and training administration; this innovation is observed regarding resulted changes in costs and quality of training. Procedural innovation includes gradual changes and betterment which decreases costs and improves quality.

4.3. Combined Innovation

This type of innovation is a combination of topical innovation while it is related to processes; it will increase the rate of effective communication with engineering societies by improving the quality and quantity of training programs; awareness of updated changes, new skills and the ability of making use of skills and novel engineering assists facility in accomplishing professional tasks (Rashid Kaboli, 1999).

5. INNOVATION SIGNIFICANCE:

Innovation depicts the necessity of development in modern trainings, updated processes and new customers which are considered as the necessary elements in strategy development. These changes cause new behaviors and value which organizations are depended on. The first step in engineering training strategies seems to be setting the change program which involves the whole organization strategies to achieve it. This approach involves innovation in behavioral changes including attention to customer and results which displays the necessity of technical and engineering training for degenerating value. On the other hand, four internal behavior including understanding strategy, value and commission, establishing responsiveness culture, free communication, and team work insist on the necessity of innovation. In order to describe the strategic role of innovation, a unified program is necessary for supporting spiritual properties of organization. When organization's training activities are focused on engineers, a professional atmosphere is developed and technicians who work in different units choose engineers as their occupational pattern. No doubt that pivotal professional structure is useful for any units to achieve in duties. But in practice, different units individually attempts to seek innovation and they compete together in finding access to organizational resources. Accordingly, the necessity of attention in developing training innovation can be answered with three questions.

In which technical transactions there can be no achievement in organization?

There is a tendency in escaping problematic transactions which are considered as stimulus of innovation. For instance, development in engineering training indicates two contradictory aspects of extreme decentralization and regular management. Maybe, it is understood that organization's excessive interest in maintaining current status influences investment in new and revolutionary ideas or maybe it comes to mind that organization increasingly loses vitality in search of competitive merits. In such situations, both of choices can be selected not just one of them.

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What is the main weakness of engineering trainings?

This question tracks a series of weaknesses. Some organizations react improperly regarding the rapid changes. In fact, the least usage of innovation, a convenient environment and dynamic trainings is observed.

What are the challenges confronting technical and engineering training systems?

Rapid changes, customers increasing power, rivals with lower costs and thoughtful customers who consist a new generation of customers; they are not optimist to receive proper services from organization. The above factors require innovation both in management affairs and in training innovation.

6. EFFECTIVE FACTORS ON INNOVATION PROCESSES

They are categorized in two main groups: internal factors [empowering organizations in trainings to facilitate development and creation of revolutionary processes in engineering knowledge] and external factors ability in identification and presenting proper knowledge with engineers' needs]. But the point is identifying innovation's main requisite? Who is its administrative processes' organizer? Innovative programs are programed in the structure of which strategy and they are run with which purposes? How are done activities traced and evaluated?

Any response to these questions require fundamental changes in culture, leadership approaches and creation of training value while prerequisite of such changes should be provided. Any of the factors are discussed in details later.

6.1.Cultural features

Culture creates tendencies and predictive behaviors which shapes training systems practice method. Mostly, culture identification allocates the first place of importance to growth and training. Studies indicate that innovation cannot improve function due to lack of cultural incompatibility (Butler. 2006). Now, the question is that it is culture which imposes strategy to organization or it is strategy which results in culture? Xavier Greffe believes that strategy influences on culture. Training systems should introduce tendencies and new behaviors to engineers to achieve in strategy. Charles A. O'Reilly knows eight factors effective on innovation culture including: risk taking, attention to details, result-based views, competiveness, support, development and reward, teamwork, and decision making(Kaplan and Norton, 2005).Based on the definition, authors believe that innovation calls fundamental changes in different aspects of engineering and technical training systems. To do the task, attention to tendencies and new behaviors act as prerequisite of such changes.

6.2. Leadership Qualifications

Leadership of fundamental changes is a necessity for an innovative organization. Some organizations make benefit of two approaches 'a process for promoting leadership' and 'defining a model which elaborates leaders' features. Both of these approaches are focused on particular qualifications which leaders should be equipped with. These approaches instead of studying leaders development aims to describe them as they are (Rashid Kaboli, 1999). Such approaches identify leaders behaviors which highlights their superior features. Thus, revolutionary leaders can play roles of 'creating value', 'innovation seeking' and human capital development'. Leaders who pay attention to innovation and value creation, they promote technical capital of organization with cultural programs; indeed, improving

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available capacities supports innovative purposes.

6.3. Creation of Value

Innovation, risk taking in engineering and technical training systems stands in the first place in adjustment with changes and revolutionary thinking style. Full attention is dedicated to customer and better performance, quick and low cost activities are also emphasized. For instance, Sony Co. Ltd. claims to view the world via the customer window. This viewpoint assist them to predict future needs and opportunities(Kaplan and Norton, 2005).Another example, Microsoft asks managers, engineers and other employees to present a value-based service to customers and to connect with external groups in finding new ways of adding value (Rashid Kaboli, 1999).

6.4. Organization's Strategy

Innovation in engineering trainings develops by four unique development strategies. First, organization's committee, approaches and values should be defined. Second, responsiveness and arrangement link strategy with innovation. Third, it improves and controls organizational communications, common beliefs, standards, and values and finally, teamwork directs individuals and different cultures of organization.

6.5. Harmonized Trainings

Arrangement is a necessity for innovation in all its forms (Senge, 1997). All interconnected factors should clarify a pre-defined aim, a common perspective and a determined understanding of innovation effect on improvement of organizational trainings. Harmonized training encourages innovation and risk taking and leads training system activities to achieve important purposes. The essential item here is knowledge and encouragement. In other words, all effective factors on engineering trainings should depict strategic purposes in a way that all interested individuals understand it and managers be certain of individuals and teams achieving supreme purposes which may assist innovation (Porter, 2004). Advanced industrial organizations make use of engineers measurements to evaluate understanding of innovation and the amount of awareness, and by connecting personal goals and business aims and plans, a strategic arrangement is achievable.

6.6. Innovation

In engineering trainings, innovation is considered as the most significant factor in presenting new products. Believing innovation as a common talent, by presenting proper development programs, the unique feature of programs which can be mentioned as creativity can be continued.

Education experts believe that seven principles below can lead to innovative trainings:

- Achieving creativity features, awareness and creativity attitude
- A proper understanding of innovation
- Participation in innovative activities
- Improving creativity processes
- Improving personal features regarding innovation
- Being master in innovative techniques and moral principles
- Improving creative abilities

Of course, for presenting new ideas which are accompanied with trust and necessary tendencies, prerequisite should be provided. Otherwise, without favorite situations, motivation and encouragement

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applying revolutionary ideas seems impossible (Yaghoobi, 1999).

6.7. Foresight

Advances in science indicate that without a future plan, participation in organization development and access to predetermined strategies may be trivial; it may even results in failure.

Foresight is not matter of wasting time; it is one of the most significant issues in science, research and knowledge (Yaghoobi, 1999). Predictions indicate changes in politics, society, culture and industry which is representative of rapid changes in future era, creativity and presentation of novel ideas and methods. This belief should be apparent in organization's training strategy so that educators be certain of a plan before training so that they believe innovation and foresight as a culture of activities.

7. CHALLENGES

The most important predictable challenges in developing creativity in training can be mentioned as follows:

7.1.Uncertainty in needs and priorities

Reason of such challenges refers to conventional structure of technical and engineering training systems. This issue has caused different units of organization evaluate themselves in this field. Choosing issues with unknown and priorities or non-sufficient clarity are considered as the most important consequences. Some of the trainings which are planned and run in this way confront several problems:

- Selection of daily administrative activities as training priorities;
- Emphasis on trainings which needs a preliminary evaluations;
- Selection of classic topics which are not effective enough;
- Emphasis on topics with ambiguous and non-function definitions

Any of defects mentioned above in addition to prioritizing needs and providing a proper background for training, different decision making centers, attitude and communication gaps among these centers and lack of trust among majority of engineers regarding the role of such trainings in improving knowledge based roots are considered as factors which result in a long term failure of technical and engineering inefficient systems.

7.2. Lack of Connection between Aims and Plans

As mentioned before, the main problem of technical and engineering training system is that they enjoy conventional structures. It should be mentioned that it is the duty of organizations' training unit. Some units believe that since provision of needs via this path is infected with **bureaucracy** and proper time of training may be lost, so planning and administration of training should be done personally.

Infirmity in policies and planning cause engineers trainings to be loosely linked to organizations' needs or to have deficiency in context. These matters will lead to an astray from predetermined purpose of trainings, and may cause trainings to be changed due to different conditions. This dichotomy derived from uncertain policies and main organization's strategies will lead to great loss in technic al and engineering system structure.

7.3. Improper Facilities and Equipment

Another limitation related to engineering trainings is lack of professional usage of facilities and equipment. Regulations regarding optimal the least usage of facilities caused the precious time of

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education system be allocated to solving trivial problems; this is the reason why they prefer to allocate their trainings to be based on theories which will not grant high levels of scientific value to them and will not consequently be in focus of scientific societies.

Indeed, financial limitations in providing facilities and equipment, holding professional opportunities based on facilities not identified needs, directing sources and facilities toward theoretical and short-term opportunities, unbalanced distribution of financial budget and lack of instructions for using equipment caused engineering trainings to be not well-applicable.

7.4. Domination of Justified Trainings

Infirmity in identifying problems, lack of thoughtful vision, lack of proper use of theoretical foundations, not prioritizing, poverty in backgrounds and methodology, lack of tools and facilities for holding training sessions are considered as factors involving in ineffectiveness of trainings.

As mentioned before, lack of defining priorities and lack of connection between educational subject matters and organization's needs caused a decrease in quality of training. Maybe the reason can be traced in the quantity and a rash in competition with organizations in the same level regarding the number of held opportunities regardless of the quality of these opportunities or their effectiveness. In fact, training and education should be a means of achievement in scientific goals and problem solving while today it is just a goal itself.

The other challenge is in fact lack of engineers' trust to organizational trainings; thus, they avoid reporting their organizational needs to training system. Although, in order to solve this problem, some organizations created experts groups, still there is lack of a comprehensive program for permanent and persistent communication between training system and engineers' group in organization and the activities and movements are mostly temporary and self-managed. bureaucracy dominating over planning and its administration are considered as welcoming.

7.5. Lack of Communication Systems

One of main challenges is lack of an approach which provides a proper direction; usage backgrounds should be provided via a worthy amount of trainings. Lack of arrangement in this section will cause a similar activity be repeated in an organization which has several agencies or they are unaware of each other's program; scientific products may face delay or library shelves and computer systems may changes to a store of trash data.

7.6. Deficiency in Data Transmission and Documentation

Few number of data centers, restriction in access to scientific sources, improper band width and problem in rapid access to internet, limitation in access to successful national or international samples are considered as the most important challenges of technical and engineering training systems.

Of course, the problem is not with data sources; the matter is in organizational, national and international level; weakness in aggregation , documentation, storage and distribution causes inconveniences in consumers'' access to data and may lead to quality or quantity decrease and fluctuation in decision making processes. On the other hand, insufficient financial support, few experts in librarianship, incorrect regulations in libraries and their data centers are among troubles interrupting real function of technical and engineering training systems.

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7.7. Lack of Trust in Effectiveness of Trainings

Since a large amount of industry in Iran is of import type and technology transmission is done through montage; thus it was never felt necessary to arrange policies and instructions based on scientific chapters. In recent years, some efforts were done to improve training status, but some reasons such as vulnerability of policies and lack of strategy for training and thus lack of a comprehensive plan has caused officials especially engineers to doubt in programs' effectives.

Other challenges can be mentioned as:

- Receiving no support from senior manager,
- Low level of tolerance against current procedures;
- Short term goals;
- Logic development and excessive bureaucracy (Hassani, 2006);
- Lack of clarity in costs and
- Lack of organizations' serious cooperation and lack of attention to favorites
- Lack of connection cultural, regional, human and organizational elements with innovation
- Concern about any probable organizational incompatibility
- And ambiguity in future (Rogers, Shoemaker, 1998).

8. INNOVATION PROCESSES IN ENGINEERING TRAININGS

In this section, an explanation in how creative processes in technical and engineering training systems are formed and developed based on challenges. The process which is based on skill, talent, and approach is completed in 12 steps.

8.1.Strategic Fields

All active units of an organization are considered significant for the organization and some fundamental needs are provided by them. Although it should be true in all organizations, most units didn't achieve in creating distinction. Thus, the main duty of training system is flourishing potentials of those employees who enjoy greater influence in achieving organizational purposes. Influential strategies should be identified based on their impact on organization and they should be brought in middle of attention.

8.2. Training System and Strategy of Organization in a Team

There should be a convergence in training system and organizational strategies so that by evaluating the system, an approach be presented for engineering trainings. Although, effectiveness of this simple pattern is proved, training system should apply a unique strategy which is reflective of organizations' purpose. Thus, there is a necessity to select a list of approaches which is most likely predicative of success in determined strategies. Such a list provides an opportunity to view all customers, addressees of training system, and officials from different angle. Diversity in perspectives helps prevention classic traps. Any organizations who forget providing opportunities are in danger of losing precious elements which increases their vulnerability. Being in accordance with general strategies of organization assists training system to elaborate guidelines and starts a journey from general ideas to specific opportunities of innovation seeking (Branson, 2002).

8.3. Burning Conventional and Trash Beliefs

In order to be certain of a proper understanding of scientific advances, conventional principles should be

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left behind. Actually, some parts of what is accepted as scientific facts are semi-science which are followed blindly (Stewart, 1998). As a researcher evaluating innovation, any old belief should be tested by two questions? And second, is it possible to substitute another fact with the old semi-science? If other management principles are under criticism, then it is clear that they have no scientific basis and avoiding them is the key to innovation.

8.4. Innovative Plans

This is the tight time to present a list of innovative ideas for evaluation of the fact that if presented ideas are in a range with identified fields or not and if a comparison list is convergent or not. This will lead innovative programs to be administrative and we can match them to organizations' strategies. In this stage, ideas are presented based on experiences, knowledge, surveys and even suggestion of other groups. Policy makers in training systems usually treat well with revolutionary ideas and believe them to be efficient. But an important point is that acceptance of an idea or introducing a new method is considered as effective in solving challenges and they are start of the path but not all the trodden path. Thus it is necessary to study balance of innovative trainings with potential features of engineers. If the idea has no balance with knowledge, awareness, interests and engineers' abilities, there would be no hope in its successful administration.in other words, it is essential to study innovation distribution environment before its approval (Hassani, 2006).

8.5. Harmonizing innovation with organizational features

In this step, it is aimed to increase innovation value based on science and technical scales. Providing a balance between idea and environmental condition and engineers features will improve innovation acceptance rate. Rogers and Shoemaker believe that educational innovation enjoy five features: (Rogers and Shoemaker, 1998)

Relative advantage: engineers understanding of innovative effectiveness amount can be function of its acceptance result such as convenience, organizational credit and satisfaction;

Compatibility: balance of innovation with experiences and defined values;

Complexity: level of difficulty, innovative learning and productivity in work processes;

Tri ability: possibility of testing innovation in a limited size and evaluation of test results

Observability: accessibility of innovation results for operators.

Based on mentioned features, it is necessary to edit the concept of innovation in accordance to operators' understanding of the concept so that majority of features are included.

8.6. Change in Conventional Roles

No doubt that training officials play an important role in improving technical and engineering training system regarding innovation and development. Resource allocation is a fundamental step for innovation as a motivation (Esmaeeli, 2005). They need to cooperate with owners of revolutionary ideas for solving complex major problems. In general, managers who supervise on revolutionary approaches should negotiate with engineers who applied or designed those approaches. Irregular sessions will bring delay to improvements or may cause major decisions to be made regardless of main operators' (engineers') ideas.

8.7. Structural Preparedness

Technical and engineering training system needs to evaluate its qualifications in order to be announced as

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innovative-based zones. In such evaluations, general approaches, function evaluation and individuals' potentials are all measured. These evaluations lead training system to receive a significant feedback from their function and current qualifications based on determined goals and strategies; as a result, system can present practical approaches for development of capacities. Since importance of structural preparedness, this is different from conventional functional management. In advanced organizations, introducing innovative programs with a structured strategy proved to be successful. Strategy in center of innovation clarifies gaps in technical knowledge(Branson, 2002).

8.8. Team Work and Knowledge Distribution

Nothing seems worth than using a novel idea just once. Members' unified knowledge of an organization worth other proprieties. Majority of organizations make use of knowledge management system for knowledge arrangement and its distribution. Innovation requires data aggregation and distribution which is applicable to individuals. In order to transform specialized knowledge to distributed one, cultural change seems necessary. This can be done via following steps:

1. Knowledge Organization: Data can be in access in the whole organization.
2. Knowledge Development: Engineers should review any information delivered to the organization and check it out. Data validity is increased and their best application is suggested.
3.Knowledge Distribution: the main challenge is finding a motivation for engineers in order to make documentation of ideas and knowledge possible so that it gets accessible to all. This way of thinking is so simple, but its administration is difficult. This intense circumstance is not observed in organizations using innovation in their strategies since they introduced work team and knowledge distribution as strategic priorities of development and learning(Butler. 2006).

8.9. In Search of New Principles

Society-wide and unpredicted challenges cannot be solved through conventional approaches. Facing challenges following suggestion may be efficient:

- Ability and function of team-works should be managed and equally distributed;
- Training system should be self-organizing;
- Authority and domination over training system should be distributed;
- Training system needs to be self-organizer;
- Training system should combine cooperation and collaboration;
- Training system should be really flexible and sustainable;
- And cooperation should be done equally in both sides.

Searching new principles accompanies two simple questions. First, where can be found the features and capabilities favorite for training system? Second, what should be done in planning in a training system with high compatibility?

8.10. Ideas to Reality

In order to transform convention-breaking ideas to reality, it should be well-understood how to confront processes and overcome them. Determination of administrative steps assists its achievement. To do the task, at the beginning of any innovative program, following questions need to be respondent:

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- How are the current training-educational processes?
- How is it changed?
- What is the aim of this change?
- What are the success scales in this field?
- Who are the addressees of the process?
- Who attends and cooperates in the process?
- What are the input data and information?
- What are the analytic tools applicable, here?
- What are the events and steps of the process?
- What decisions are necessary to go forward in this process?
- What are decision making scales?
- How are these decisions linked to other management systems? (Butler. 2006)

After documentation of details in each stage, a list of interested parties is provided and they are asked to elaborate their ideas regarding the effect on innovation challenge. The responses assist edition of innovative training programs.

8.11. Supporting Innovation Implementation

When training system welcomes innovation, support is required. This support has found financial, scientific and administrative dimensions. One of the most important kinds of supports is presenting the necessary trainings. It is taught to those who prefer innovation to practice. This awareness is at the level of awareness for practice (Hassani, 2006). Supervision is also considered part of support.

8.12. Feedback and Revision

Distribution of innovation requires time. In other words, innovative programs should be implemented actively to adjust themselves to environment. Since, distribution of innovation is not predictable so it should be managed so that before any rejection or reformation, necessary changes get implemented before (Hassani, 2006). This requires designation of feedback path. Feedback increasingly provides possibility of permanent revision, edition and adaptation of innovation in the environment and facilitates its acceptance and development.

9. EXPECTED ACHIEVEMENTS

Focusing on creative programs in technical and engineering training systems provides the opportunity for organization to act innovatively and not to perform reluctantly in shaping its knowledge in future. It will assist the organization to choose a more logical and regular approach or new choices and to define a worthy strategy for function improvement. Innovative programs enjoy some merits including:

- It helps training system in identifying novel methods and continuous improvement of training
- Setting proprieties makes possible improvement in processes and culture of innovatively
- It leads training path from irregular processes to regular ones with updated quality
- By defining a path map a background is provided for continuous improvement of occupational function
- It grants opportunity to engineers to be empowered and to lead functions in the same path of strategies.

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- It enjoys a regular structure and process for beginning and continuous development of training programs
- Based on the rapid scientific revolutions and technological development, team-work and professional activities are done.
- Identification abilities and responsiveness to changes highlight new opportunities and demolish any possible risks.
- It assists innovation logical improvement and quality of human force is improved in result.
- It unifies all policy makings and educational decisions.
- Organization transforms its inactive status to active and in progress.

Indeed, engineers who stand in innovative trainings' cycle, are enable of recognition, solution of problems, moral commitment, experienced in implementation of experimental methods, obtaining high levels of knowledge in related technology, creative spirit and intellectual thinking, and preparing necessary background for implementation of research activities (Kaplan and Norton, 2005).

10. SUGGESTIONS

Regarding diversity of innovative programs, it is not possible to present a general prescription for its success; in this regard some suggestions are presented here:

- Focus on introducing creative programs;
- Trust to training priorities by establishing professional team works and scientific collaboration of engineers;
- Organic connection between research unit and training unit;
- Facilities should be provided for engineers to enjoy scientific advances;
- Creating communication among different organization's sections based on knowledge-patterns;
- Developing engineering trainings by the use of facilities and allocation of financial sources to it;
- Access to information regarding technology and updated knowledge;
- Attempting to increase activities related to science and data;
- Attention to economic role of training and establishing positive relationship between scientific policies and industrial ones;
- Increasing training budget in support of innovative programs (Carneiro, 2001);
- Assisting productivity in software and hardware resources;
- Revising payment system based on abilities and scientific professions;
- Supervision on function of centers and professional institutes by individuals mastered in related knowledge;

In order to develop an innovative background, some suggestions are discussable such as: long-term perspective, defining directions for trainings, supporting innovative engineers and financial support of them to prevent failure of their training innovation, enrichment in professional trainings, granting more independency to training systems, information management across the organization and attention to innovation addresses related to trainings (Manteghi, 2006).

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Although some of mentioned solutions are effective, it is not expected to solve all the problems and access the highest levels of training innovations. The point is that this issue should be studied rather than just training aspect. Any attempt in removing professional deficiencies is not possible just by improving training and job opportunities, providing scientific needs of engineers, and economic and political stability of organization. Psychological motivations should be provided for active participation of engineers. Motivation can be provided in various ways. Sense of effectiveness, promoting organizational attitude and playing role in organizational development, increase in occupational competition, and maintaining self-respect are among the most dominant ways of motivation seeking.

11. CONCLUSIONS

Industrial organizations attempts consistently to make difference competing. Achieving necessary capabilities for differentiation is actually intellectual application of knowledge based properties. Globalization of economics, customers' excessive expectations, and competitive pressure and so on are symptoms satisfying improvement in the right path of innovation. This path is direct with a non-ambiguous end. The main subject matter of this paper was that the condition of vitality and stability of industrial organization was the rate of creativity of engineering trainings.

Although, this condition may not succeed without learning management and its achievement depends on proper understanding of innovation regarding empowering the organization for better function and experiencing diverse solutions in confronting competitive challenges; without them knowledge based organization is just a dream.

Common ideals in an organization, tendency to transformation in structures, lack of satisfaction regarding conventional management, customers with more expectations and increase in global markets' competition are other issues proved their effects in reviewing innovation management processes in engineering trainings.

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THE RELATIONSHIP BETWEEN CONCEPTS OF RATIONAL, NATURAL AND OPEN SYSTEMS: MANAGING ORGANIZATIONS TODAY

Őzgür Őnday[8]

ABSTRACT

Ask the typical public or private sector manager to draw a picture of his or her mental model of an organization, more often you will encounter a final result of some version of the classic, pyramid-shaped organizational diagram. In other words, many managers see organization as structure. Here, what structure means can be defined as the way the work or activity is divided up and reporting relationships arranged. This tendency structure in fact is not surprising, given the bureaucratic mind set prevalent in many large organizations. Unfortunately, the reality of organization is far more complicated, and capably guiding organizations through change requires a much more sophisticated understanding of relationships. In other words, "organization is structure" dead for the leader to develop a multidimensional picture of the organization.

Organizational/management science refers to the aid in the form of system theory applied to the organization, organizational sociology, and organizational modeling. System theory came from the natural sciences with the aim of understanding sets of objects, the relationships between those objects, and the relationship between sets of objects and their environments. The solar system and the human body are seen to be systems. System theory has been widely recognized and applied to the study of organizations. System approaches is related to an ideology arising at a particular point in the past 200 years, in which especially values and perceived needs were incorporated into organizational designs and management

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methods. Incorporating the rise of large and distributed organizations in the mid-19th century to our present concepts of ecological systems, the field of organizational sociology has seen various organizational types and taken into order as a typology including rational, natural, and open systems (Scott, 2003). This paper wants to propose a possible basis for synthesis, and suggest its implications today.

Keywords: Rational Systems, Natural Systems, Open Systems, Organizing, Organization.

1. INTRODUCTION

In the 1950s, a new intellectual field, referred to the study of organizations, came into being. It is mostly existed of sociologists, political scientists, psychologists, engineers, management specialists, and economists, it was and is known as organization studies, organization science or organization theory. At the point of departure, organization theory was mainly an American creation and still seem to be like that. A newly established journal Administrative Science Quarterly and three textbooks, March and Simon (1958), Likert (1961) and Blau and Scott (1962) underlined the crystallization of this body of knowledge into an independent field in the United States. Probably more than any other scholar, Richard Scott contributed to the canonization of the field and especially to the systems theory.

Systems theory is a concept that came into being from biology, economics, and engineering, which explores principles and laws that can be generalized across different systems (Yoon and Kuchinke, 2005; Alter, 2007; Dubrovsky, 2004). ``A system is a set of two or more elements where: the behavior of each element has an effect on the behavior of the whole; the behavior of the elements and their effects on the whole are interdependent; and while subgroups of the elements all have an effect on the behavior of the whole, none has an independent effect on it (Skyttner, 1996).`` In other words, a system comprises of subsystems whose inter-relationships and interdependence getting into equilibrium within the larger system (Martinelli, 2001; Steele, 2003). The history of systems theories includes contributions from such seminal thinkers as Alfred North Whitehead, Ludwig von Bertalanffy, Anatol Rapoport, Kenneth

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Boulding, Paul A. Weiss, Ralph Gerard, Kurt Lewin, Roy R. Grinker, William Gray, Nicolas Rizzo, Karl Menninger, Silvano Arieti, and, in more recent years, the dynamical systems theorists, the family systems theorists, and those who deal with dissipative structures and holistic paradigms.

The systems thinking dynamics seems to be required to meet the existing challenges are thus imperative to modern organizational success. The path to business success is riddled with uncertainties and turbulence and therefore, leaders have an obligation to look for ways that engender business intelligence that creates values beyond competitors that deliberately advance business performance. Systems thinking are not the first choice of individuals because humans want the easiest and quickest solutions. However, systems thinking reduce uncertainties and establish clear performance indicators.

2. SYSTEMS PERSPECTIVES

Based on Scott's (2003) typology of organization theory, the present section looks for traditional organization studies into distinctive systems perspectives according to their view of organizational interactions. In this meaning, studies concerning organizational interactions can be viewed in systems terms either with a rational, natural or open systems perspective. Each of these perspectives suggests number of assumptions about interactional behavior among individuals, work groups or organizations (Ali, 2008).

2.1 RATIONAL SYSTEM PERSPECTIVE

The term "ration" is used here in the narrow meaning of technical or functional rationality. Mannheim (1950) explains such a kind of rationality as a series of actions that cause predetermined goals with maximum efficiency. Rational systems models focus on formal structure as a acute tool for the efficient achievement of specific organizational goals. Two basic assumptions thus aid viewing organizations as rational systems namely: goal specification and structure formalization. While specific goals aim participants with unambiguous criteria for selecting among alternatives, highly formalized structure

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provide participants with explicit and certain rules and roles relations that manage their interactional behavior.

In organizational interactions, goal specification and structure formalization may be viewed as a test drive to make participants interactional behavior more predictable by standardizing and regulating it. This, in turn, allows stable expectations to be formed by each member of the group as to the behavior of the other member under specific conditions. Such stable expectations are a main precondition to a rational consideration of the consequences of interactions in organizational groups (Simon, 1997). The social cement that gets together and regulates interactions within formal groups is known as the normative structure that includes values, norms, and role expectations. While values are criteria of selecting goals of the behavior, norms are generalized rules managing that behavior, and roles are expectations for specific positions as their location in a system. In any organization, values, rules and roles constitute a relatively coherent and consistent set of prescriptions governing the behavior of participants (Davis, 1949). In an order, rational models' view of organizations aligns somewhat with Morgan's (1986) metaphor of the machine. Here, inter-individual or inter-groups interactions are oriented towards achieving relatively specific goals through exhibiting relatively highly formalized structure (Ali, 2008).

2.2 NATURAL SYSTEM PERSPECTIVE

While rational systems perspective deals with goal specification and structure formalization, natural perspective places more emphasis on goal complexity and informal structure. In this sense, natural system theorists accept that goals can be pluralistic, rather than unitary. They distinguish the stated or official goals from the real or operative ones. When the stated goals are actually being pursued, they are never the only goal governing participants' behavior. Hence, natural system models presume the existence of certain operative goals that must be met if the system wants to go on to be survived. On the other hand, natural system theorists do not deny the existence of highly formalized structures within organizations, however they do question their impact on the behavior of participants. They argued the existence and

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materiality of the informal structures as those based on the personal characteristics of specific participants rather than their given position within the formal structure.

Goal complexity and structure informality do participants interactional behavior too complex and unpredictable. The social cement that binds and regulates interactions among informal groups is known as the behavioral structure (Davis, 1949). Homans's (1950) well-known classification of social behavior into activities, interactions, and sentiments suggests the type of elements that create the behavioral structure. Not like the normative structure, investigators in behavioral structure put emphasis on the current behavior that exhibit consistency and constancy, rather than the prescriptions of the behavior. Natural systems models argued that elements constituting the normative structures constrain behavioral structure elements. In other words, organization values, norms and roles can shape, channel and pattern participants' sentiments, activities and interactions. As criteria for selecting aim of the behavior, values shape participants' sentiments that determine their real goals. Moreover, norms that direct the behavior towards selected goals channel participants' activities to achieve such goals. Finally, roles pattern interactions among individual participants according to their positions within formal structure. Building upon this, natural systems models see organizations as collectivities whose participants share a common interest in the survival of the system and who engage in inter-individual and inter-group interactions, informally structured, to secure this end (Ali, 2008).

2.3 OPEN SYSTEM PERSPESPECTIVE

Organization studies that are classified as rational and natural systems perspectives focus primarily on intra-organizational interactions among individual participants or organizational work groups (Burnes, 1996). While rational models emphasize formal rules and roles relations among multilayered positions, natural models place great importance on informal groups and their actual behavior. Both perspectives thus aim to direct participants and groups' formal and informal interactional behavior towards achieving organizational goals. Nevertheless, rational and natural systems models don't give care to interactions that

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emerge between an organization and elements constituting its organizational environment. In addition to intra-organizational interactions, interactions between an organization and its environmental elements receive primary attention by open systems theorists. For organizations to survive, they have to cope with changes existed in these elements by adopting their structures and behavior to these changes (Millett, 1998). In an order, open system perspective sees organizations as systems that are affected with the environments in which they operate. However, an ascendance of open systems view has not meant the disappearance of the earlier rational or natural systems views. Instead of that, they have been updated via combining them with the open systems in multiple ways. By cross classifying rational, natural and open systems perspectives with each other, two groups of systems views are emerged. The first group comprises closed rational and natural systems models. The second group includes open rational and natural systems models (Ali, 2008).

Type I: Closed Rational System Models: All of these theorists portray organizations as "tools to achieve preset ends" and largely ignore the impact of the environment. This includes, Taylor, Fayol, Weber, and early Simon. Type II: Closed Natural System Models: Most of these are from the human relations group, and continued to be focused on internal organizational actions. This type includes theorists like Mayo, Dalton, Barnard, Roy, and Whyte. Type III: Open Rational System Models: When the open system approach was introduced by Simon in the 1940's, it quickly caught on and spurred the development of multiple theories built on economical, psychological, and sociological backgrounds. This includes bounded rationality, agency theory, contingency theory, comparative structural analysis, and transaction cost analysis. Type IV: Open Natural Systems Models: Recently the open rational models that have dominated since the 60's are being supplanted by open natural theories. These new, abundant theories challenge the idea that organizations behave rationally. These include Weick's "organizing" theory, negotiated order, organizational learning, socio-technical systems, strategic contingency, population ecology, resource dependency, Marxist theory, institutional theory, and postmodernism.

3. COMBINATION OF SYSTEM PERSPECTIVES

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This section deals with combining levels of the analysis adopted by various organization studies with systems perspectives that dominate their view of organizational interactions. Here, organization studies classified as closed-rational models emphasize number of factors including: specification of positions, tasks, prescription, role definitions, procedural rules and regulations. These factors are used as criteria to direct intra-organizational interactions towards achieving organizational goals. From this standpoint, most of the closed rational models operate primarily at the structural level of analysis to conceptualize and analyze structural features of an organization and their impact on work groups' interactions Fayol's (1919) administrative model and Weber's (1968) model of bureaucracy. Nevertheless, some other closed-rational models utilize social psychological level of analysis that aims on individual participants as they perform tasks or do decisions. These models treat organizational internal environment as context to examine its impact on the performance of individual participants Taylor's (1911) model of scientific management and Simon's (1997) model of decision making. On the other hand, closed-national models stress participants' personal attributes and attitudes rather than their given position within the formal structure. They work primarily at the social psychological level of analysis to describe how features of an organization's internal environment affect participants' attributes, attitudes and consequently their relationships Whyte's (1959) model of human relations. Still other closed-natural models operate on the structural level of analysis. These models put emphasis on different analytical components that characterize organizational informal structure, such as interpersonal systems of power, communication, status and friendship, and examine their impact on formal systems Mayo's (1945) model of human relations and Bernard's (1938) model of cooperative systems.

With appearance of the open systems perspectives, the ecological level has been emerged as a new level of analysis in addition to the former social psychological and structural levels (Scott and Davis, 2007). However, open systems models, whether rational or natural, may work on each of these analytical levels. In this spectrum, open-rational and open-natural models that operate on the social psychological level of analysis emphasize the behavior of individual participants. They presume that environmental demands

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and organizational response are mediated by decision makers or managers who develop adequate arrangements to cope with environmental changes. Here, open-rational models emphasize the cognitive limitations of decision makers and the role of normative structure components of values, rules and roles to support their rational response to environmental demand March & Simon's (1958) model of bounded rationality.

On the other hand, open-rational models put great emphasis on the importance of the cognitive processes that aid participants to perceive and react to environmental changes Weick's (1979) model of organizing. On the other hand, open-rational and open-natural models that operate on the structural level of analysis emphasize a correspondence among structural modifications and environmental challenges Lawrence and Lorsch's (1967) model of contingency. In open-rational models, structural features of an organization are managed by a several of environmental constraints. Alternatively, open-natural models insist that the state of technology and other environmental conditions pose only broad and general constraints on structural design. Such a given set of circumstances support many adaptive responses and alternative strategies. An effective structure for a given organization is shaped not only by its technology and task environment but by the adopted strategy Hickson's (1971) model of strategic contingencies.

Finally, open-rational and open-natural models that work on the ecological level of analysis emphasize inter-organizational interactions between an organization and its environmental elements. Hence, open-rational models underline inter-organizational interactions among interdependent organizations working in the same regional or functional fields. They presume that an organization is both open and rational systems via modifying organizational rules and roles relations that govern inter -organizational practices Ouchi's (1980) transaction cost model. On the other hand, open-natural models stress interactions between an organization and its set or population. They employ sense making processes by that an organization perceive changes in environmental demands and provide suitable actions to react to these changes Hannan & Freeman's (1977) model of Population Ecology and Pfeffer and Salancik's

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(1978) resource dependence model (Ali, 2008).

Levels Of analysis / Perspectives of Organizational interactions	Closed-rational Systems perspective	Closed-natural Systems perspective	Open-rational Systems perspective	Open-natural systems perspective
Social psychological analysis that stresses inter-individual interactions within organizational work group as the system of interest.	Target of the analysis:			
	Examine the impact of features of an organization's internal environment on individual participants' activities as they perform tasks. (Taylor's model of *scientific management*)	Explain how features of an organization's internal environment affect participants' attributes, attitudes and consequently their interactive relationships. (Whyte's model of *human relations*).	Examine rationality of individual decision makers as they respond to changes in environmental demand using components of an organization's normative structure. (March & Simon's model of *bounded rationality*).	Assist decision makers to perceive and react to environmental changes employing the cognitive processes of enacting, selection and retention. (Weick's model of *organizing*)
Structural analysis that stresses the inter-groups interactions among organizational subunits as the system of interest.	Target of the analysis:			
	Analyze components that characterize organizational formal structure and examine their impact on the groups' interactional behavior. (Fayol's *administrative* model).	Investigate informal groups' interactive relationships and examine their impact on formal systems and organization's internal arrangements. (Mayo's model of *human relations*).	Modify formal rules and roles relations that guide groups' interactions to cope with changes in environmental constraints. (Lawrence and Lorsch's model of *contingency*).	Provide alternative strategies that guide organizational groups to cope with environmental constraints through employing cognitive processes (Hickson's model of *strategic contingencies*).
Ecological analysis that stresses inter-organizational interactions among partners of business network as the system of interest.	Ecological level of analysis is inapplicable to the closed rational and natural systems models because they give a restricted attention to the internal characteristics of an organization ignoring external factors that affect organizational structures and behavior. Otherwise, ecological analysis is utilized to examine these external factors.		Target of the analysis:	
			Adapt organizational rules and roles relations that govern inter -organizational practices to cope with changes in environmental demands. (Ouchi's *transaction cost* model)	Describe the desired modifications in inter-organizational practices that are needed to cope with changes in environmental demands using the sense making processes of enacting, selection and retention. (Hannan & Freeman's model of *Population Ecology*).

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4. NEW ORGANIZATION LOGIC

The evolution of the organization and management science literature represents a basic change in organization logic over time. The initial organizational logic was based on the closed, rational perspective; orderly the logic was based on the natural, open perspective; most recently, a new logic has occurred that assumes an agile, environment-oriented, network system. The differences across these organizational logics are shown in Table 1.

Table 1. The Changing Logic of Organizations

LOGIC I	LOGIC II	LOGIC III
Bureaucratic Control	Engagement	Networking and Collaboration
Internal Orientation	External Awareness and Adaptation	External Positioning Orientation
Internally Oriented Hierarchical Relationships & Processes	Internally Oriented Lateral Relationships and Processes	Externally Oriented Relationships, Partnerships, and Alliances
Generic Organizational Design	Contingent Organizational Design	Flexible & Fluid Network Design
Organization Designed around Internal Functions	Organization Designed around Externally Oriented Products and Customers	Organization Designed to Effect Positioning in External Environment
Primary Value-Added Is Management	Value-Added of All Employees	Value-Added of Partnerships & Alliances
Management Focus	Leadership Focus	Facilitation Focus

Over time, the organization and management sciences literature has tremendously recognized the shortcomings of generic approaches. Focusing on generic functions can mask the fact that there are, indeed, differing views of organizational effectiveness. Although all organizations have to address some common functions, various organizations will have different emphases and approaches. Different functions and different attributes within each of the functions are likely to be emphasized by different types of organizations facing different internal and external challenges. This recognition has given rise to the identification of new performance functions, such as change management, organizational learning,

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knowledge management, organizational partnerships and network formation, innovation, and creativity. Organizations have become more differentiated and more and more topics are being addressed in the literature.

5. CONCLUSION

Organization studies are classified into various systems perspectives according to their view of organizational interactions. Basic assumptions that govern individuals, work groups or organizations interactional behavior and their role in accomplishing organizational goals change from one perspective to another. Moreover, organization studies operate at several analytical levels as they examine interactions within and among organizations. In the empirical domain, combining systems perspectives with levels of analysis aids students of organizations to provide new explanations about inter-individuals, work groups and organizations interactional behavior. Studies concerning organizational interactions thus employ a particular combination of systems perspectives and analytical level to achieve their research objectives.

If the study emphasizes inter-individual interactions among participants of organizational work group, social psychological analysis has to be employed to achieve the typical objectives:

A) Examine the impact of the elements constituting organization's internal environment on the behavior of individual participants.

B) Examine rationality of individual decision makers as they respond to changes in external environmental demand.

C) Examine the impact of internal environmental elements on participants' attitudes and orderly their interactive relationships.

D) Assist individual decision makers to recognize and react to external environmental changes.

On the other hand, if the study focuses on inter-groups interactions that exist among organizational

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subunits, structural analysis is employed to achieve the typical objectives:

E) Analyze the components that characterize organizational formal structure and examine their effect on inter-groups' interactions as they operate tasks.

F) Modify formal rules and roles relations that guide inter-groups' interactions as they answer to external environmental constraints.

G) Investigate informal work relations and examine their impact on specialties of an organization's formal structure.

H) Guide organizational work groups to perceive and react to external environmental constraints.

Here, (A), (B), (E) and (F) typical objectives necessitate adopting basic assumptions of rational systems perspective in which goal specification and structure formalization govern organizational interactions and their role in accomplishing organizational goals. On the other hand, (C), (D), (G) and (H) objectives mean adopting basic assumptions of national systems perspectives in which goal complexity and structure informality direct organizational interactions towards achieving organizational goals.

Finally, if the study focus on interactions among an organization and the elements that constitute its external environment, ecological analysis is employed to achieve the typical objectives:

I) Adapt organizational rules and roles relations that manage inter -organizational practices as they respond to changes in external environmental demands.

J) Describe the desired modifications in inter-organizational practices that are needed to deal with changes in external environmental demands using the sense making processes of enacting, selection and retention.

Achieving (I) and (J) typical objectives necessitates adopting basic assumptions of open rational and natural perspectives. This is to demonstrate the linkages between organizational goals and the

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requirements of other organizations constituting elements of an organizational environment. Here, great emphasis is put on the role of inter-organizational interactions to achieve organizational goals.

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THE CONTENT ANALYSIS OF THE STRATEGIC MANAGEMENT STUDIES IN THE LAST 15-YEARS: 2001-2016

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Abstract
This paper analyses 15 years of strategic management research published in *Asia Pacific Journal of Management* and a renowned journal named *Managerial and Decision Economics*. Through a content analysis, it is tried to have an understanding about the latest area of interest for researchers in the field of strategic management. The relevant available content is analyzed on the basis of certain frequently used internal and external constraints segregated as predictors and criterion variables. The analysis is based on simple tabular and graphical presentation of the results based on the tendency of variables being studied in association with each other in the context of resource based view (RBV), knowledge based view (KBV) and industrial organizational (IO) schools of thought. The results showed that researchers' focus have been shifted towards current performance based on continuing restructuring and multinational alliances due to the more challenging and dynamic environment.

Key Words: Asia Pacific Journal of Management, Managerial and Decision Economics, Content analysis, Resource based view (RBV), Knowledge based view (KBV), Industrial organizational view (IOV)

1. INTRODUCTION

The evolution of strategic management starts with the studies of economic organization and bureaucracy (Rumelt, Schendel, & Teece, 1991). The discussion on the significance of the study starts with the famous author Taylor in 1947, then the roles of the managers were studied by the (Barnard, 1938), and the framework to analyze the administration was developed by (Dahl, 1947). After that the idea of distinctive competence was introduced by (Selznick, 1957).

The beginning of strategic management revolves around the three works most importantly named Alfred Chandler's *Strategy and Structure* (1962); Igor Ansoff's *Corporate Strategy* (1965); and the

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Harvard textbook *Business Policy: Text and Cases* (Learned, Christensen, Andrews & Guth, 1969). These authors enlightened the new direction that leads companies to focus on certain external forces as well to build their strategies. While in the same time period, a study was carried out to build an association between performance and strategy. A structure-conduct-performance paradigm (Bain 1956; Mason, 1939) initiated a statistical research on large scale and a number of hypotheses were tested which got the most significance in the industrial organization view (Porter, 1981). It proved a major contribution of porter into the field. The framework developed by Porter was used as an analytical tool to evaluate the industry's attractiveness. So, we can say that in this particular era the focus of strategic management remained in industry and its relationship with the external environment. It is interesting to notice once again that prevailing studies switched their focus from external environment to internal structure which built the two aspects of research: transaction cost analysis (Williamson 1975, 1985) and agency theory (Fama, 1980; Jensen & Meckling, 1976). Transaction cost analysis provided an opportunity to evaluate the relationship between firm's performance and the multidivisional structure (e.g. Hoskisson & Turk, 1990). It also described the nature of work of the hybrid firms with the function ability as a strategic alliances and joint ventures (Kogut 1988; Williamson, 1991). The areas of strategic management like diversification, innovation and corporate governance were focused by the agency theory. At the same time the focus shifted towards the competitive advantage discussed on the basis of unique resources. So, the resource was being considered as the tool of strength for the firms (Wernerfelt, 1984). The research focus shifted from the S–C–P paradigm (Mason, 1939; Porter, 1981), where competitive advantage is primarily determined by environmental factors, to the resource-based theory, which highlighted how the possession of valuable, rare, inimitable and non-substitutable resources may result in sustained superior performance (Barney, 1991; Mahoney & Pandian, 1992). So, while focusing on the different time periods we conclude that the focus of the researchers have been changed with the passage of time.

Thus, the aim of this paper is to test the meaningful potentials or contingencies which are present in the strategic management field, particularly in the last fifteen years to have the complete content analysis under the internal and external constraints named: Commitment, Performance, Pricing, Internal change, R&D portfolio, Efficiency and Invention. Furthermore, in order to have the effective unprejudiced results, the direction of strategic management approaches is important to be captured. Finally, we tried to conclude the current scholar's view which is continuously shifting. We derived the current aim of our research in order to find the current trends in the area of strategic management. The current studies will give us the future directions as well. While focusing on the current studies, we can also focus on the gaps in the current study to get them filled.

2. EARLY DEVELOPMENT

The development in the area of strategic management is done year by year and decade by decade. A number of scholars made significant contribution in the field of strategic management. For instance, Barnard (1938) clarified the concept of cooperation, organization and managerial functions in business firms, showing subsequent work in strategic management. Additionally, Penrose (1959) described the

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related firm growth the inherited resources a firm possesses, concept of strategic management. Chandler's (1962) further elaborated his proposition with behavioral perspective. In many places, it is likely that the early development in strategic management has been influenced at a certain extent. Now the recent research focuses on internal process which leads towards the important role of managers (Hoskisson, Hitt, Turk & Tyler 1989).

2.1 EARLY THEORIES

When the Chandler's (1962) worked at strategy and structure and published (Rumelt, Schendel, & Teece, 1994), it was considered an important year in the field of strategic management. In that research study Chandler focused on new administrative structure to grow and how if change in strategy leads to structural changes of large enterprises. Chandler (1962) described strategy as the determination of firms and adoption of action of plan and their implication to accomplish goals as well. It was observed as well that external environment forced to change the internal strategies of organizations e.g. technological innovation and GOVT policies (external forces). Moreover, Chandler (1962) also revealed the active role of managers meeting the challenges generated by external environment and new administrative structure.

The foundation of strategic management was addressed by three seminal works by Chandler, Ansoff, and Andrews (Rumelt et al., 1991). Collectively, they critically explored the aspects under strategic management; how strategy effects performance, value creation and strategic alliances. Although these concepts were elaborated and empirically justified but there exist disagreements about these concepts that was then further developed and explained by (Hofer & Schendel, 1978), these prior and later concepts advanced the domain of strategies beyond traditional focus of strategic management. Further, although Louis (2014) has great contribution but Rumelt et al. (1994) took steps at the forefront in his work. These prior contributions although, need to be empirically tested but they were proved a basic push for further work, case examination and main methodological tool of study.

Potential contingencies exist between the relationship of innovation and performance. In this context, (Salehi & Roshandel Arbatani, 2013) found that performance vary in small and medium size enterprises due to innovation, firms that undertake less innovation peruse less performance and vice versa. Further, culture have great influence in this regard, different nations experienced different innovation impact at performance (Mueller, Rosenbusch, & Bausch, 2013). Prior research showed the importance of relationship between innovation, and performance but it also reveals gaps in knowledge. Several studies suggested that there is still gap between performance and performance as a consequence of innovation and there is need of empirical attention as well (Crossan & Apaydin, 2010; Keupp, Palmie, & Gassmann, 2012)

The traditional IO view of the firm is linked with the path dependence of heterogeneity of ideas which is discussed as the initial conceptualization of the RBV (in work such as: Wernerfelt, 1984; Rumelt, 1984; Barney, 1991; Conner, 1991; Peteraf, 1993). Priem and Butler argued that Barney's (1991) basic point of view articulates us that rare organizational resources can be a great source of competitive

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advantage. Winter (2003) has argued that it is not possible for a firm to create the competition in the market without having the planned set of resources. He again suggested that the existing resources are not the fruitful set of the resources for the firm as compared to focus on those resources which are considered as the need of the dynamic capability. Koza and Lewin (1998) have argued that it is the absorptive capacity of the firms which ensures the capability to be the part of the strategic alliance.

In another study, Schilling & Hill (1998) have focused on the capability of the firm to create the new products in the future which basically demands the compatibility of the existing resources and competencies. According to resource base view most of the resources are path dependent that's why the resource renewal is challenging (Barney, 1991). The firms who are better in the renewal of resources are more compatible in the development of the flexible routines (Feldman, 2000). The firm differences are based on industry conditions (Porter, 1981) and firm resources (Barney, 1991) which lead them to competition and resource based perspectives. This is also an intensive study on the view that a firm also has to consider the state and society when formulating and implementing its strategies (DiMaggio and Powell, 1991; Oliver, 1997). Latest studies showed that these influences from state and society are taken as the institutional frameworks (North, 1990; Scott, 1995). This idea can be considered as the institution based view of business strategy (Peng & Heath, 1996; Peng, 2000). So it is concluded that no any firm exists which can have such a strong capability to be protected from institutional frameworks. The above literature at resource based view and industrial organizational view have empirically identified the internal constraints and external constraints (Criterion Variable) discussed below.

3. METHODOLOGY

We worked on the content analysis while focusing on the area of strategic management published in Asia Pacific Journal of Management and Managerial and Decision Economics. It provided us with the objective, quantitative and systematic evaluation of published articles. We first of all selected the articles between 2001 and 2015 in the above mentioned journals. The particularity of the time period is conditional with the new emerging trends and changing priorities of the researchers in compatibility with the new practices of the managers. We selected certain keywords about ten in numbers to analyze the content of the articles. The selection of the variables in particularity is conditional with the studies in the specific time period mentioned above. We tried to examine each article on the basis of the theme of the study in accordance with our defined variables. We have tried to have the content analysis on the basis of changing trends of association among predictors and the criterion variables. For the sake of more clarity we tried to have a graphical presentation of our results. We divided our fifteen years of our study among three time periods of five years each. The purpose is to have the comparison of the tendency of changing pattern of the criterion variables with respect to the predictors mentioned below. The comparison of the individual results within the same variables gives us basically the picture of its trend of being focused by the researchers in comparison with the other variables.

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Table 1. Output per year of the Journals named *Asia Pacific Journal & Economics* *Managerial & Decision*

Year	No. of Research Papers
2001	6
2002	4
2003	7
2004	3
2005	10
2006	5
2007	2
2008	5
2009	5
2010	2
2011	6
2012	6
2013	4
2014	5
2015	4
2016	5

We find the variables named competition, strategy, R&D portfolio and pricing discussed as predictors in our journals in association with the criterion variables named as performance, commitment, internal change, innovation, efficiency and invention.

Overall tendency of discussion of the predictors in association with the criterion variables in percentage from 2001 to 2015

Table 2

Variable	2001 – 2005	2006-2010	2011-2015
Invention	1.6	2.5	3.00
Competition	9.60	9.00	8.60
Performance	30.13	32.00	34.11
Innovation	14.00	13.00	15.00
R&D portfolio	3.2	2.6	4.5
Strategy	12.90	13.00	11.90
Commitment	2.3	1.6	1.10
Efficiency	13.00	14.00	11.00
Internal change	5.6	7.00	8.90

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Pricing	2.3	2.00	1.50

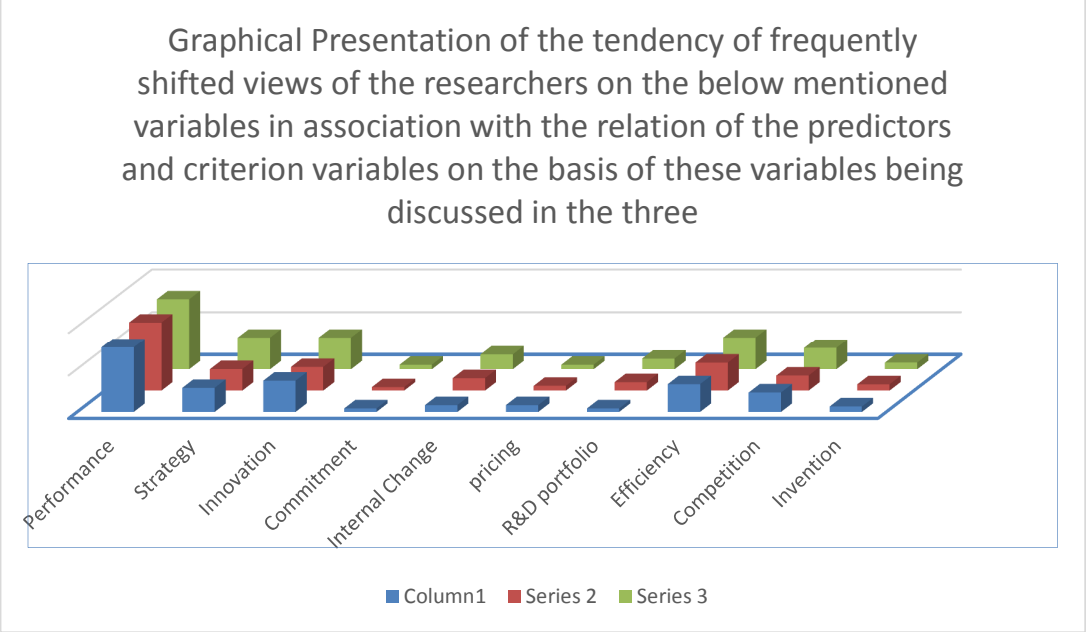


Figure 1

As per our analysis is concerned it is totally based on the annotated summery mentioned above. We came to know that the researcher's views have been shifted to highest focus on performance which is the most frequently discussed variables in association with the above mentioned predictors and then if we see the results we came to know that strategy is also in frequent discussion as predictors with the above mentioned criterion variables. Similar is the case with the innovation. There is also a strong emphasis on the efficiency and competition.

4. RESULTS AND DISCUSSION

As we studied the literature of last fifteen years about the evolution of the strategic management, we came to know that certain variables are getting more importance than the others and some are losing their importance but others are stable in their significance. Variables named performance, efficiency, innovation are valuing more than the past as the figures shown above tell us the same story. In the first five years, the variable named performance started getting more and more importance, similar is the case with efficiency and innovation. It shows that the tendency to discuss these variables is more as compared to the other variables named as pricing. The three different values as shown above in the given table and in the graphical presentation are very obvious that the significance of the variable named strategy is getting decreased with the passage of time. It means the shift is very clear from industrial organizational view to resources based view. But interestingly certain variables are felt constant in their importance

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while getting comparison with the past studies, it is very obvious that certain variables are constant and stable like competition, growth, internal change etc. During the last fifteen years we observed an improved focus on the resource based theory and corporate level strategy and decreased interest in the strategy and in the role of top managers. More focus is in the restructuring and less importance to the planning and decisions. The researcher's views are clearly shifting to resource based view and knowledge based view as compared to the industrial organizational view.

As per the previous analysis, it is easy to predict that in the near future the complete conjunction of corporate level strategy and competitive strategy is expected. As per the seminal work done by Hofer and Schendel (1978) by the end of 1970 the formulation of strategy in terms of corporate and business means based on the concept of competition is more important with the passage of time. There are certain valuable research questions in the strategic management to ask in the near future about the measurement of organizational performance that what actually is the tool of performance and up to what extent the element of performance will be valued. There is an increase in the number of those articles which are focusing on the capabilities, performance, efficiency and alliances as compared to those which are more concerned with strategy fit and environment. Barney (1991) have focused that with the more importance to the resource based view means there are more opportunities for the existing and the new business in the future to bring more efficient organizational theories in the field of strategic management. Bowman, Singh & Thomas (2002) find a simultaneous improvement in the practicality of strategy formulation and the new challenges. The increased competition and the globalization have pushed the focus of researchers towards financially driven strategies and innovation. Last fifteen years have changed the focus of researchers towards current performance and continuing restructuring and multinational alliances (Bowman *et al.* 2002).

As we take into consideration the challenging environmental impacts, it can be easily anticipated that there will no long stable periods in which firms can obtain the competitive advantages (Aveni, 1994). As per our systematic analysis, we have observed that new scientific approach has critically reduced strategy to its different components for example resource based view and in the upcoming years it is more obvious to have different academic contributions including the new organizational theories contributing in the betterment of unique applications of the new emerging resources.

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THE IMPACT OF CULTURE AND URBAN LIFE-CYCLE ON THE ECONOMIC DEVELOPMENT OF CITY

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Abstract:

Cities are so relevant to modern economy and society and it is argued that their performance determines the destiny of entire regions. Conversely, sustainable development requires that cities themselves are sustainable (Jones and Watkins, 1996). Cities are the places where unbalance in the use of resources is most evident (they consume more resources than they generate), but at the same time they are the core of economic and societal innovation (Petrevska, 2012). One such aspect is culture. Culture is an engine of social development and economic growth, but at the same time it may be affected or even destroyed in the process. Sustainable urban development makes it necessary to strike a balance, achieving

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the maximum of development opportunities and preserving at the same time the assets and the intangible elements that constitute the cultural identity of a city.

The paper focuses on the conceptualization and analysis of the effects of culture on the economic development of City of Skopje. It moves from the recognition that culture is a key ingredient of post-industrial, information-intensive economic activity. A culture-oriented economic development is subject to strong endogenity, modifying continuously the original conditions that make places culturally rich and viable as creative hubs (Landry, 2000). Thus COED is potentially short-lived and may bring to irreversible changes in the urban environment: the erosion of social capital, the dispersion in space of cultural activities and the consequent decreasing of clustering effects, and ultimately the fading of local cultural identity and "uniqueness". Urban policy should be careful to accompany the COED process making sure that these limits are never reached. Physical and cultural planning, social and educational policies, infrastructure projects and the implementation of innovative forms of governance and networking may achieve these objectives, but the policy context is made fuzzier and more complex by the unconventional nature of economic and social processes underlying cultural activities and creative production.

From the reference to the COED model, cities can learn what should be the philosophy of initiatives in the public realm, what results may be expected, and what is the time-horizon that needs to be adopted in policy documents.

Key words: culture, city, COED model, economy, benefits, Skopje.

1. Introduction

Development plan with aim promotion of a city as attracting place is the principal planning policy which for are interested all those involved in development of the place that is promoting. It recognizes that achieving urban regeneration is dependent on creating an attractive and safe environment within the city, by using high-profile projects. This benefits the existing residents and businesses and attracts new investment, particularly in the city centre. Cities pursue these types of tourism strategies as a tool to give some competitive advantage in an increasingly globalized and interdependent economy. In the interrelation between tourism and interurban competition, globalization decidedly affects the way in which policies for tourism are formulated and put into practice. Destinations (in this case, cities) face increasing pressure to raise their "place identity" in order to position themselves competitively in the global context. Improvement of the physical environment, will promote the city as an attractive and enjoyable place to visit, to invest in, and to live in.

So its normally to connect the development of the city and the economic benefits for the country also, since we know that this will increase the tourism productivity.

2. Importance of City-Image Development

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Many cities are combining the use of high-profile projects with enhanced tourism policy to seek to revitalize economic decline and improve their urban physical structure. These high-profile projects are developed in city centers, and comprise prominent conference centers and meeting places; museums and other leisure destinations; and concentrations of restaurants, bars and nightlife. They are often linked to special events such as art performances and festivals, and place specific marketing strategies. The use of high-profile projects alongside tourism policy also aims to promote a positive city image in order to attract inward business investment. Central to the majority of these initiatives is a reassessment of the image that the city projects (Stevenson, 2003), which then becomes a key element in an urban regeneration strategy, for employment creation, increasing tourist expenditure and improving the physical urban structure, in a context of high interurban competition for potential inward investment. City image is the subjective view or perception of a city and it has been argued that a positive change in image may encourage business investment and business activity, though much of the literature on the topic has not clearly defined what kind of inward business investment/investor might be encouraged due to such a change in the city image. The government continues to pursue a policy that promotes high-profile projects with tourism policy, and upgrading the image of the city, where is underling the significance of the influence on inward business investment.

3. City Image and Tourism Strategy

Today, here are increasing numbers of countries that focus on promotion and development of high-profile projects combined with tourism policy. A high profile project also has aims to encourage business investment from outside the locality and to upgrade the image of the particular place to potential investors and tourists. Promoters of these projects seek additional spin-off benefits that result from employment and capital creation at the city-wide level. Smyth (1994) comments that a flagship project comprises three elements:

1. development in its own right that may or may not be self-sustaining;
2. grouping opportunities for further business investment; and
3. promotion of an image.

High-profile projects are closely associated the promotion of a locality to the outside world (Stobart & Ball, 1998). Local city administrations use place marketing to make their cities attractive as a place for inward investment and for visitors. From this point of view, these places that are promoted seek to make their service, commercial, or prestige functions stand out from those competing for the same investment on the basis of similar urban character. The projects are usually a form of property-led urban regeneration and are dominated by prominent new buildings and/or reconstruction, land reuse and infrastructure development with attention to building, urban design and spaces at the macro or city-wide scale (Hubbard, 1995). Also the investment in these kinds of projects is both socially and politically

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attractive – the selling of the place as a location for investment and activity depends heavily on the creation of an attractive imagery, which is of interest to politicians and other stakeholders. Tourism policy, for example cities, is pursued because it is seen as a fast growth industry; it can provide job opportunities; and may contribute to environmental improvement, especially in combination with major physical urban regeneration projects. Thus, tourism development seeks to create revenue and employment opportunities for city authorities and residents. It may increase the tax base and earnings from incoming tourist expenditure, and there may even be multiplier effects (Law, 2002; Shaw & Williams, 2002). Thus start the process of place promotion, and on national level too. Tourism development seeks to improve the urban physical structure through the reuse and adaptation of historical buildings or brownfield land in cities, especially in areas located in waterfronts, historical districts or run-down areas to the benefit of both tourists and local residents. Improvement of the physical environment, together with major planned cultural events, such as organizing festivals as part of a tourism strategy, will promote the city as an attractive and enjoyable place to visit, to invest in, and to live in (Bramwell & Rawding, 1996; Garcia, 2004). City authorities pursue these types of tourism strategies as a tool to give some competitive advantage in an increasingly globalized and interdependent economy. In the interrelation between tourism and interurban competition, globalization decidedly affects the way in which policies for tourism are formulated and put into practice (Costa, 2001). Destinations (in this case, cities) face increasing pressure to raise their place identity in order to position themselves competitively in the global context (Hughes, 1999). Using tourism strategies as a tool to regenerate urban areas has substantial implications for the interests of groups within urban areas (Hall, 1994).

In this context, there is a mixed development approach that includes retailing, tourism, leisure, offices and residential use is currently practice, which has involved very substantial high-profile projects. For example, in a research made for London, concretely for Birmingham, the historical data show that in the early 1980s, unemployment rates in Birmingham were among the highest in the country. So this was the reason for their City Council to start to think about the regeneration of previously run-down physical structure of the city centre and to expand the city's economic base, which had suffered from the decline of manufacturing. For success of the business tourism development, and the significant potential for modern conference facilities, the City Council initiated the International Convention Centre (ICC). From the perspective of the City Council, the construction of the ICC, together with the adjacent associated complementary developments have provided major attractions for both existing residents of the city and visitors alike. Taking this Council and their approach as an example for tourism development and nation branding, could be summarized some activities and strategy as advantages that are useful to implement. In this way, forming some Centre for tourism development and promoting a place and make it attractive, is essential in means that it has a role for holding conference for presenting events, exhibitions, and in this way bringing a lot of visitors. Thus this Centre will become venue for many high profile events and will position in the national and international conference market. The agenda of the conference could implement and so play a role in attracting tourists through hosting a wide variety of prestigious international concerts. Another activity is organizing business events, entertainment spectaculars which

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also bring visitors. Opening museums, gallery, restaurants, shops, bars, canal-side developments and public squares which represent mixed-use scheme, are all attractive to visitors. Other important tourism recourse is theatre that provides important cultural activities.

4. Tourism development and historic value – restore the past for building the future

High-profile projects with tourism development also include representing a historic value of the place and important buildings and features have been retained, which are attractions to visit. As a project in that kind of place with historic value could include cafes, restaurants, pubs, retail, outlets and an attractive pedestrian route. These projects together have strongly shaped tourism activities around the world. They provide the venues for staging exhibitions, conferences, concerts, sporting and entertainment events, eating, drinking and shopping. Indeed, their development provided the major business, tourism and cultural focus, which and Birmingham as one example. Development plan with aim promotion of a city as attracting place is the principal planning policy which for are interested all those involved in development of the place that is promoting. It recognizes that achieving urban regeneration is dependent on creating an attractive and safe environment within the city, such as by using these high-profile projects. This benefits the existing residents and businesses and attracts new investment, particularly in the city centre. In addition, the physical structure of the city centre has been improved greatly throughout. The creation of an improved physical environment is critical for the promotion of tourism. Results "talk" about facts. In this way, the high-profile projects recreate the identity of the city, help the city's renaissance and demonstrate how the city can change and that an added benefit is to raise the profile and improve the image of the area. Here are believes that the reconstruction of the older buildings is a positive step and that when the high-profile projects arise; they stimulate further development and enable the city to bring in new architecture. This keeps visitors interested and coming, and thus the momentum for new development continues, and increased tourism thereby helps to increase the market. Tourism policy is a key part of the city's plans for economic regeneration. Tourism represents one of the most buoyant sectors of the economy and in terms of jobs and wealth creation. It has the ability to stimulate regeneration and change in other areas and to increase confidence and civic pride in the city. Strategies that come from high-profile projects raise the potential for economic and employment growth. This potential is linked to the proposed expansion of the region's key industries, including motor vehicles and components; high technology knowledge-based industries; business and financial services; tourism, media and culture.

5. A Model of Culture-Oriented Economic Development (COED) for the City

How can we conceptualise the role of culture as an engine of sustainable economic development for cities, and evaluate the full range of its effects? A few analytical steps are needed to develop an integrated analytic framework:

- Understanding what are endogenous forces that are behind the development of an urban cultural cluster

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and that determine its evolution
- Understanding how culture affects the "rest" of the urban economic environment
- Understanding how the consequent changes in the urban structure feed back on the development of cultural activities.

The literature identify three "impact areas" of culture on the local economic environment: direct economic impacts from employment and value generation in the cultural industries and indirect expenditure effect, which are so much larger the more "embedded" in the local are cultural professions:
- induced effects of cultural activities on the quality of a place, among which the tourist attractiveness, which leverages additional visitor expenditure, but also the location amenities for companies
- "creative inputs" accruing to the local networks of production (both to products and processes of production, or organisational models). These are "cultivated" in a lively and stimulating cultural environment where a creative class develops, attracted by tolerance, openness, educational and social opportunities.

6. The Model Framework

According Culture-Oriented Economic Development (COED) model for the city, is an inherently dynamic process, continuously altering the capital assets that determine the pace and shape of such developments. It is thus a question for urban policy to keep the process of development in balance, achieving "sustainable" urban development.
In the scheme of Figure 1 we can see the model at work. The three impact areas devised in this model are:
1. The development of a selected number of cultural clusters may be the lever for the development of a widespread creative production sector.
2. A creative economy improves the competitiveness of the urban environment.
3. Culture-oriented urban economy is sustainable if spatial balance, social permeability, and cultural identity are preserved in the growth process.
Evidence from the case studies will serve to test and articulate these hypotheses. This study is primarily policy-oriented, and those issues are to be investigated primarily in terms of cause-effect relations between specific government activities and the development of cluster dynamics as specified above, highlighting limits, best practices, and governance structures that are more likely to achieve these objectives.

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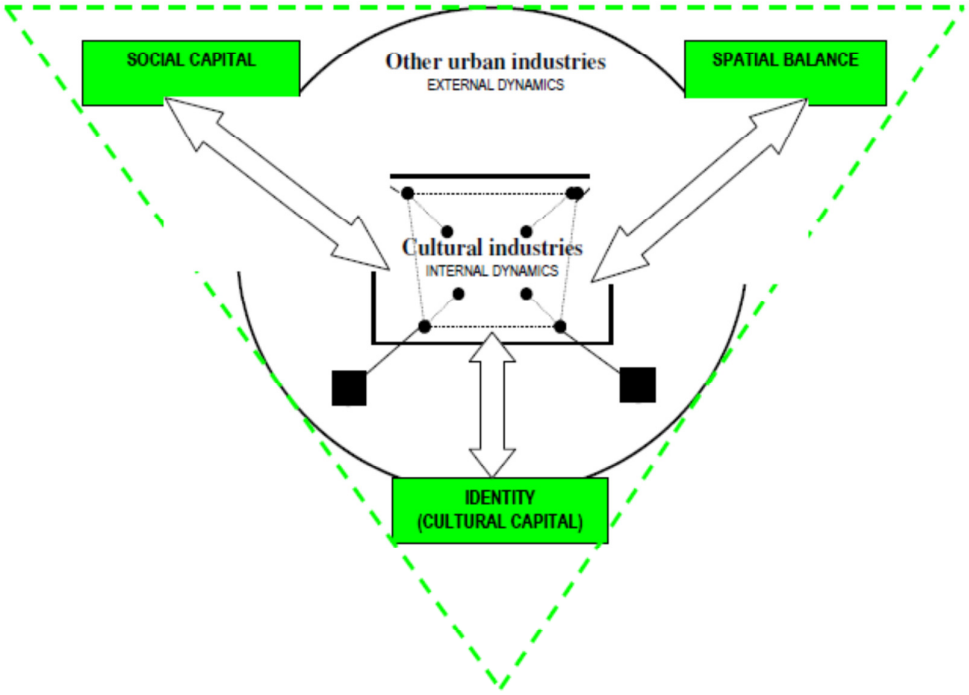


Figure 1: Model framework (COED) (Borg and Russo, 2005)

The scheme in Figure 1 can be utilised as a reference framework to evaluate the role and effects of culture on the economic development of cities. A list of qualitative and quantitative information may be used to compare the degree of achievement of each city, with reference to the three aspects mentioned.

A. The "economic strength" of the cultural cluster. Sector data as the number of jobs generated by the cultural industries directly andindirectly, their level of economic success (sales) and the return on public expenditure, when available, may be read - in historical trends as an illustration of a city's trajectory, or comparatively across the cities in the sample - as indications of the state of development of the cultural sector (Borg and Russo, 2005).

B. The "fertilisation" of the local economic milieu from culture and creativity. This aspect entails an evaluation of the creative talent embedded in local economic sectors, of the innovativeness of local enterprises, of the value of knowledge transferred from the cultural sector to the creative industries and along the chain of value to the mainstream economic sectors, of the attention and support that culture receives from the business community (Borg and Russo, 2005).

C. The "sustainability" of the process of economic growth as determined by cultural activities and projects, which involves the level of participation of local residents and other groups to cultural activities, the ease of access, the spatial scale and distribution of cultural activities and their relation with urban regeneration projects, the state and promotion of the heritage assets (Borg and Russo, 2005).

7. Cultural Image of Skopje

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Skopje is the capital of the Republic of Macedonia, the City that lies in the heart of the Balkan Peninsula, at the crossroad of important communications, a city with a 2000 years old tradition. Skopje is a modern city with population of almost one million and presents Macedonia's major political, economical, educational and cultural center. It continues to be a focus for new residents, economic development, construction and refurbishment. Skopje urban area extends across the Skopje valley for approximately 30 kilometers (18.75 mi) in width and comprises 10 municipalities.

Skopje also is a very attractive tourist destination with its fortress, cultural and historical monuments, archaeological sites, sport halls, caves in the canyon of the River Treska and Lake Matka and a health spa in the eastern part of the city. Skopje is steadily becoming a vital regional route for international flight operators. The town with the beautiful quay of the Macedonian river "Vardar", the narrow streets in the Old Bazaar which is the biggest bazaar preserved in the Balkans today, the town is internationally famous for being the birthplace of Mother Teresa. He has blossomed into a thriving, stimulating city to explore, defining itself as an exciting tourist destination with the 1500 years old fortress Kale and monastery St. Pantelejmon with the fresco "Lamentation of Christ", with the first signs of the Renaissance, the Islamic monuments Sultan Murat's- Hjunkar Mosque, the Daut Pasha's bath.

7.1. History and Culture

In its 2,500 years of existence, Macedonia's welcoming capital city has had many different embodiments. All of them – from Roman to Byzantine, from Ottoman to Yugoslav – have left permanent traces on the city as is evidenced by Skopje's varied architecture and its mix of cultures. Yet in addition to its strong historical associations, Skopje is a forward-looking city offering an abundance of modern amenities and attractions. Apart from being the capital of the modern Republic of Macedonia, Skopje has always been a center of power yearned for by various empires. Situated on the banks of the River Vardar, a vital trade route is being founded by the Dardanians in the 3rd c. B.C known as "Skupi", a much prized city for its strategic location. When the Romans ruled, Skopje was made administrative center of the Dardanian Province. The city's prestige started to grow when the Orthodox Church made it an Episcopal seat during the early Byzantine Empire. Slavic tribes who migrated from the Carpathians in the 6th c. A.D changed both the city's name and the origin of its people as the descendants of the ancient Macedonians were assimilated by the Slavic newcomers. Throughout the remaining centuries of Byzantium Skopje continued to be an important mercantile center, situated as it was at the crossroads of Balkan trade and communications routes. It was celebrated for its urban life and fortress and distinguished for having the most beautiful church in the region. At the very end of the 14th c., Macedonia fell under the sway of the Ottoman Turks. In the centuries to come, the town's profile was altered by the construction of many mosques, Turkish baths, bridges and other buildings attesting to the new Oriental influence. Today, the Ottoman legacy remains visible in Skopje's architecture and present among the Islamic minority. This latter tendency reached its zenith in 1963 when a catastrophic earthquake destroyed much of the regal old city.

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After Macedonia was liberated from the Turks' sway in the early 20th century, it became a Republic of the Yugoslav Federation with Skopje as its capital. At the time, the prosperous city boasted many neoclassical buildings laid out harmoniously in a more or less Central European style. However, in 1963 a dreadful earthquake destroyed much of the regal old city. An international competition to redesign the city was won by Japanese architect Kenzo Tange. Skopje was reborn in a imaginative, futuristic style. His creations, such as the National Theater with its sloping roof of concrete, have shaped Skopje's modern skyline. To this very day, the clock on the remaining wall of the old railway station remains stuck at 5:17 - the moment when the earthquake hit.

8. Capital city contributions for Macedonian economy

Macedonia is a country with enormous tourism potential, with attractive and very diverse scenery in many places, interesting old towns and villages, a good local cuisine and welcoming people. However, tourism, especially international tourism, i.e. the export of tourism services, is extremely competitive, and standards of facilities offered elsewhere, including in neighboring European countries, the most natural competitors for Macedonia, have risen substantially in the past two decades. Macedonia has not matched this progress. Moreover, is not an especially easy country to reach by air, with very few inexpensive flights, and has sub-standard road and rail links with most neighbouring countries. Quite clearly, the 2001 political crisis in the country, a time of serious tension between the country's ethnic Albanian and Macedonian populations, had a major negative impact on tourism. The number of tourists visiting Macedonia was generally over a million for each year of the 1980s, with total bed-nights averaging over 3.5 million per year. In the 1990s there was already some decline, but numbers collapsed in 2001 to 333,000 tourists and only 1.25 million bed-nights. Since 2001, numbers of tourists have come up again, reaching about half a million in 2006, with 1.9 million bed-nights. Even now, therefore, tourist numbers have only recovered to about half their 1980s levels. Moreover, within all the above totals, foreign tourist numbers fell further and have recovered less well than have domestic tourists. However, a study which emphasis the economic influence of tourism in Macedonia is shown by Petrevska (2012). The author's analysis show empirical evidence that tourism contributes to Macedonian economy and might be classified as important industry. The results suggest that Macedonia was not immune to negative shocks and it is normally to continue to face numerous and unexpected challenges in future. The undertaken in-depth analyses confirmed that tourism in Macedonia was infected by the world financial crisis. More specifically, the negative impacts were detected in the GDP created in tourism, as well as within the employees from tourism industry, thus producing series of damaging effects on the overall economy. Also, Petrevska underline that the domestic tourists, as well as the foreign ones, were faced with rapid decrease in consumer landing which consequently led to reducing the tourist inflows and outflows for 30% and 40% respectfully. Although some governments decreased taxes referring tourism and hospitality services in the line of assisting their tourism industries easier and quicker to recover, that was not the case with Macedonia. Regardless the discouraging shocks of the last financial recession and the declined projections for the current year, the forecasts predict that the upward trend in tourism development in

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Macedonia will continue.

Given this background, planning a better future for the tourism sector should entail at least the following steps within the framework of the recently adopted tourism development strategy which include promoting itself actively as a safe and welcoming tourist destination like city; building infrastructure relevant to the tourism industry; upgrading the skills needed for the tourism industry through well targeted training programs focusing on language skills, service standards, etc.as well the financial infrastructure of the country (need for establishing upgrading modern standards that international visitors increasingly expect.

9. Conclusion

Cooperation programs and high-profile projects will support the efforts of a city to improve benefits for the development and implementation of sustainable tourism policies and programs. Improving the competitive city image, will bring investment support and promotion, product development and strengthening linkages between tourism and other sectors of economic activity. That's why there is need for a fundamental consideration of factors that influence the location of business and can help highlight the decisions that potential business investors and developers make. In addition, the necessity of the marketing principle in image promotion is an important issue. Cities are different from one another, and it could be argued, city marketing must reflect this difference. The considerations of these marketing approaches in and of themselves can help to improve city strategies for inward investment and provide a focus for work on city image and potential target businesses. Internationally, the promotion of a place (as city in this case) by city authorities and donor organizations has typically aimed at encouraging private sector investment, macroeconomic growth and also foreign exchange earnings. In addition, place marketing planning needs to design the right sort of urban features, set attractive incentives for potential users of urban products and services, deliver these urban products and services, and promote the urban values and images so that the users know what the city's distinctive advantages are. Seeking to attract inward business investment by targeting specific types of industry through effectively operating the marketing principles should guide inward investment strategy. Tourism has the potential to empower communities and the sustainable tourism agenda needs to focus on how to bring this about. Understanding tourists and tourism processes is the first stage to empowering the local community to make informed and appropriate decisions about their tourism development. Considerable investments are required in communication and trust building between the actors in tourism. In this context to make successful development of tourism and place promotion is necessary to understand the importance of activities and tourism strategy as tools for tourism business success. In this way, tourism businesses have been identified as essential actors for creating jobs, tourism - city destination development and generally growing the economy.

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