

ISSN[Online] : 2644-0504 |

| ISSN[Print] : 2644-0490

DOI : 10.47191/jefms

Impact Factor: 6.228

ADVANCED SCIENCES  
INDEX-SCORE

**03**

*An Open Access International Journal*

# JOURNAL OF ECONOMICS, FINANCE AND MANAGEMENT STUDIES

Explore your Research to the world.....

"Journal of Economics, Finance And Management  
Studies is a leading international journal for  
publication of new ideas."

VOLUME 04 ISSUE 04  
APRIL 2021

[www.ijefm.co.in](http://www.ijefm.co.in)

email : [editor@ijefm.co.in](mailto:editor@ijefm.co.in)

## Editorial Team Member

---

**Dr. Abdulvohid Khabibullevich Abdullazizov**

Associate Professor

Acting Head of the Department of Russian Language and Literature, Namangan State University.

---

**Wilbert Manyanga**

(DPhil in Marketing)

Lecturer in the Department of Marketing

Chinhoyi University of Technology (CUT), 3 Zesa Camp, Chitambo, Chinhoyi, Zimbabwe

---

**Dr. Cam Caldwell**

(Ph.D., Business Administration)

American University in the Emirates (Visiting Professor) 2020 Dubai, United Arab Emirates

---

**Dr. Muhammad Abd ElMonem Ebraheem**

(PhD. in Hotel Management)

Associate Professor, Faculty of Tourism and Hotels Minia University, Egypt - el Minia - Nasser Street, Egypt

---

**Dr.V.MOHANASUNDARAM**

(Ph.D. Management))

Professor, Department of Management Studies, Vivekanandha Institute of Information and Management Studies.

D.No.8.28/30 Ellapalayam, Kumarankadu, Mallasamutharam Post, Namakkal Dt, Pin: 637 503 Tamilnadu, India

---

**Dr. Assunta Di Vaio**

(Ph.D. in Business Administration)

Associate Professor in Business Administration at University of Naples "Parthenope" (Scientific Area: 13.B1)

University of Naples "Parthenope" Palazzo Pacanowski - Via Generale Parisi, 13 Dir. B – 3rd floor - room 317 - 80132 Naples (Italy).

---

**Remon Samir Fouad Attallah**

(PhD Degree: Hotel Management)

HR & Training Manager, COSTA | Egypt – Jordan

---

**Simon Grima**

(Ph.D. (Melit) Banking and Finance)

Department of Insurance, Faculty of Economics, Management and Accountancy, University of Malta

---

**Dr Dilduzahon K. Israilova**

(Economic Sciences)

Associate Professor of "Organization of Industrial Production" at the Andijan Institute of Mechanical Engineering  
Andijan city, Khabibi Street

---

**Dr Mamajan A. Mamatov**

(Doctor of Philosophy in Economics)

Deputy Dean for Research, Faculty of Economics, Tashkent State University of Economics

Syrdarya region, Gulistan city

---

**Nurul Mohammad Zayed**

(Ph.D. in Management Sciences)

Assistant Professor & Head Department of Real Estate Faculty of Business & Entrepreneurship Daffodil International University, Dhaka, Bangladesh.

House # 216/B (2nd Floor), Elephant Road, New market, Dhaka-1205, Bangladesh

---

**Ibrahim Mohammed Lawal**

(Ph.D. Doctor of Philosophy in Economics)

Department of Economics, Faculty of Social Sciences, University of Maiduguri, Borno State

Blk 2, Flt 1, Abba Kawu's Residence Lagos Street opp. Govt House behind Abba Kawu's plaza Maiduguri. Borno State. Nigeria.

---

**Dr. R. B. Sharma**

(Ph.D. in Accounting)

Assistant Professor Department of Accounting College of Business Administration BRIEF RESUME Prince Sattambin Abdul Aziz University Al Kharj, Kingdom of Saudi Arabia.

---

**GAFAR OLANREWAJU YUSUF**

(Ph.D. in Management)

Public Administration Studies Department, Administrative Staff College of Nigeria (ASCON) Topo Badagry Lagos State  
Nigeria.

---

**ADELAJDA MATUKA**

(Ph.D in Quantitative Methods for Economic Policy)

University of Macerata Department of Economics and Law

Via Crescimbeni 14, Italy

---

**Dr. Samar Rahi**

(Ph.D. Lecturer/Marketing Consultant)

Associate Lecturer/Dissertation Supervisor for MBA/M.Phil. Students at INTI College Malaysia. □ Visiting Lecturer/Dissertation Supervisor for MBA students at MUST, Malaysia.

House #2-4/3M, Block Gong Badak, Universiti Sultan Zain Al Abidin, Terengganu, Malaysia.

---

**Dr Shamsiddin A. Allayarov**

(Economic Sciences)

Head of the Department of Management and Marketing, Tashkent Financial Institute

Tashkent city, Mirzo Ulugbek district

---

**Dr Martabo M. Dadajonova**

(Economic Sciences)

Associate Professor of "Organization of Industrial Production" Andijan Institute of Mechanical Engineering  
Andijan city, Hamid Olimjon Street.

---

**Saber Adly Shaker Abdel Rahman**

(PhD: Economics and Foreign Trade in the Economics of Educational Services)

Associate Professor: Department of Economics and Foreign Trade, – Faculty of Commerce and Business Administration, – Helwan University

4th district, 2nd neighborhood, October city, Egypt

---

**Aguguom Theophilus Anaekenwa**

(PhD in Accounting)

Lecturer 1/ Coordinator (Accounting & Finance Dept.) Augustine University, Ilara-Epe, Lagos State.  
Nigeria

---

**Journal of Economics, Finance and Management Studies**  
**ISSN[Online] : 2644-0504 || ISSN[Print] : 2644-0490**

---

**Table of Contents JEFMS Volume 04 Issue 04 April 2021**

<b>S.no.</b>	<b>Article</b>	<b>Authors</b>	<b>Page no.</b>
1.	Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)	<sup>1</sup> Modeyin Femi, <sup>2</sup> Nwankwo, Odi, Ph.D, <sup>2</sup> Samuel Olusegun James, Ph.D	214-223
2.	The Influence of Woman on Board of Commissioner and Woman on Board of Director on Company Financial Performance	<sup>1</sup> Damianus John Seso, <sup>2</sup> Dian Anita Nuswantara	224-231
3.	Status Quo of Entrepreneurship in the Mekong River Delta	<sup>1</sup> Phuong Tran Thi My, <sup>2</sup> Tu Phan Anh	232-243
4.	Factors Influencing Changes in the Rate of the National Currency and the Ways of Its Stabilization	<sup>1</sup> Ermak Kadirov, <sup>2</sup> Guzal Babaeva	244-248
5.	Effects of TQM Practices Against Outsourcing Employee Satisfaction and Loyalty Electricity Sector	Noviardi Ferzi	249-260
6.	An Important Factor in Solving the Poor Problem	<sup>1</sup> Ibrohim Maxkamov, <sup>2</sup> Rashidov Rahmatullo A'lojonovich	261-264
7.	Effective Communication as a Tool for Achieving Organizational Goals and Objectives	Christine Reidhead	265-273
8.	Indian Debt Market: Need for More Reforms	<sup>1</sup> Dr. A. Ruksana Banu, <sup>2</sup> Dr. A. Abdul Raheem	274-278
9.	Barriers to Entry for New Entrants into Kandahar Industrial Park	<sup>1</sup> Najibullah Mudasir, <sup>2</sup> Karimullah Ozam, <sup>3</sup> Mohammad Islam Ahmadzai, <sup>4</sup> Shafiullah Ghouse	279-288

## Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)



Modeyin Femi <sup>1</sup>, Nwankwo, Odi, Ph.D, Samuel Olusegun James, Ph.D<sup>3</sup>

Department of Banking and Finance. Kogi State University, Nigeria

**ABSTRACT:** This study examined the determinable factors affecting commercial banks deposits in Nigeria for the period of 2000 to 2019 using panel data of listed banks. The study adopted secondary data obtained from the listed Deposit Money Banks annual reports and were analyzed. Explanatory variables of the study were proxied as Branch Network, Financial intermediation ratio, Bank size, Money Supply and Economic Growth. while Dependent variable was proxied by Deposit value of banks. The study adopted ex-post facto research design to examine the effects of bank-specific and macro-economic factors on deposit in Nigerian Deposit Money Banks. Series of diagnostic tests was carried out by the study. Panel data technique specified random effect model by Hausman test. The study found that branch network and bank size have positive and significant effects with deposit while financial intermediation ratio and economic growth have positive but insignificant effects with deposit during the study period. Also, money supply has negative but significant effect on deposit. The study therefore recommended among others that the regulatory agencies of financial institutions should continue to stimulate competition in the banking industry as increase in branch network still hold key positions in strengthening deposits and activities of the institutions to be able to compete internationally. Also, at the bank level, the improvement of the deposit of Nigerian Deposits Money Banks need to be conducted by a reinforcement of the intermediation activities of banks through central banking regulation programs that will propels financial institutions to adhere to increase in loan-to-deposit portfolio.

**KEYWORDS:** Commercial banks, Deposits, Economy, Intermediation, Regression.

### 1.1 INTRODUCTION

A healthy banking system is the backbone of the development and stability of any economy of the world. This has made regulators all over the world to be firm in decision makings of financial institutions. Savings and investment play a key role in promoting economic growth. The people's savings are the basis of investment resources of the country and are essential for economic development and growth. Increase of the savings will lead to the capital accumulation which will ultimately lead to the economic growth.

Accordingly, Mistry, Savani & Vidyanagar (2015) opined that banks are the backbone of the economy of the country because they play significant role in the effort to attain stable prices, high level of employment and sound economic growth. A critical instrument of deposit money banks activities is deposit mobilisation. Bank deposit is the cornerstone of a bank's financial strength. It supports its operations by providing means for its financial intermediation functions, serves as a buffer to absorb unanticipated losses from its activities and in the event of problems enabling the bank to continue to operate in a sound and viable manner (Gebre, 2019). Bank deposits are the main form of the population's savings in a number of emerging market climes, such as Asia, sub-Saharan Africa. This is due to the underdevelopment of stock markets, their increased volatility, insufficient financial knowledge of the population, low risk appetite, and lack of confidence in the financial system. People with low and medium incomes prefer conservative forms of savings, including bank deposits.

Deposits are the heart of banking institutions and financial systems (such as banking, insurance, pension, equity market) have been recognized to play a necessitating role in economic growth because a number of empirical works have established that mobilization of deposits for financial institutions is as essential as oxygen for human being (Ukinamemen, 2010., McCadd, 2015., Halefom, 2015., Ketema, 2017., Islam, Ali & Wafik, 2019., Gavurona, Kocisova, Rozsa & Halaskova, 2019).

Deposits may be considered as the most important resource of deposit money banks because deposits meet up the needs of financial resources of banking systems. Therefore, the amount of deposit of banks should be mobilized and accumulated enough

## **Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)**

so that it can satisfy the financial needs of its customers. Deposit mobilization means encouraging customers to deposit cash with the bank or inducing new clients to come and open accounts with the bank (Kaba, 2019). Mobilization of deposits plays an important role in improving economic efficiency through the channeling of funds from resource surplus unit to those with better opportunities for productive investment. But deposit mobilization is not an easy task. In this case, various bank-specific factors such as people's confidence in the banking system, people's banking habit, the volume of business transaction, location, type of building, window dressing, policies on branch network, the general economic environment and the saving potential of the region as well as and macro-economic factors such as regulatory policies on interest rate, lending rate, money supply, per capita income of the populace, cash reserve requirement among others.

While researchers have established several theoretical explanations to justify why adequate deposits mobilization affect the financial institutions activities and the economy in general, the commonly cited justification is that mobilization of deposit plays an important role in providing satisfactory service to different sectors of the economy such as agriculture, real, manufacturing, construction (Ongetti, 2016., Alemu, 2016., Awole, 2016., Tun, Alrajawy & Bhaumik, 2020 and Unvan & Yakubu, 2020). Furthermore, it has been established that financial institutions activities are dependable on the mobilization of deposit and concluded that the higher the deposits amount, the bigger the lending (in form of loan and advances) and investments portfolio can be maintained by banks to sustain its expansion and future growth.

More so, previous literature from relevant studies on the factors affecting deposits of deposit money banks suggests either positive effect, negative effect or non-negativity effect. Studies such as Ukinamemen (2010).; Wubitu (2012).; Ngula (2012)., Zhang & Daly (2013).; Tizita (2014); Nwanko, Ewuim & Asoya (2013)., Tareq (2015); Nguyen, Tripe & Ngo (2018), Malkina (2019) among others had divided factors affecting deposit money banks deposit into two, namely exogenous and endogenous factors. Exogenous factors further sub-divided into two such as country-specific factors and bank-specific factors. Country-specific factors are fundamentals that are peculiar to a clime and these fundamentals have the potency to affect how deposits of financial institutions are harnessed. These factors include inflation, real interest rate, population growth of the country, GDP growth rate, per capita income of the populace, money supply, lending rate among others. Bank- specific factors on the other hand are factors within the control of the banking industry and are likely to have effect on deposits. These include liquidity of the bank, profitability of the bank, and number of banks branches, bank management policies, and bank size. The endogenous factors are qualitative indices (strategies) adopted by financial institutions to improve on their services to the citizenry. These include awareness of the society, convenience of bank's office and services in the bank among others. Consequently, this study aims at empirically analyzing the determinable factors affecting commercial banks deposits in Nigeria. The specific objectives include to:

1. Establish the significance of branch network on the deposit of Nigerian commercial banks
2. Establish the significance of financial intermediation ratio on the deposit of Nigerian commercial banks
3. Establish the significance of bank size on the deposit of Nigerian commercial banks
4. Establish the significance of money supply on the deposit of Nigerian commercial banks
5. Establish the significance of economic growth on the deposit of Nigerian commercial banks

The remainder of this paper is structured as follows: section two provides a review of literature, section three discusses the methodology, section four presents the results and discusses the findings; and section five concludes, draws policy implications, and recommends the appropriate course of action.

### **2.1 LITERATURE REVIEW**

A growing body of literature has examined the determinable factors affecting deposit of banks. This section provides empirical review on the subject matter so that practical gap in literature can be sifted.

Bernard (2019) examined macroeconomic dynamics, bank-specific factors and deposit mobilization of the Nigerian banking sector. Macroeconomic dynamics was proxied by inflation rate, lending rate, exchange rate, government expenditure, unemployment rate and Gross domestic product (GDP) while bank-specific factors was proxied by deposit interest rate, branch network expansion and bank's liquidity. The study which is ex-post facto, relied mostly on secondary data which were collected through the Central Bank of Nigeria (CBN) and National Bureau of Statistics (NBS) statistical bulletin from 1985-2018. Multiple regression Ordinary Least Square (OLS) statistical tool was applied to establish the like fit to the observed data and the degree of relationship that exist between variables. The granger causality test was employed to establish the causal relationship between the variables. Findings revealed among others that inflation rate measured by the consumer price index and deposit interest rate have negative and significant relationship with deposit mobilization in Nigeria. Exchange rate, unemployment rate and loan-to deposit ratio have negative and insignificant relationship. Lending rate and Government expenditure have insignificant positive relationship while it

## **Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)**

was only Gross domestic product and number of bank branches that have positive and significant relationship with deposit mobilization in Nigeria.

Arikewuyo and Akingunola (2019) conducted a study on the impact of interest rate deregulation on fund mobilization of deposit money banks in Nigeria between 1986 to 2016. Autoregressive Distributed Lag (ARDL) Bound Test technique was used to determine short and long run impacts of interest rate deregulation on fund mobilisation of DMBs. The result showed that interest rate had insignificant impact, in the short run but significant impact in the long run. Also, money supply and inflation rate were the key drivers of fund mobilisation of DMBs in both short and long run situation. The non-significance of government expenditure affirmed that fund mobilisation of DMBs is of monetary and not fiscal policy phenomenon in Nigeria. It is, therefore, concluded that interest rate impacted on fund mobilisation in the long run.

Akaninyene, Innocent and Aniekpeno (2018) critically examined inflation rate in Nigeria with the view of ascertaining its effect on the deposit mobilization in Banks. The population for the study included selected numbers of banks i.e. deposit money bank in Nigeria from 1994 – 2014. Multiple regression Ordinary Least Square (OLS) statistical tool was applied to establish the like fit to the observed data and the degree of relationship that exist between variables. Findings reveals among others that there exist a significant and negative relationship amongst demand, savings and time deposit with inflation in Nigeria, and that interest rate impacted significantly and positively on saving and time deposit.

The study by Hassan (2016) was on the effect of interest rate on commercial bank deposits in Nigeria. Hence, this study was examined how interest rates affects commercial bank deposits between 2000 and 2013 in Nigeria. The study made use of secondary data sourced from the Central Bank of Nigeria statistical bulletin and the National Bureau of Statistics between 2000 and 2013. The model for the study has as its dependent variable the Commercial Bank Deposits (CBD) while its explanatory variables were the interest rates and the Gross Domestic Product (GDP). Using the Ordinary Least Square (OLS) multiple regression techniques; the study revealed that there was a negative relationship between the interest rates and the commercial bank deposits suggesting that interest rates has not been responsible for customers deposits in commercial banks in Nigeria while the GDP has a positive relationship with commercial bank deposits.

In a study by Eke (2019) on poisson regression analysis on economic determinants of commercial bank branches expansion in Nigeria from 1988 to 2016 covering 29 years. The study used secondary data. Poisson regression analysis was adopted. Based on the analysis, it was discovered that there was a strong relationship existing between commercial banks branches expansion, population growth rate, bank assets, savings deposit and gross domestic product growth rate. Therefore, this study concludes that population growth rate, bank assets, savings deposit and gross domestic product growth rate influence commercial banks branches expansion in Nigeria.

Unvan and Yakubu (2020) investigated a study on do bank-specific factors drive bank deposits in Ghana for the period 2008 to 2017 using the random effects technique. The results show that profitability, bank size and liquidity are significant determinants of bank deposits. Macro- economic instability proxied by inflation also exerts a negative significant impact on bank deposit. The findings further reveal that an increase in bank's capital adequacy level does not essentially translate into deposit.

Yakubu and Abokor (2020) examined the factors determining bank deposit growth in Turkey: an empirical analysis for the period spanning 2000Q1 to 2016Q4. The study employs the autoregressive distributed lag approach to examine the effect of bank-level and macroeconomic factors on deposit growth. The results reveal that bank stability, banking sector efficiency, broad money supply, economic growth and inflation are significant determinants of deposit growth in the long-run. The findings further show that in the short run, only branch expansion and broad money supply are relevant for bank deposit mobilization.

Kanyugi, Gudda, Ombok and Kibabi (2019) investigated a study on agency banking adoption and its effect on banks deposits of commercial banks in Kenya. The study adopted an exploratory non-experimental research design. The study used secondary data and the nature of the data collected was quantitative. The data targeted 15 commercial banks that were licensed by Central Bank of Kenya to carry out agency banking as of December 2014, however one commercial bank (Chase bank) was put under receivership during the period of study and therefore it was excluded from the study. The data was collected from CBK banks supervision annual reports and from financial reports of the 14 commercial banks using a data collection worksheet and analyzed using descriptive and inferential statistics. The empirical model of the study was based on Event study. The results indicate that there was a statistically significant change in the mean of change in deposits before and after adoption of agency banking.

Chen, Goldstein, Huang and Vasishtha (2020) examined a study on bank transparency and deposit flows for US commercial banks from 1994-2013. Dependent variable was proxied as deposit flows measured as the changes in bank deposit balances while independent variables are net income during the period, information quality and interest rate. Multiple regression technique was



## **Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)**

adopted. The study documents that uninsured deposit flows are more sensitive to information about bank performance when the quality of the information provided by the bank is higher. Furthermore, the study provides evidence linking this information quality to deposit rates, banks' investments, and profitability.

Gebre (2019) examined determinants of private commercial banks deposit growth in Ethiopia. The panel data set for the study used secondary source spanning from 2008 to 2017. The dependent variable used to this study is deposit growth; explanatory variables used in this study were number of bank branch, loan to deposit ratio, economic growth (GDP), deposit interest rate, net interest margin, and age of company. Different diagnostic tests were conducted to check the appropriateness of the model. Fixed effects technique has been applied to find out the results of explanatory variables. According to the final results achieved by applying panel data techniques, number of bank branches, economic growth (GDP) and age of company had positively and statistically significant influence on private bank deposit growth; whereas, deposit interest rate and net interest margin are negative and statistically significant influence on deposit growth.

Lemma (2019) examined the determinants of deposit mobilization: the case of commercial bank of Ethiopia for the sample year 1995 to 2016. Explanatory type of research design, descriptive statistics, correlation matrix and multiple regression technique were used on time series secondary data. Five independent variables, which are saving interest rate, inflation rate, exchange rate, branch expansion and gross domestic product are regressed with the dependent variable: saving deposit. The result indicates that saving deposit rate and branch expansion have statistically positive and significant effects, saving interest rate, exchange rate and inflation rate have contrary to the theoretical assumption before research, and exchange rate has inverse relation with Commercial Bank of Ethiopia deposit mobilization (private saving deposit).

Abebe (2019) examined the factors affecting deposit mobilization: the case of commercial bank of Ethiopia for the periods 1995 to 2017. The study adopted quantitative research approach. Bank specific and macroeconomic variables were analyzed by using the time series fixed effect regression model. Different diagnostic tests (test for assumption of Homoscedasticity, Autocorrelation, Normality, average value of the error is zero and independent variables are non-stochastic) were conducted to check the appropriateness of the model. The results reveal that Bank's Liquidity (statistically significant), exchange rate, and Bank Profitability are positively and statistically insignificant on bank deposit growth; whereas, Money Supply influence is negatively and statistically significant on bank deposit growth. Deposit Interest Rate and Inflation had insignificant positive influence on bank deposit growth, whereas credit risk and Government Expenditure had insignificant negative influence on bank deposit growth. Suggestions have been made to decrease the broad Money Supply to the economy since it had a negative significant effect on deposit mobilization.

In a study by Corovei & Socol (2019) on the macroeconomic drivers for Household deposit growth in the Eurozone area during January 2003 to June 2019. The study used OLS methodology. Series of diagnostic tests such as multicollinearity, heteroskedasticity and stationarity tests were conducted. The macroeconomic variables used are GDP annual growth rate, inflation rate, harmonized unemployment rate, interest deposit rate, short-term debt securities, long-term debt securities and listed shares. Findings reveal that apart from the unemployment rate, all the other variables have a positive impact on the household deposits growth rate.

Islam, Ali and Wafik (2019) conducted a study on determinants of deposit mobilization of private commercial banks: evidence from Bangladesh using panel data regression methodology. In the study, 14 conventional private commercial banks have been observed over ten years (2007-2016). The results of this study provide evidence that total deposit (as measured by company size) has significant negative impact on the deposit mobilization (as measured by banks deposit growth rate) and broad money supply growth rate has significant positive impact on the banks deposit growth rate whereas the rest of the selected variables i.e. number of banks branches, deposit interest rate, loan-to-deposit ratio, Gross Domestic Products (GDP) growth rate, inflation rate have no significant impact on the banks deposit growth rate of the private commercial banks in Bangladesh.

Malkina (2019) investigated the determinants of private savings in the form of bank deposits: A case study on regions of the Russian Federation. The study adopted Cobb- Douglas type of regressions with fixed time effects and logistic type regressions based on panel data of 80 Russian regions from 2014 to 2016. Their estimations allowed us to reveal the dependence of private deposits in Russian regions at the level of real personal income and its structure, the personal income inequality, the demographic structure of the population, the state of the labor market, the level of accumulated wealth, the rate of urbanization, and the level of development of the financial system in the regions. Findings reveal that mandatory payments, labour market, ratio of pensioners and unemployment rate have positive relationship with bank deposits while income inequality and family structure exhibit negative impact on bank deposits.



## Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)

Furthermore, Lin (2019) conducted a study on bank deposits and the stock market. Variables considerations include growth of domestic deposits, GDP growth, change in federal fund rates and residential house price growth. Time series data was utilized. Finding shows that stock market booms are associated with slower bank deposit growth due to households' reduced demand for deposits. Aggregate deposit growth is slower when stock returns are high. The effect is stronger in areas with high stock market participation. Deposits outflow causes banks to cut back lending during stock market booms. The reduced credit supply appears to negatively affect local economic activities.

More so, Ali, Eldaw, Alsmadi and Almarashdeh (2019) examined the determinants of deposit of commercial banks in Sudan: an empirical investigation for the period 1970 to 2012. Factors under scrutiny are inflation rate, total credit as a percentage of GDP, interest rate (profit margin), money supply as the GDP percentage and per capita GDP. This study utilises the approach of autoregressive distributed lag (ARDL) to co-integration and the related error correction model (ECM) for the examination of the factors. The main results obtained suggest that within the long-run, inflation and money supply show negative impacts on total deposits. Conversely, credit, interest rate (profit margin) and real per capita GDP have positive impact on total deposits. Within the short-run, using OLS method, although nearly variables demonstrate that they are statistically significant, they are exhibiting the wrong signs. Nevertheless, the coefficient of the lagged residual ( $ECt-1$ ) within the ECM model has the correct sign and is highly significant which implies that in the long-run equilibrium, the dependent variable has the inclination for adapting to any deviations.

Also, Al-Harbi (2019) examined the determinants of rate of return deposits in Islamic banks for a 20 –year period (1989-2008). The data were analyzed using a two-way fixed-effect model. The empirical results demonstrate that capital adequacy (default risk), credit risk, age, economic growth, and concentration significantly and negatively influenced the return on deposits in Islamic banks. The results also suggest that foreign ownership, size, inflation, and oil prices had significant and positive effects on the rate of return. Moreover, the results indicated that deposit insurance (positive), interest rates (positive), and deposit growth (negative) are not determinants of the rate of return in Islamic banks.

Lastly, Kaba (2019) investigated factors affecting deposit growth of commercial banks in Ethiopia. The panel dataset for the study consisted annual data spanning from 2001 to 2017. The dependent variable was proxied as commercial banks' deposit growth while explanatory variables include advertising and publicity, bank branches, exchange rate, inflation rate, loan and advances, money supply and nominal gross domestic product. Different diagnostic tests namely test for zero mean of error terms, homoscedasticity, no autocorrelation, no multicollinearity and normality were conducted to check the appropriateness of the model. The Fixed-effect model results show that bank branch, exchange rate, loan and advances and nominal gross domestic product have significant positive effect on commercial banks' deposit growth. However, inflation and money supply found to have significant negative effect on bank deposit growth. The effect of advertising and publicity was found to be positive and insignificant.

From the studies reviewed, it has shown that the evidence on the direction of relationship between deposit and its determinants is inconclusive as the coefficient has exhibited mixed results. It can also be deduced that the review shows that there are relatively scanty studies on factors affecting deposit of commercial banks in Nigeria and that studies documented within the sphere of Nigeria. It was also seen that some of the studies reviewed had methodological challenges such as the absence of normality test, model specification test, serial autocorrelation test among others.

## 2.2 THEORETICAL FRAMEWORK

This study adopted the financial intermediation theory as the bedrock upon which the analysis rests. This theory was postulated by Douglas (1984). According to the theory, commercial banks and other financial intermediaries are the main sources of external funds to firms. Financial intermediaries exist not only because of the divergence of requirements of lenders and borrowers, but for specialized services they provided such as insurance services for insurance companies, retirement fund products for retirement funds, investment products for unit trusts and overdraft and deposit facilities for banks. Financial intermediation theory also argues that information asymmetry arises in the financial system and markets between borrowers and lenders because borrowers generally know more about their investment projects than lenders do.

## 3.1 METHODOLOGY

The research design adopted for this paper is ex-post facto. According to Kothari and Garg (2014), ex-post facto research design seeks to find out the factors of past event or already existing condition in order to predict future outcome. The choice of this research approach is based on the advantages and reliability of results associated with it. Sekaran and Roger (2013) justify that an

## Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)

ex-post facto research design is of empirical nature because of the nature of data collected. An empirical research method bridges the gap between the theoretical foundations of models and its practical application. This is therefore consistent with the objective of the study.

### 3.2 SAMPLE AND DATA

There are 21 DMBs in Nigeria as at December 2019, but the sample of banks to be included in this paper depends on the availability of data. For this reason, three filters were used to conveniently select the sample size. The filters are that the bank must be listed, not delisted and should have full length of data for the period. Furthermore, a listed company is expected to comply with the NSE's requirement of financial disclosure. Hence, their financial reports are expected to be easily accessible and readily available. The result of this process displayed in Table 1, has produced 14 commercial banks that accounts for 71.4 percent of listed banks population in Nigeria. Also, the bank's annual financial reports for 20 years covering 2000 to 2019 was used. In all the study has 300 observations or data points making it a balanced panel study.

**Table 1: Sample Size of the study**

S/N	Names of Bank	Categorization	Remark
1	Access	International	Quoted
2	Diamond	International	Quoted
3	UBA	International	Quoted
4	Fidelity	International	Quoted
5	Stanbic	National	Quoted
6	First Bank	International	Quoted
7	Guaranty Trust Bank	International	Quoted
8	Eco Bank	International	Quoted
9	FCMB	International	Quoted
10	Unity Bank	National	Quoted
11	Union Bank	International	Quoted
12	Wema Bank	National	Quoted
13	Skye Bank	National	Quoted
14	Sterling Bank	National	Quoted
15	Zenith Bank	International	Quoted

**Source:** Adapted from NSE Factsheet, 2021.

### 3.3 METHOD OF DATA ANALYSIS

Hausman- specification test was conducted in order to choose the most appropriate panel estimation between fixed effect and random effect (Hausman, 1978). The test provides two estimates and compares the slope of their coefficients. The threshold is based on 5% level of significance, therefore if the P-value is greater than 5% , then the random effect model prevails otherwise fixed effect. The Hausman test result indicates  $P > X^2 = 0.540$ , the P-value is greater than the 5% level of significance indicating that random effect model is the appropriate estimator than fixed effect. Similarly, the result of Breusch and Pagan Lagrangian multiplier test further validates the choice for random effects estimator with P-value of 0.0300 which is less than 5 % level of significance, implying the presence of significant differences among the sampled listed commercial banks.

To enhance the meaningfulness of this study and to better understand the context of factors affecting deposits of Nigerian commercial banks, we conducted series of post estimation regression diagnostic tests were conducted to ascertain the validity of the statistical inferences for the study - multicollinearity, correlation matrix and descriptive statistics.

### 3.4 MODEL SPECIFICATION

To estimate the relationship between deposit and its determinants, variables such as branch network, financial intermediation ratio, bank size, money supply and economic growth were used as proxies for explanatory factors while deposit value of banks were used as proxy for response variable.

Hence, the mathematical expression of random effect estimation model for this paper is presented below:

$$DEP_{it} = \beta_0 + \beta_1 BRN_{it} + \beta_2 FIR_{it} + \beta_3 BAS_{it} + \beta_4 MOS_{it} + \beta_5 ECG_{it} + \epsilon_{it} \quad - \quad - \quad i$$

## Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)

Where:

$DEP_{it}$  = Deposits value of banks  $i$  at time  $t$

$BRN_{it}$  = Branch Network of banks  $i$  at time  $t$

$FIR_{it}$  = Financial intermediation ratio of banks  $i$  at time  $t$

$BAS$  = Bank size of banks  $i$  at time  $t$

$MOS$  = total value of money in circulation  $i$  at time  $t$

$ECG$  = economic growth of Nigeria measured as gross national income  $i$  at time  $t$

$\beta_0$  = Constant term ( intercept)

$\beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$ , denote regression parameters and slope of the variables.

$\varepsilon$  = The Error Term

In view of the above, this paper has proposed the following hypotheses in null forms:

- H<sub>01</sub>:** Branch network does not have any significant effect on deposit in Nigerian commercial banks
- H<sub>02</sub>:** Financial intermediation ratio does not have any significant effect on deposit in Nigerian commercial banks
- H<sub>03</sub>:** Bank size does not have any significant effect on deposit in Nigerian commercial banks
- H<sub>04</sub>:** Money supply does not have any significant effect on deposit in Nigerian commercial banks
- H<sub>05</sub>:** Economic growth does not have any significant effect on deposit in Nigerian commercial banks

## 4. RESULTS AND DISCUSSION

The objective of this paper is to examine the relationship between deposits and its determinants of listed commercial banks in Nigeria. Thus, results of the analysis with the help of STATA (13) statistical software package are presented as follows:

### 4.1 Descriptive Statistics of the data

Descriptive statistics enable transformation of raw data into more meaningful information (Sekaran & Roger, 2013). To describe data in this paper, the mean, standard deviation, maximum and minimum values of the dependent and independent variables was used accordingly. This is reported in Table 2 below:

**Table 2. Summary Statistics**

Variable	OBS	Mean	Std. Dev.	Min	Max
DEP	300	8.136721	4.82641	1.238238	7.065473
BRN	300	9.06427	2.92907	1.33621	7.41090
FIR	300	.846355	.319119	.079442	.7612
BAS	300	.4746716	.279648	.385812	.498028
MOS	300	5.015587	1.15178	.572463	.783153
ECG	300	7.273415	.3704782	.632309	.740487

**Source:** STATA Output, 2021.

As shown in the Table 2 above, the mean value of bank deposit (DEP) is 8.13 percent for the period of 2000-2019. This means, Deposit Money banks achieved 8.85 percent average deposit within the given period of time. It is also noticed that the bank deposit was fluctuating between 1.238 and 7.065 percent. The standard deviation for the banks deposit is 4.826 percent; this confirms that there exist significant variations of deposit among Deposit Money banks during the study period.

Regarding the explanatory variables, branch network (BRN) which shows the average of 9.064 percent, minimum value of 1.336 percent and maximum value of 7.401 percent with corresponding standard deviation of 2.929 which explains the level of variability in branch network by Deposit Money banks and the rate of dispersion of branch network from its mean value.

Also, the mean value of financial intermediation ratio (FIR) was 0.846 percent. It implies that lower amount of volatile liabilities/deposits were tied up with illiquid loans which are not performing as expected by the Deposit Money Banks. There was low dispersion of FIR towards its mean value among banks that is shown by the standard deviation of 0.319% on the bank to financial intermediation ratio on average. The maximum value of FIR was 0.7612 percent which is far above the standard. Also, the minimum value was 0.079 percent which is far above the standard deviation. This indicates that there were some Deposit Money banks in Nigeria having extra intermediation (banks around 68% DFI) and others were going to face bank intermediation risk. Therefore, it can be concluded that intermediation was not moderate among Deposit Money banks in Nigeria.

## Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)

The mean value of the bank size (BAS) over the period under study was 0.475 percent with the maximum and minimum values of 0.498 and 0.385 percent for the period 2000 to 2019 respectively. There was little variation of bank size towards its mean value over the periods under study with the value of standard deviation 0.279 percent. This implies that the stability of bank size in terms of total assets for subsequent years under the study periods in a sense there was a control of minimum and maximum bank size by the Deposit Money banks. So there was no competition between Deposit Money banks to attract more assets which invariably will affect deposit under the study period.

The mean value of the Money Supply (MOS) is 5.015 percent, with standard deviation value of 1.15 percent which is not close from the average value and very significant. Also, the value of minimum to maximum of Money supply range from 0.572 percent to 0.783 percent in Nigeria.

Economic growth (ECG) measures the economic prosperity of the country to its citizen. The annual ECG of the country ranges from a minimum of 0.632 percent to a maximum of 0.740 percent. The mean value of ECG was 7.273 percent indicating that the average real growth of the country i.e Nigeria. Also the standard deviation was 0.370 percent; this implies that economic prosperity in Nigeria measured by Gross National Income during the period of 2000 to 2019 remains stable.

### 4.2 Multicollinearity Test

To establish the association between the explanatory variables of the study, variance inflation factor (VIF) and tolerance level (TL) was obtained as presented in Table 3 below:

**Table 3: Variance Inflation Factor and Tolerance Level**

Variables	VIF	1/VIF
BRN	2.56	0.39
FIR	1.28	0.78
BAS	1.17	0.85
MOS	2.26	0.44
ECG	1.58	0.63
Mean VIF	1.77	

Source: STATA Output, 2021.

From Table 3, the VIF and TV are found to be consistently smaller than 5 and above 0.10 respectively indicating the absence of multicollinearity as suggested by Tobachnick & Fidell (2013) and Kothari & Garg (2014). The low mean VIF is also a pointer to the mild correlation among the regressors. This shows the appropriateness and fitness of the explanatory variables as used in the model.

### 4.3 Regression Result

As shown in the methodology, the model was analysed using random effect technique. The result presents R-Squared value of 0.7871. Thus, indicating that deposit determinable factors explained 78.71% of the variability of listed commercial banks deposits. Also, the Wald test show a value of 108.38 for the model and is significant at 5% and this provides an indication that the model is statistically fit. This is reported in Table 4 below:

**Table 4. Random Effect Regression Result**

Variables	Coefficient	Z- value	P>(Z)
BRN	0.206	6.21	0.000
FIR	0.103	1.00	0.317
BAS	0.623	4.43	0.000
MOS	-6.610	-3.06	0.000
ECG	0.019	0.170	0.861
Constant	34.014	13.28	0.000
R-Squared	0.7871		
Modified Wald Test:	108.38		
Prob>Chi2.:	0.0000		

Source: STATA Output, 2021

## Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)

First and foremost, this study established that branch network has positive (0.20) and significant (0.000) effect on deposit in Nigerian Deposit Money banks. This suggests that opening of bank branches in Nigeria do improve deposit. The positive coefficient of branch network is consistent with the a priori expectation of this study. Also, the finding of positive and significant effect of branch network on deposit corresponds with the findings of Gabre (2019), Lemma (2019), Yannet (2016), Andinet (2016), Giragn (2015) and Shemsu (2015).

Also, the study established financial intermediation ratio has positive (0.10) but insignificant (0.317) effect on deposit in Nigerian Deposit Money banks. The finding of negative coefficient of degree of intermediation is not in line with the expectation of this study. However, the finding of positive effect on deposit by this study is inconsistent with those of Bernard (2019), Islam, Ali & Walik (2019) and Turhani & Hoda (2016) who found negative and insignificant effect. Also, the finding is not in line with the work of Kaba (2019) who found a positive and significant effect of financial intermediation ratio on deposit of banks.

The study further examined the effect of bank size on deposit in Nigerian Deposit Money banks. The findings established that bank size has positive and significant effect on the deposit in Nigerian Deposit Money banks. The finding that bank size plays a positive (0.62) role and significant (0.000) in determining deposit is consistent with the a priori expectation of this study. The finding do not confirm the findings of previous empirical work such as Baehaqie, Fahmi & Beik (2017) who found negative and significant effect of bank size on deposit. Also, the finding is consistent with studies of Unvan & Yakubu (2020), Al-Harbi (2019) and Ferrouhi (2017) who found positive and significant effect of bank size and deposit.

Furthermore, the study found that money supply which was employed as measure of macro-economic factor affecting deposit in Nigerian Deposit Money banks was negative (-0.61) but significant (0.000) effect on deposit. The finding is in contrast with the a priori expectation of this study. Also, the finding of negative and significant effect on deposit in Nigerian Deposit Money banks is consistent with work such as Kaba (2019) while researchers such as Abebe (2019) and Awole (2016) establishes a negative and insignificant relationship. Also, studies like Yakubu & Abokor (2020) and Islam, Ali & Wafik (2019) established a positive and significant relationship between money supply and deposit of banks.

Lastly, the study found that economic growth has positive (0.01) but insignificant (0.861) effect on deposit in Nigerian Deposit Money banks. Furthermore, this positive effect of economic growth is not contrary to the expectation of this study. This finding is not consistent with studies of Gebre (2019), Bernard (2019), Corovei & Socol (2019), Tun (2019), Ferrouhi (2017) who found positive and significant effect on deposit. However, the finding is in support of Giragn (2015) who established a positive but insignificant relationship.

## 5. CONCLUSION AND RECOMMENDATIONS

The study examined the determinable factors affecting deposit in Nigerian Commercial banks. Based on the findings of the study, the following conclusions are drawn. The study reveals that Branch network has positive and significant effect on deposit in Nigerian Deposit Money banks. Based on the above finding, the study therefore concludes that Branch Network (BRN) as a proxy for bank-specific factor does play significant effect in determining deposit in Nigerian Commercial banks. Also, the study also found that financial intermediation ratio (FIR) has positive but insignificant effect on deposit in Nigerian Deposit Money banks. Hence, this study concludes that financial intermediation ratio is not bank-specific factor affecting deposit in Nigerian Commercial banks. Further, it was found that Bank size has positive and significant effect on deposit in Nigerian Deposit Money banks. This implies that Bank size (BAS) does have capacity to influence the deposit in Nigerian Commercial banks. Furthermore, the study confirms that Money supply (MOS) has a significant effect on deposit in Nigerian Commercial banks. This implies that money supply does significantly effect on deposit in Nigerian Deposit Money banks. It was therefore, concluded that money supply is a major macro-economic factors affecting deposit in Nigerian Commercial banks. Also, the study found that Economic Growth (ECG) has an insignificant effect on deposit in Nigerian Commercial banks. Thus, it is concluded that as economic growth increases in the economy, it does not have effect on deposit in Nigerian Commercial banks.

Based on the findings obtained, the following recommendations are hereby offered,

1. The regulatory agencies of financial institutions should continue to stimulate competition in the banking industry as increase in branch network still hold key positions in strengthening deposits and activities of the institutions to be able to compete internationally.
2. At the bank level, the improvement of the deposit of Nigerian Deposits Money Banks need to be conducted by a reinforcement of the intermediation activities of banks through central banking regulation programs that will propels financial institutions to adhere to increase in loan-to-deposit portfolio.
3. The significant and positive effect of bank size should be taken as a good signal for Deposit Money Banks to merge and to have scale advantage.

## Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)

4. The central bank of Nigeria should from time to time review the quantity of money in circulation of the economy as this is paramount in strengthening the deposit growth of banks.
5. The Government through the regulatory authorities i.e CBN and NDIC should formulate policies that are designed to provide sustainable output growth as these are good for banking sector stability.

## REFERENCES

- 1) Abebe, M. (2019). Factors Affecting Deposit Mobilisation: The case of commercial bank of Ethiopia. *Masters of Arts Thesis, St. Mary's University*.
- 2) Akaninyene, B. O., Innocent O. O., & Aniekpeno, E. (2018). Inflation and deposit mobilization in Deposit Money Banks. The Nigerian perspective. *International Journal of Public Administration and Management Research (IJPAMR)*; 4(4):109-121.
- 3) Al-Harbi, A. (2019). The Determinants of rate of return deposits in Islamic Banks. *Journal of Finance and Islamic Banking*, 2(2): 125-138.
- 4) Ali, S. A. S., Eldew, K. E. H. I., Alsmadi, M. K., & Almarashdeh (2019). Determinants of deposit of commercial banks in Sudan: an empirical investigation (1980-2012). *Int. J. Electronic Finance*, 9(3): 230-255.
- 5) Arikewuyo, K. A., & Akingunola, R. O. (2019). Impact of interest rate deregulation on fund mobilization of deposit money banks in Nigeria. *Izvestiya Journal of Varna, University of Economics*, 63(2): 89-103.
- 6) Awole, B. (2016). Determinants of Commercial Banks' Deposit Growth. *Addis Ababa University*.
- 7) Baehaqie, S., Fahmi, I., & Beik, I. (2017). Determining factors of Deposit level of Islamic bank in Indonesia. *Journal of Islamic Economics*, 9(2): 213-226.
- 8) Bernard, A. Z. (2019). Macroeconomic Dynamics, Bank-specific factors and Deposit mobilization of the Nigerian Banking sector. *Asian Journal of Economics, Business and Accounting*, 12(2): 1-16.
- 9) Chen, Q., Goldstein, I., Huang, Z., & Vasishtha, R. (2020). Bank Transparency and Deposit Flows. *American University, Amsterdam Business School*.
- 10) Corovei, E. A, & Socol, A. (2019). The Macroeconomic drivers for Household Deposits Growth in the Eurozone. *Academic Journal of Economic Studies*, 5(3): 144-151.
- 11) Douglas, P. H. (1984). The Cobb-Douglas production function once again: its history, its testing, and some new empirical values. *Journal of Political Economy*, 84(5): 903-915.
- 12) Eke, C. N. (2019). Poisson regression analysis on economic determinants of commercial banks branches expansion in Nigeria. *South Asian Journal of Social Studies and Economics*, 5(2): 1-8.
- 13) Erna, R., & Ekki, S. (2004). Factors Affecting Mudaraba Deposits in Indonesia. Working Paper in Economics and Development Studies. *Padjadjaran University, Indonesia*.
- 14) Ferrouhi, E. M. (2017). Determinants of Bank deposits in Morocco. *Maghreb Review of Economics and Management*, 4(1): 23-26.
- 15) Gavurona, B., Kocisova, K., Rozsa, Z., & Halaskova, M. (2019). What Affects the Interest Rate on Deposit from Households? *Montenegrin Journal of Economics*, 15(2): 41-57.
- 16) Gebre, T. (2019). Determinants of Private commercial banks' deposit growth in Ethiopia. *Masters Thesis, Addis Ababa University*.
- 17) Giragn, G (2015). *Determinants of Deposit Mobilization and Related Costs of Commercial Banks in Ethiopia*, Addis Ababa University.
- 18) Halefom, Y. (2015). *Determinants of Household Saving in Gedeo Zone, Southern Ethiopia*, Journal of Economics and Sustainable Development, ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online), 6(7), 93-101.
- 19) Hassan, O. M. (2016). Effect of Interest Rate on Commercial Bank Deposits in Nigeria, Proceeding of the First American Academic Research Conference on *Global Business, Economics, Finance and Social Sciences*, 25-28, New York, USA: New York Conference.
- 20) Islam, SM. N., Ali, M. J., & Wafik, H.M. A. (2019). Determinants of deposit mobilization of private commercial banks: evidence from Bangladesh. *International Journal of Business and Management Invention (IJBMI)*, 8(10): 26-33.
- 21) Kaba, A. T. (2019). Factors Affecting Deposit Growth of Commercial banks in Ethiopia. *MBA Thesis, St. MARY'S University*.
- 22) Kanyugi, G.E., Gudda, P., Ombok, M., & Kibati, P. (2019). Agency Banking Adoption and its Effect on Banks Deposits of Commercial Banks in Kenya, *International Journal of Academic Research in Accounting, Finance and Management Sciences* 9 (3): 251-263.



## Determinable Factors Affecting Commercial Banks Deposit: The Case of Nigeria (2000-2019)

- 23) Ketema, G. (2017). Determinants of Commercial Banks Deposit Mobilization in Ethiopia. Smu. Addis Ababa, Ethiopia. Unpublished Thesis.
- 24) Kothari, C. R., & Garg, G. (2014). *Research Methodology; Methods and Techniques* (3rd ed.). New Delhi: New Age International Limited.
- 25) Lemma, B. (2019). Determinants of Deposit Mobilization: The case of commercial bank of Ethiopia. *MBA Thesis, St. MARY University*.
- 26) Lin, L., (2019). Bank Deposits and the Stock Market. *The Review of Financial Studies*, 1-47.
- 27) Malkina, M. (2019). Determinants of private savings in the form of Bank Deposits: A case study on Regions of the Russian Federation. *Economies*, 63(7): 1-22.
- 28) McCadd, J. P. (2015). Commercial bank branching, Deposit depth and state economic growth. *Master of Arts, Southern Illinois University, Carbondale*.
- 29) Mistry, D., Savani, V., & Vidyanagar, V. (2015). A comparative study of the Profitability Performance in the Banking Sector: Evidence from Indian Private Sector Bank. In *XVI Annual Conference Proceedings January*.
- 30) Ngula, I.B (2012), 'Determinants of Deposit Mobilization and Its Role in Economic Growth in Ghana'.
- 31) Nguyen, T.; Tripe, D.; & Ngo, T. (2018). Operational efficiency of bank loans and deposits: A case study of Vietnamese banking system. *International Journal of Financial Studies*, 6(1): 14.
- 32) Nwanko, F., Ewuim, N., & Asoya, N. P. (2013). Effects of Co-Operatives on the Savings Behaviour of Members in Oyi Local Government Area, Anambra state, Nigeria. *African Research Review*, 7(1): 209-227.
- 33) Sekaran, U., & Roger, B. (2013). *Research Methodology for Business: A Skill-Building Approach*. Sixth edition: Willey.
- 34) Shemsu, B. (2015). *Determinants of Commercial Bank Deposits In Ethiopia: A Case Of Commercial Bank Of Ethiopia*, Addis Ababa University.
- 35) Tabachnick, B. G., & Fidell, L. S. (2013). *Using multivariate statistics* (6th ed.). New York: Pearson Education.
- 36) Tareq, M.A (2015). 'Savings Mobilization Behavior Of Ncbs In Bangladesh', *Australian Journal of Business and Economic Studies*, Volume 1(2).
- 37) Tizita, G.Y (2014), 'Determinants of Private Saving In Ethiopia', *Masters Theses Arbaminch University*.
- 38) Tun, N. N. (2019). An empirical analysis of macroeconomic factors affecting on the Deposit mobilization of private commercial banks in Myannar. *International Journal on Recent Trends in Business and Tourism*, 3(2): 38-47.
- 39) Tun, N. N., Alrajawy, I. M. M., & Bhaumik, A. (2020). The implications of Interest rates on Private saving with reference to Myanmar. *International Journal of Recent Technology and Engineering (IJRTE)*, 895:1486- 1492.
- 40) Turhani, a., & Hoda, D. D. H. (2016). The determinative Factors of Deposits Behaviour in Banking System in Albania (Jan 2005- Dec 2014). *Academic Journal of Interdisciplinary Studies*, 5(2): 246-256.
- 41) Ukinamemen, A.A (2010), 'The Determinants of Commercial Bank Deposits in Nigeria 1989 - 2007: A Study of Union Bank of Nigeria Plc', NnamdiAzikiwe University
- 42) Unvan, Y. A., & Yakubu, I. N. (2020). Do bank- specific factors drive bank deposits in Ghana? *Journal of Computational and Applied Mathematics*, 1(2): 1-19.
- 43) Wubitu, E. G (2012), Factors Determining Commercial Bank Deposit: An Empirical Study on Commercial Bank of Ethiopia. MSc project paper: Addis Ababa University.
- 44) Yakubu, I. N. & Abokor, A. H. (2020). Factors determining bank deposit growth in Turkey: an empirical analysis. *Rajagiri Management Journal*, 1(1): 1-12.
- 45) Yannet, H.T. (2016). Determinant factors of deposit mobilization in commercial bank of Ethiopia (unpublished master's thesis). St. Mary's University, Addis Ababa.
- 46) Zhang, X., & Daly, K. (2013). The Impact of Bank Specific and Macroeconomic Factors on China's Bank Performance. *Global Economy and Finance Journal*, 6(2): 1-25.



## The Influence of Woman on Board of Commissioner and Woman on Board of Director on Company Financial Performance



Damianus John Seso<sup>1</sup>, Dian Anita Nuswantara<sup>2</sup>

<sup>1,2</sup>Department of Accounting, Faculty of Economics-Universitas Negeri Surabaya, Indonesia

**ABSTRACT:** This study aims to examine the effect of woman on board of commissioner and woman on board of director on company financial performance. This study uses secondary data accessed through IDX.co.id and idnfinancials.com. The population in this study are companies in the manufacturing sector with a span of years 2017-2019. Determination of the sample using purposive sampling method with certain criteria. The final number of samples is 393 data. The analysis technique used in this study is multiple linear regression with the SPSS 25 version. There are two hypothesizes, namely, woman on board of commissioner and woman on board of director have a positive influence on the company's financial performance. The t-test show that both, woman on board of commissioner and woman on board of director did not have positive influence on the company's financial performance. it means that gender doesn't matter.

**KEYWORDS:** Woman on board of commissioner, Woman on board of director, Firm Financial Performance, Gender Diversity

### I. INTRODUCTION

Gender diversity in top management is an indicator of corporate governance. In relation to corporate governance, gender diversity in top management in Indonesia is interesting topic. Because there is remain an assumption that leadership positions in companies are better occupied by men (Hamdani & Hatane, 2017). This assumption is partly due to the view that the success factor in men is caused by high ability (in terms of intelligence or talent), while women's success is more due to the luck factor (Maghfiroh & Utomo, 2019). In fact, in the world of work, the luck factor cannot just be used as a measure of success. Based on a survey from the National University of Singapore Business School, the percentage of women in top management in Indonesia is only 11.6% (Dieleman & Aishwarya in Hamdani & Hatane, 2017). This number is certainly very small when compared to the proportion of men in top management, which is 88.4%. The low proportion of women in top management also occurred in other Asian countries such as China at 8.5%, Hong Kong 10.3%, Singapore 7.3%, and Japan at 1.1% (Hamdani & Hatane, 2017).

The proportion of women's involvement in top management, which is still relatively small, shows that the dominance of men is still very large in terms of leadership in companies. The involvement of women in top management has not been considered so important and only fulfills the element of diversity. In fact, in reality, women have a positive impact on the company if they are entrusted with the trust as top management. Several previous studies have shown that women have potentials that make them worthy of being leaders. Hamdani & Hatane (2017) explained that a higher proportion of women on the board of directors will increase the value of the company. The same thing was explained by (Dezso & Ross, 2012) that women on the board of directors will improve the company's performance. In addition, diversity on the board will bring several benefits to the entity namely a wider perspective on decision making, higher creativity and innovation, as well as successful marketing for different types of customers (Cox, 1991; Robinson and Dechant, 1997 in Ningrum & Hatane, 2017). The presence of women on the board will encourage the achievement of good corporate governance as a result of the monitoring and independence of the board (Maghfiroh & Utomo, 2019). Based on these studies, it can be concluded that although the proportion of women's involvement in the company's top management is relatively small, it can still have a positive impact on improving company performance. This is in line with Nature's theory which explains that the differences between men and women are unchangeable and universal in nature so that the responses and thoughts of men and women in certain situations will differ from one another (Khuza'i, 2012).

This difference in response and thinking has a positive impact on decision making at top management and can improve company performance. Therefore, if the proportion of women's involvement in top management is increased or regulated, for example, then of course it can further improve company performance. So far, there are no internal company rules regarding the

## **The Influence of Woman on Board of Commissioner and Woman on Board of Director on Company Financial Performance**

ideal percentage of women involvement in top management. In fact, in other sectors of work in Indonesia, for example, the People's Representative Council of the Republic of Indonesia (DPR RI) has begun to regulate this matter. The percentage of women's involvement in the DPR is regulated in Law no. 12 of 2003, Article 65 paragraph (1) concerning the Election for DPR, DPD and DPRD which contains at least 30% of women's representation. It would be better if the percentage of women's involvement in the top management of the company is formally regulated, so that it is not only regarded as fulfilling the diversity aspect alone, but because women can have a positive impact on the company.

Based on the description above, the researcher is interested in raising this problem into a study entitled "The Effect of Woman on Board of Commissioner and Woman on Board of Director on Company Financial Performance".

## **II. LITERATURE REVIEW**

### **A. Nature theory**

Nature Theory in gender studies is something that is more directed towards the biological essentialism aspect (Khuza'i, 2012). In other words, the theory of nature is actually more closely related to aspects of biology. However, along with its development, the theory of nature is then used as a theory in research that has a gender theme. Etymologically, nature is an innate characteristic inherent in someone or something (Khuza'i, 2012). This means, nature is a basic characteristic of humans which is caused by natural conditions. Scientifically, Charles Darwin is the initiator of this theory.

In relation to gender, the theory of nature explains that the differences between men and women are natural and therefore masculine and feminine aspects are inherent naturally (Khuza'i, 2012). The differences that arise must be addressed by creating harmonious relationships and eliminating discrimination. In addition, the theory of nature also explains that the differences between men and women are immutable and universal in nature so that the responses and thoughts of men and women in certain situations will be different from one another (Khuza'i, 2012). This difference in response and thinking has a positive impact on decision-making at top management that can improve company performance.

### **B. Social Psychological Theory**

Social psychology theory explains group dynamics in meeting rooms and predicts that individuals who have a majority position have the potential to disproportionately affect group decisions (Mateos de Cabo et al., in Alm & Winberg 2016). This means, if in the top management of the company, the presence of men is the majority, it can lead to the potential for disproportionate decision making. Alm & Winberg (2016) explained that social psychology theory also shows that board diversity has a positive impact on group dynamics by encouraging divergent thinking. Different ideas can have a positive impact on the decision-making process and have a positive impact on the company's financial performance. The diversity of the board is the involvement of women in top management.

### **C. Performance Measurement Developments**

Company performance indicates how the company uses, manages and allocates its resources. The company's performance can be measured using financial reports that contain information related to the things the company has done in a certain period. The financial performance of each company varies in showing a downward trend, increasing, and fluctuating levels of profit generated. The company's financial performance consists of two, namely market performance and operational performance. Operational performance that is the focus of this research is operational performance.

One way to measure operational performance is to use the Return on Asset (ROA) ratio. The use of ROA is often used in previous research to measure the company's operational performance as in research (Darmadi, 2012) and (Nguyen in Mai et al., 2020).

Therefore, in this study, researchers used ROA as a proxy for financial performance, especially operational performance in measuring the success or failure of women's involvement in company boards to improve the company's financial performance.

### **D. The Results of Previous Research**

The following are some of the results of previous research related to research topics, including:

Darmadi (2011) in a study entitled Board Diversity and Firm Performance: The Indonesian Evidence. This study examines several factors that influence corporate financial performance including the proportion of women, board age, company size, board size, largest shareholding, block holder ownership, and foreign nation. The research method used is cross-sectional regression analysis with the object of research, namely all public companies listed on IDX on December 31, 2007. The results of this study are that there is no influence between the proportion of women on the board, foreign nation, and the presence of women on the board on company performance as measured by ROA.

## **The Influence of Woman on Board of Commissioner and Woman on Board of Director on Company Financial Performance**

Dewi et al., (2018) in a study entitled *Pengaruh Karakteristik Dewan Komisaris terhadap Kinerja Perusahaan Manufaktur di Bursa Efek Indonesia*. This study examines several factors that affect the company's financial performance including the composition of the independent commissioners, the size of the board of commissioners, and the educational background of the commissioners. The research method used is multiple regression with the object of research, namely manufacturing companies listed on the Indonesia Stock Exchange (IDX) with an observation period from 2014 to 2017. The results of this study are that the composition of independent commissioners affects the company's financial performance (ROA), while the size of the board the board of commissioners and the educational background of the board of commissioners had no effect on the company's financial performance (ROA).

Roika et al., (2019) in a study entitled *Pengaruh Keberagaman Dewan Direksi Terhadap Kinerja Keuangan Perusahaan*. This study examines several factors that affect the company's financial performance, including gender diversity on the board as showed by the percentage of the number of women directors on the board of directors and national diversity which is showed by the percentage of foreign directors on the board of directors. The research method used is multiple regression with the research object of all non-financial companies that are consistently listed on the IDX during the 2016-2017 research period. The results of this study indicate that the presence of a women's board of directors in non-financial companies listed on the IDX in 2016-2017 has not been able to affect the company's financial performance. In addition, national diversity in the board of directors has a positive and significant effect on the company's financial performance.

Kılıç & Kuzey (2016) in a study entitled *The Effect of Board Gender Diversity on Firm Performance: Evidence from Turkey*. This study examines several factors that affect the company's financial performance, including the presence of women on the board of directors and the percentage of women on the board of commissioners. The research method used was Instrumental Variables Regression (IV regression) which was analyzed by Two Stage Least Squares (2SLS), Limited Information Maximum Likelihood (LIML), and Generalized Method of Moments (GMM). The research object is non-financial companies listed on BIST for the period 2008-2012. The results of this study indicate that the presence and participation of women on the board of directors has a positive and significant effect on the company's financial performance.

Isidro & Sobral (2015) in a study entitled *The Effects of Woman on Corporate Boards on Firm Value, Financial Performance, and Ethical and Social Compliance*. This study examines whether women on the board of directors affect firm value, corporate financial performance, and corporate social and ethical compliance. The research method used is the Simultaneous Equation Model proposed by Zellner & Theil, (1962). The research object was the 500 largest companies that were included in the Times 2011 classification and 922 samples were selected representing 16 countries in the 2010-2012 period. The results of this study are, firstly, that there is no evidence that greater representation of women on the board directly affects firm value. Second, there is a positive effect of women on the board on the company's financial performance. Third, there is a positive effect of women on the board on financial performance and ethical and social compliance of companies that have an impact on company value.

### ***E. Hypothesis Development***

#### **The Presence of Women on The Board of Commissioner**

The presence of women in the top management of the company is still small when compared to the presence of men in the same top management. The small number of women involved in top management indicates that the company still sees the existence of women as an aspect of gender diversity alone. In fact, there is an assumption that success in men is due to the factors of ability and skill, while success in women is caused by luck alone (Maghfiroh & Utomo, 2019). In fact, in the world of professional work, the luck factor cannot be the main factor causing success. Success in a job cannot be seen from the mere luck factor, because women's success is considered more because of their hard work (Kusumastuti et al., 2008).

In fact, the presence of women in the top management of the company has a positive impact on the company. These positive effects include higher creativity, innovation, a broader perspective on decision making, and successful marketing for various types of customers (Cox, 1991; Robinson and Dechant, 1997 in Ningrum & Hatane, 2017). In addition, a higher proportion of women on the board of directors will increase the value of the company (Hamdani & Hatane, 2017).

Diversity management in the board of commissioners is very important because it relates to the quality, characteristics and expertise of each member which can influence decisions and actions taken by the board of commissioners (Ruigrok et al., 2007); (Luckerath, 2013), (Carter et al., 2010). This diversity is related to gender diversity in the board of commissioners. The increasing gender diversity in the board of commissioners will lead to different views or opinions on a problem, so that the resulting solutions to overcome the problem are diverse and new innovative ideas emerge that can bring advantages to the company (Kiran in Limbago & Sulistiawan, 2008); (Chapple & Humphrey, 2014). Other than that, (Luckerath, 2013) in his research explained that the benefits of a diverse board of commissioners are that the decisions taken are decisions with a broader perspective because they

## **The Influence of Woman on Board of Commissioner and Woman on Board of Director on Company Financial Performance**

reflect the demographic characteristics of the company's main stakeholder groups. The main groups of company stakeholders are employees, customers and investors.

Based on the previous explanation, the hypothesis is:

H1 = Woman on Board of Commissioner has a positive influence on the company's financial performance.

### **The Presence Of Women on The Board of Director**

The presence of women on the board of directors can improve company performance. This is supported by several research results, namely Hamdani & Hatane (2017) which explains that a higher proportion of women on the board of directors increases the value of the company. Dezso & Ross, (2012) research also explained that women on the board of directors will improve the company's performance. This is in accordance with the role of the board which must be responsible and actively involved in every company activity (Olutokunbo et al., 2020).

The presence of women on the board of directors illustrates the gender diversity in the company. (Herring, 2009) explained that in the context of the work environment, gender diversity refers to the proportion of women and men in the workplace who can affect the way people communicate and work together in the workplace, thereby affecting organizational performance. This indicates that the presence of women on the board of directors of a company will affect how to communicate and cooperate in the company's work environment which will have an impact on company performance.

Therefore, based on the previous explanation, the hypothesis is:

H2 = Woman in the Board of Director has a positive influence on the company's financial performance.

## **III. RESEARCH METHODOLOGY**

### **A. Data Types and Sources**

This type of research is quantitative research with secondary data sources. This research was conducted on companies engaged in the manufacturing sector and has been listed on the Indonesia Stock Exchange with an observation period spanning 2017-2019.

This study uses a purposive sampling method with several conditions, namely published financial reports, the currency used in the financial statements is the rupiah currency, the required data is available, and the company has been listed on the Indonesia Stock Exchange (IDX).

### **B. Operational Definition and Research Variables**

#### **Dependent Variable**

The dependent variable in this study is the company's operational performance. Al-Matari et al., (2014) explain operational financial performance as a measure of the success of the company's financial performance that describes the performance over a certain period. Measurement of firm financial performance uses return on assets (ROA) as in the study Darmadi (2012).

#### **Independent Variable**

The independent variables in this study consisted of two, namely woman on board of commissioner and woman on board of director.

Woman on Board of Commissioner (WOBC) is a woman representative who serves on the board of commissioners. Meanwhile, Woman on Board of Director (WOBD) is a woman who serves as the board of directors. The measurement of woman on board of commissioner and woman on board of director uses a ratio scale in the form of a percentage of the number of members of the board of commissioners / directors of women, divided by the total number of members of the board of commissioners / directors. Previous research which also used the same measurement method is (Hamdani & Hatane, 2017), (Mateos et al., 2011), and (Gul et al., 2011).

#### **Control Variable**

The control variables used in this study are:

##### **1. Firm Size**

Company size is the scale of the company as seen from the total assets or assets of the company at the end of the year. The size of the company is a measure of the size of a company. Firm size is measured using the natural log of total assets (Pratiwi & Pralita, 2021).

# The Influence of Woman on Board of Commissioner and Woman on Board of Director on Company Financial Performance

## 2. Sales Growth

Sales growth is the company's ability to increase sales from one period to the next.

## IV. DATA ANALYSIS AND MODEL RESULTS

### A. Analysis Technique

Methods of data analysis in this study using SPSS software. The data collected were analyzed using descriptive statistical tests, classical assumption tests (normality test, multicollinearity test, and heteroscedasticity test), and hypothesis testing.

The linear regression equation is as follows:

$$ROA = \alpha + \beta_1 WBOC + \beta_2 WBOD + \beta_3 SIZE + \beta_5 SALE + \epsilon$$

Information:

ROA	= Return On Asset
$\alpha$	= Constant
$\beta_1 WBOC$	= Woman in Board of Commissioner
$\beta_2 WBOD$	= Woman in Board of Directors
$\beta_3 SIZE$	= Firm Size
$\beta_5 SALE$	= Sales Growth
$\epsilon$	= error

### B. Results of Analysis and Discussion

#### Data Description

The object of research in this study is a manufacturing company listed on the Indonesia Stock Exchange in 2017-2019. The number of manufacturing companies studied was 171 companies. This study uses purposive sampling technique with certain conditions so that the use of the sample is in accordance with the research needs.

NO	CRITERIA	AMOUNT
1	Manufacturing companies listed on the IDX in 2017-2019	171
2	Companies that do not present financial statements in rupiah currency	(27)
3	Companies that present financial statements in rupiah currency	144
4	Companies that do not have information data related to research variables	(10)
	Number of samples	134
	Observation period	3 Years
	Number of manufacturing companies studied in 2017-2019	402
	Outlier data	(9)
	The final number of data samples	393

#### Descriptive Statistics

Descriptive statistics describe the characteristics of the sample used in this study. The results of statistical descriptive tests on the return on assets (ROA) variable show a minimum value of -0.49, a maximum of 0.53, a mean of 0.039 and a standard deviation of 0.184. The results of the descriptive statistical test on the woman on board of commissioner (WBOC) variable show a minimum value of 0.04, maximum 0.62, mean 0.128, and a standard deviation of 0.134. The results of the descriptive statistical test on the woman on board of director (WBOD) variable showed a minimum value of 0.03, maximum 0.64, mean 0.146, and a standard deviation of 0.144. The results of the descriptive statistical test on the firm size variable (SIZE) show a minimum value of 23.76, a maximum of 32.69, a mean of 28.263, and a standard deviation of 1.562. The results of statistical tests on the sales growth (SALE) variable showed a minimum value of -1.66, maximum 1.88, mean 0.119, and a standard deviation of 0.619.

#### Classic Assumption Test

The classical assumption test in this research consists of normality test, heteroscedasticity test and multicollinearity test. The normality test shows that the data in this study have a normal distribution. The heteroscedasticity test shows that there is no heteroscedasticity problem in the regression model used. The multicollinearity test shows that there is no multicollinearity in the data being tested because it has met the requirements for the VIF value and tolerance.

#### Hypothesis Testing

The coefficient of determination (R<sup>2</sup>) has a value range between 0 and 1 which explains that the higher the value obtained

## The Influence of Woman on Board of Commissioner and Woman on Board of Director on Company Financial Performance

indicates that the information provided by the independent variable has a high prediction of the dependent variable.

**Table 1. Coefficient Determination**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,382 <sup>a</sup>	0,146	0,137	0,17154

Based on the test results of the coefficient of determination presented in table 1, information can be obtained that the Adjusted R Square value is 0.137. This value means that all independent variables consisting of woman on board of commissioner, woman on board of director, firm size, and sales growth can explain 13.7% of the ROA variable. Meanwhile, the remaining 86.3% is explained by other variables.

### 1. F Test

The F test is used to determine the magnitude of the influence of the independent variables together on the dependent variable. The basis for decision making is that if the significance value is less than 0.05, it can be concluded that all independent variables jointly (simultaneously) affect the dependent variable.

**Table 2. Simultaneous Test (F Test)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1,947	4	0,487	16,542	,000 <sup>b</sup>
	Residual	11,417	388	0,029		
	Total	13,364	392			

Table 2 shows that the F test results obtained a significance value of 0.000 or less than 0.05. This means that all independent variables, namely woman on board of commissioner, woman on board of director, firm size, and sales growth simultaneously affect ROA.

### 2. T Test

The t test is used to test the influence of each independent variable on the dependent variable. The basis for decision making is if the significance value is smaller than 0.05, it can be concluded that the independent variable individually (partially) affects the dependent variable.

**Table 3. Partial Test (T Test)**

Model	t	Sig
1 (Konstanta)	-5,503	0,000
WOBC	-1,299	0,195
WOBD	0,748	0,455
SIZE	5,806	0,000
SALE	5,095	0,000

Table 3 shows that the woman on board of commissioner (WOBC) variable has a significance value greater than 0.05, namely 0.195, so it can be concluded that WOBC has no effect on ROA. The variable woman on board of directors (WOBD) has a significance value greater than 0.05, namely 0.455, so it can be concluded that WOBD has no effect on ROA. The firm size variable (SIZE) has a significance value smaller than 0.05, namely 0.000, so it can be concluded that SIZE has an effect on ROA. The sales growth (SALE) variable has a significance value smaller than 0.05, namely 0.000, so it can be concluded that SALE has an effect on ROA.

### C. Discussion

#### The Influence of Woman on Board of Commissioner and Woman on Board of Director on Company Operational Performance

Based on the results of data analysis from manufacturing sector companies listed on the Indonesia Stock Exchange (IDX), it can be concluded that the percentage of women in the company's top management has no effect on the company's operational performance. Thus, the first hypothesis which states that Woman on the Board of Commissioner has a positive influence on the company's operational performance and the second hypothesis which states that Woman on the Board of Director has a positive



## The Influence of Woman on Board of Commissioner and Woman on Board of Director on Company Financial Performance

influence on the company's operational performance is rejected. The results of this study do not support the results of the study (Isidro & Sobral, 2015) which explains that the participation of women in the top management of the company has a positive impact on improving company performance. However, the results of this study support the research results (Darmadi, 2011); (Dewi et al., 2018); (Roika et al., 2019) which explains that there is no influence of the percentage of women in top management on the company's operational performance.

Based on the results of data analysis, it can be said that the percentage of women's involvement in the top management of the company is still small. However, the percentage of women involved in the top management of the company is not a strategic issue from a gender equality perspective. This is in accordance with Article 5 of Law Number 13 Year 2008 concerning Manpower which reads: "Every worker has equal opportunity without discrimination to get a job. The law on manpower indicates that companies have provided equal opportunities for women and men to get jobs and occupy certain positions according to their potential and abilities. In addition, there are no rules governing what the ideal percentage should be used as a reference by the company in determining the number of women and men in the top management of the company.

In Nature Theory it is explained that the differences between men and women are unchangeable natures so that the responses and thoughts of men will be different from those of women (Khuza'i, 2012). In line with the theory, the Shield in (Santrock, 2003) explained that women are more emotional and full of feelings, while men are more rational and concerned with logic. In making policy, companies need decisions that are calculated, of high quality, and use information that is certain to be true (Indriany et al., 2019). Decisions that are calculated, high-quality, and use well-informed information indicate that the company determines its business decisions or policies in a rational way, which can be a reason why women are not involved. In addition, the results of this study are not in accordance with social psychology theory which explains that diversity in top management will generate creative ideas due to different thoughts. The results in this study reject this theory and are in accordance with the Herring (2009) explanation that in addition to the resulting positive aspects, diversity in the board will also increase conflict, decreased performance, and lower communication.

Therefore, it can be concluded that there is no effect of the percentage of women's involvement (naturally prioritizing emotional and emotional aspects) in the board of commissioners on the company's operational performance..

## V. CONCLUSION

Based on the results of the analysis regarding the influence of women's involvement in top management (board of commissioners and board of directors) on the company's operational performance, it can be concluded that the company has provided equal opportunities for women and men to get jobs and occupy certain positions according to their potential and the ability that is owned. Thus, the percentage of women involved in top management is not a strategic issue in this research. In addition, companies generally make rational business decisions or policies so that women who naturally prioritize emotion and feelings in decision making are less involved.

Suggestions for future researchers who want to discuss the same topic are in accordance with this study to expand data sources from different sectors with those in this research. So that it can be seen whether in other sectors, the involvement of women in the top management of the company has an effect on the company's operational performance or not.

## REFERENCES

- 1) Al-Matari, E. M., Al-Swidi, A. K., & Fadzil, F. H. B. (2014). The Measurements of Firm Performance's Dimensions. *Asian Journal of Finance & Accounting*, 6(1), 24. <https://doi.org/10.5296/ajfa.v6i1.4761>
- 2) Alm, M., & Winberg, J. (2016). How Does Gender Diversity on Corporate Boards Affect the Firm Financial Performance. *E-Journal*, 1–37.
- 3) Carter, D. A., Souza, F. D., Simkins, B. J., & Simpson, W. G. (2010). The Gender and Ethnic Diversity of US Boards and Board Committees and Firm. *Journal Corporate Governance An International Review*, 18(5), 396–414. <https://doi.org/10.1111/j.1467-8683.2010.00809.x>
- 4) Chapple, L., & Humphrey, J. (2014). Does Board Gender Diversity Have A Financial Impact: Evidence Using Stock Portfolio Performance. *Journal of Business Ethics*, 4(122), 709–723.
- 5) Darmadi, S. (2011). Board Diversity and Firm Performance: The Indonesian Evidence. *Corporate Ownership and Control*, 8(38721), 23–26.
- 6) Darmadi, S. (2012). Do Women in Top Management Affect Firm Performance: Evidence from Indonesia. *The International Journal of Business in Society*, 13(3), 288–304.
- 7) Dewi, A. S., Sari, D., & Abaharis, H. (2018). Pengaruh Karakteristik Dewan Komisaris Terhadap Kinerja Perusahaan



## The Influence of Woman on Board of Commissioner and Woman on Board of Director on Company Financial Performance

- Manufaktur Di Bursa Efek Indonesia. *Jurnal Benefita*, 3(3), 445. <https://doi.org/10.22216/jbe.v3i3.3530>
- 8) Dezso, C. L., & Ross, D. G. (2012). Does Female Representation In Top Management Improve Firm Performance: A Panel Data Investigation. *Strategic Management Journal*, 1089(August 2010), 1072–1089. <https://doi.org/10.1002/smj>
  - 9) Gul, A. F., Srinidhi, B., & Ng, A. C. (2011). Does Board Gender Diversity Improve The Informativeness Of Stock Prices. *Journal Of Accounting and Economics*, 852.
  - 10) Hamdani, Y., & Hatane, S. E. (2017). Pengaruh Wanita Dewan Direksi terhadap Firm Value Melalui Firm Performance sebagai Variabel Intervening. *Journal Business Accounting Review*, 5(1), 121–132.
  - 11) Herring, C. (2009). Does Diversity Pay: Race, Gender, and Business Case for Diversity. *American Sociological Review*, 74(2), 208–224.
  - 12) Indriany, F., Afriansyah, H., & Rusdinal. (2019). *Faktor Internal yang Mempengaruhi Pengambilan Keputusan*. <https://doi.org/10.31227/osf.io/kx86t>
  - 13) Isidro, H., & Sobral, M. (2015). The Effects of Women on Corporate Boards on Firm Value, Financial Performance, and Ethical and Social Compliance. *Journal of Business Ethics*, 132(1), 1–19. <https://doi.org/10.1007/s10551-014-2302-9>
  - 14) Khuza'i, M. (2012). Problem Definisi Gender: Kajian Atas Konsep Nature Dan Nurture. *Kalimah*, 11(1), 102. <https://doi.org/10.21111/klm.v11i1.486>
  - 15) Kiliç, M., & Kuzey, C. (2016). The Effect of Board Gender Diversity on Firm Performance: Evidence from Turkey. *Gender in Management: An International Journal*, 31(7), 434–455. <https://doi.org/10.1108/GM-10-2015-0088>
  - 16) Kusumastuti, S., Supatmi, & Sastra, P. (2008). Pengaruh Board Diversity Terhadap Nilai Perusahaan Dalam Perspektif Corporate Governance. *Jurnal Akuntansi Dan Keuangan*, 9(2), 88–98. <https://doi.org/10.9744/jak.9.2.pp.88-98>
  - 17) Limbago, E., & Sulistiawan, D. (2008). *Pengaruh Gender Dalam Dewan Komisaris Terhadap Nilai Perusahaan Dengan Family Control Sebagai Variabel Moderasi Di Indonesia*.
  - 18) Luckerath, M. (2013). Women On Boards and Firm Performance. *Journal Management Governance*, 17, 491–509. <https://doi.org/10.1007/s10997-011-9186-1>
  - 19) Maghfiroh, V. D., & Utomo, D. C. (2019). Pengaruh Diversitas Gender Pada Struktur Dewan Terhadap Kinerja Keuangan Perusahaan. *Diponegoro Journal Of Accounting*, 8, 1–9. <http://ejournal-s1.undip.ac.id/index.php/accounting>
  - 20) Mai, T., Yen, N., & Thu, N. Van. (2020). Evaluation of the Firm Performance : Evidence from Food Firms Listed in the Hanoi Stock Exchange. *Journal of Economics, Finance and Management Studies*, 3(08), 111–116. <https://doi.org/10.47191/jefms/v3-i8-01>
  - 21) Mateos, R., Ricardo, D. C., & Nieto, J. (2011). Gender Diversity on European Banks ' Boards of Directors. *Journal Business and Ethics*. <https://doi.org/10.1007/s10551-011-1112-6>
  - 22) Ningrum, A., & Hatane, S. E. H. (2017). Pengaruh Mekanisme Corporate Governance Terhadap Financial Distress. *Jurnal Manajerial Dan Kewirausahaan*, 5(3), 618–628.
  - 23) Olutokunbo, O. T., Adeade, S. A., & Lawal, O. A. (2020). Corporate Governance Practices and the Performance of Selected Post- Consolidated Nigerian Deposit Money Banks. *Journal of Economics, Finance and Management Studies*, 3(11), 190–201. <https://doi.org/10.47191/jefms/v3-i11-05>
  - 24) Pratiwi, W., & Pralita, T. (2021). The Influence of Corporate Governance Mechanism, Accounting Conservatism, And Company Size on Earnings Quality. *Journal of Economics, Finance and Management Studies*, 04(01), 26–34. <https://doi.org/10.47191/jefms/v4-i1-04>
  - 25) Roika, R., Salim, U., & Sumiati, S. (2019). Pengaruh Keragaman Dewan Direksi Terhadap Kinerja Keuangan Perusahaan. *Iqtishoduna*, 15(2), 115–128. <https://doi.org/10.18860/iq.v15i2.7033>
  - 26) Ruigrok, W., Peck, S., & Tacheva, S. (2007). Nationality and Gender Diversity on Swiss Corporate Boards. *Journal Corporate Governance An International Review*, 15, 543–557. <https://doi.org/10.1111/j.1467-8683.2007.00587.x>
  - 27) Santrock, J. . (2003). *Adolescence: Perkembangan Masa Remaja edisi keenam* (A. Chusairi & J. Damanik (eds.); Enam). Erlangga: Jakarta.
  - 28) Zellner, A., & Theil, H. (1962). Three-Stage Least Squares: Simultaneous Estimation of Simultaneous Equations. *Journal Econometrica*, 30(1962), 147–178. [https://doi.org/10.1007/978-94-011-2546-8\\_10](https://doi.org/10.1007/978-94-011-2546-8_10)

## Status Quo of Entrepreneurship in the Mekong River Delta



Phuong Tran Thi My<sup>1</sup>, Tu Phan Anh<sup>2</sup>

<sup>1</sup>Department of Economics-Business Administration, An Giang University, National University of Ho Chi Minh City, Vietnam

<sup>2</sup>Department of International Business, Campus II, Can Tho University, Vietnam

**ABSTRACT:** In the context of an integrated economy with many opportunities and challenges, especially the Coronavirus disease (Covid-19) is causing many difficulties for all nations of the world, entrepreneurship is seen as an effective method to handle social problems and create new values for the economy. Promoting entrepreneurship in the Mekong River Delta is an urgent issue that determines each locality's long-term economic development potential. This study explores the status quo of entrepreneurship in the Mekong River Delta (MRD). The data for this study comes from two sources. First, secondary data was collected from three main publications: (1) The report of Global Entrepreneurship Monitoring (GEM) about Entrepreneurship index in Vietnam 2017/2018, (2) 2017 Survey of Entrepreneurs and MSMEs in Vietnam, and (3) research papers related to entrepreneurship in the MRD. Second, primary data comes from the survey results of 406 graduates from colleges and universities in the MRD. The data was presented by graphs and tables. There are five key findings. *First*, entrepreneurial models in the MRD are not really creative and innovative. A majority of their products are popular and old, only 22.4% are new products. *Second*, business activities in the start-up stage, 41.1% of business operations have less than 25% foreign customers. *Third*, there are 93.3% of start-ups expect to create more than 6 jobs for the market. *Fourth*, 86% of people started a business because there was no better job choice. *Fifth*, commercializing and transferring scientific research results of the MRD's government to the enterprise were evaluated the best in the ecosystem.

**KEYWORDS:** *entrepreneurship, intention, opportunity recognition, competence, business model, education.*

### I. PROBLEM STATEMENT

In Vietnam, as reported by GEM Vietnam (2017), the rate of business activity in the start-up period has increased significantly, reaching 23.3%, higher than the average of 16.4% in countries developing based on resources. This also shows that in recent years, the business environment of Vietnam is getting more and more prosperous, and more and more people intend to start businesses to create jobs for themselves, increase income and eliminate unemployment when the job market is getting more difficult. Over periods, various studies have been made to confirm entrepreneurship's roles in economic development because of its positive impacts on human life quality. Many scholars have explored the relationships between entrepreneurship and other factors such as intention, opportunity recognition, competence in developing countries, including Vietnam.

However, this stream of research has not been conducted in some parts of Vietnam, for example, the Mekong River Delta (the MRD), where entrepreneurship has been considered to be lower than in other areas in the country. The MRD's context is particularly necessary to enhance entrepreneurship because the year 2020 marks a dramatically difficult year of the Mekong River Delta (MRD). Drought and saline intrusion negatively impact economic and daily life, agricultural production of fisheries and fruit cultivating areas. The severe threat of global warming has been creating significant damage for human and agricultural soil in MRD. As reported, saline intrusion in the MRD is severe and damaging about 39,000 hectares of rice production area. Especially, the impacts of Covid-19 are exceptionally severe. The International Labor Organization (ILO) estimated that the Covid-19 crisis could lead to more than 22 million Vietnamese workers' unemployment risk. If entrepreneurship in the MRD is studied intensively, more people, especially graduates will be aware of the important role of entrepreneurship and be confident to start their own business so that they can decrease unemployment rate as well as improve local social and economic status.

In recent times, an entrepreneurial network has been created in MRD to cooperate with local strengths to develop an entrepreneurial ecosystem. The participants are Department of Planning and Investment of thirteen provinces and cities, the Center of Information Technology and Communication of Bac Lieu province, and Faculty of Information Technology and

## Status Quo of Entrepreneurship in the Mekong River Delta

Communication of Can Tho University. Everyone is working for the big goal because until 2025, a number of new and qualified business will be created to develop the economy of the local area and the whole country. To reach this goal, it is necessary to do more research on entrepreneurship, especially entrepreneurial intention, entrepreneurial opportunity recognition, entrepreneurial competence, and business models. The research results will provide significant solutions for enhancing the efficiency of entrepreneurship in MRD.

## II. LITERATURE REVIEW

**Entrepreneurship.** Prior entrepreneurship research focused on how a person tries to translate his or her vision into a business venture successfully. For example, Drucker (1985) defined entrepreneurship as innovative activity, including empowering existing resources with new wealth-producing capacity. According to Timmons (1989), "*entrepreneurship is about creating and building something useful. It is about the ability to take risks and facing the fear of failure*". Lately, entrepreneurship is known as combining unique resources to exploit opportunities to create value then (George and Eva, 2003). Shane and Venkataraman (2000) suggested that entrepreneurship talked about how someone recognized opportunities and what means he or she used to exploit opportunities to create new things such as new products or services, new markets, new production processes, or new ways of organizing. That entrepreneurship plays a vital role in economic development was confirmed by Rocha (2004), and he encouraged researchers to explore the determinants of entrepreneurship at different levels.

Korsgaard and Anderson (2011) assumed that entrepreneurship is primarily about economic value creation. Mishra and Zachary (2014) explained more that entrepreneurship is a process of establishing a new business and creating and appropriating values done by entrepreneurs in a hazardous environment. Their definition reminds us that starting a new venture is associated with producing values, and failure is possible.

**Entrepreneurial intention.** Entrepreneurial intention (EI) has captured the attention of both scholars and educators during the last decades. By understanding of EI, prior researchers have suggested various definitions. For example, using mainly cognitive theory, Bird (1988) defined intentionality as a state of mind driving attention, experience, and action towards a particular target to accomplish something. It is a key input to understand the entrepreneurial process. Entrepreneurial intention is also considered the first step in discovering, creating, and exploiting opportunity processes (Gartner, Shaver, Gatewood, & Katz, 1994). The intention to be an entrepreneur is relevant strictly to its effective performance. Intention provides antecedents to explain behavior and indicates an individual's effort in carrying out entrepreneurial behavior (Liñán, 2004).

Although entrepreneurial intention has been studied profoundly by many scholars, less research on the relationship between intention and other critical aspects of the entrepreneurial process has been found. According to Mishra & Zachary (2014), the intention is accumulated from thinking and acting depending on adaptability, and then it will be developed to form a business venture.

Ao and Liu (2014) considered entrepreneurship intention as an important ingredient in understanding the process of starting a new business. And this process involves activities that individual tries to explore opportunities, create a business plan, and take advantage of the necessary resources and relationships, consider the right environment to start a business venture.

**Entrepreneurial opportunity.** The research on the entrepreneurial opportunity (EO) has developed significantly in the entrepreneurship field, and insights on EO recognition have also been expanded in different research disciplines. According to Eckhardt and Shane (2010), entrepreneurial opportunities was defined as situations in which new goods, services, raw materials, markets, and organizing methods can be introduced for-profit purpose. McMullen, Plummer, and Acs (2007) confirmed that opportunity is an objective construct that a knowledgeable or attuned entrepreneur can see or create by themselves.

**Entrepreneurial competence.** Competence or Competency were found in several managerial positions because of its significant role in business creation and development. This concept also has many dimensions and was defined by various scholars. Most of them agreed that competence is typically driven by the desire to reach high performance, economic gain and business success. Especially, Hunt (1998) noted that factors such as individual's motivation, personality traits, self-concept, knowledge or skill lead to competent behavior. In this, entrepreneurial competence has been viewed as a particular group relevant to successful entrepreneurship in small and new business (Nuthall, 2006). For this reason, entrepreneurs need to own entrepreneurial competence to start the business successfully.

**Business model.** In addition to intention, opportunity recognition, and competence, entrepreneurs ought to have an efficient business model that can meet the customer's needs and provide good profit for the long term. The business model is significant because it holds the functions such as identifying value expectations, applying suitable technology and quality, deciding target market segments, specifying value chain structure, and estimating the cost structure and potential profit (Chesbrough & Rosenbloom, 2002). According to Amit and Zott (2001), the business model describes the model of transaction content, structure, and management to create values by exploiting entrepreneurial opportunities.

## Status Quo of Entrepreneurship in the Mekong River Delta

### III. RESEARCH METHODS

The data for this study comes from two sources. First, secondary data was collected from three main publications: (1) The report of Global Entrepreneurship Monitoring (GEM) about Entrepreneurship index in Vietnam 2017/2018, (2) 2017 Survey of Entrepreneurs and MSMEs in Vietnam, and (3) research papers related to entrepreneurship in the MRD. Second, primary data comes from the survey results of 406 graduates from colleges and universities in the MRD. The survey focused on two prospects: (1) entrepreneurs and (2) their start-ups. The author conducted the survey in six provinces of the Mekong River Delta (An Giang, Dong Thap, Can Tho, Soc Trang, Kien Giang, and Vinh Long). These are six provinces with features specialized for the MRD. To undertake the survey, the questionnaire was developed from the theoretical background and the GEM report. The questions are consistent with the report items such as entrepreneurial activities, entrepreneurial perspectives, entrepreneurial ecosystem. The data was collected from the beginning of October to mid-November 2020. Descriptive statistics is employed to interpret the data after collecting all the necessary information.

#### Sample characteristics

**Gender.** Of the 406 respondents, there were 209 females, equivalent to 51.5%. The rest were 197 male respondents, equal to 48.5%. There is not much difference in gender in the sample.

**Table 1: Sample Statistics by Gender**

Gender	Frequency	Percentage
Male	197	48.5
Female	209	51.5
Total	406	100.0

**Source:** Own survey (2020)

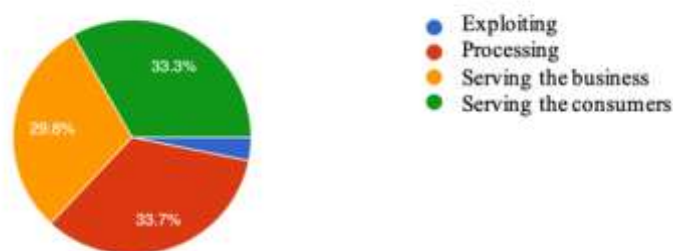
**Age.** The proportion of people aged 25-34 participating in the start-up period is highest. 17.7% is for the range 18-24 years old while the fewest respondents were more aged 44 years old (1.2%).

**Table 2: Sample statistics by age**

Age range	Frequency	Percentage
18-24	72	17.7
25-34	315	77.6
35-44	14	3.5
Older 44	5	1.2
Total	406	100.0

**Source:** Own survey (2020)

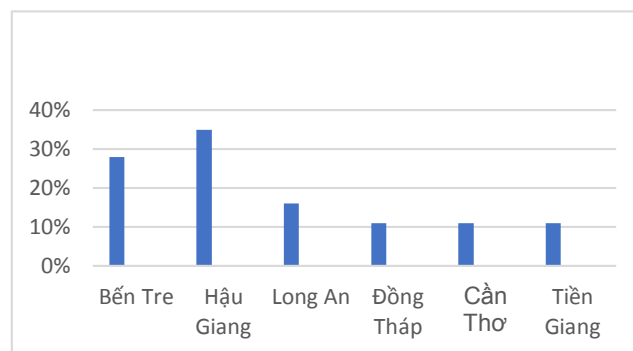
**Entrepreneurship Industry.** In Vietnam, the proportion of start-ups serving consumers accounts for the high rate in 2017 (74.8%). The MRD is different. The highest percentage (33.7%) is for the processing section (such as processing agricultural products, homemade products, traditional products, organic products). A similar proportion (33.3%) is for serving consumers, the next section is serving businesses (29.8%), and the rest start-ups specialize in the exploitation industry.



**Figure 1. Allocating startups by field of business**

### IV. ENTREPRENEURSHIP IN THE MRD

Figure 2. New Business Growth in MRD in 2018



(Source: Nguyen Hong Gam & Nguyen Thi Ngoc Anh, 2019)

Mekong River Delta is an important agricultural economy of Vietnam which contributes 18% GDP, 56% rice output, and 40% aquatic product to the country every year. With great advantage of land, river, sea, forest, and mountain, the MRD is really a potential area for starting up businesses. For this reason, entrepreneurial development strategy was proposed and implemented in MRD since early 1999, started by the supporting project of Denmark (DANIDA). Continuously, variety of provinces in MRD have issued supporting policies and plans for entrepreneurs in their local areas and get the following results.

According to local reports, in 2018, there were approximately 30.000 business running in MRD. In which, Hau Giang province increased 35% new businesses standing the top of 13 provinces and cities of MRD. The following position belongs to Ben Tre province grew up 28% new businesses. Other provinces such as Long An, Dong Thap, Can Tho, Tien Giang developed from 10% to 15% new businesses in 2018. The rest of provinces in the MRD have not been recorded in data.

*An Giang* focuses on linking investors and entrepreneurs to create a business network and a venture investment fund. Besides that, a series of activities such as organizing entrepreneurial idea competitions and creating centers to help people start up their businesses in terms of capital, skill and knowledge training, and legal documents. Every year, An Giang organizes training courses for more than 150 individuals and businesses. By 2020, around ten incubators have been formed to encourage people's confidence in pursuing their start-up dreams (Phuong Nam, 2020).

In 2017, *Dong Thap* organized many activities to stimulate entrepreneurship, such as providing funds, creating SME development supporting centres, maintaining entrepreneur club and network, training skills and knowledge of starting a business, connecting entrepreneurs and investors inside and outside the country. As reported, in May 2017, Dong Thap cooperated with Startup Vietnam Foundation (SVF) to organize more training courses and solve the problem of input and output of entrepreneurial products (Nguyen Hong Gam & Nguyen Thi Ngoc Anh, 2019).

*Vinh Long* issued opened policies, and strategic action plans to encourage entrepreneurship in the province. On 29<sup>th</sup> May 2020, the People's Committee of Vinh Long has issued Plan 28 of the Entrepreneurship program in 2020. This plan focuses on six actions: (1) propagating entrepreneurship, (2) training skills and knowledge, (3) organizing entrepreneurial idea competitions, (4) adjusting policies, (5) implementing a winning entrepreneurial model, (6) improving the role of business associations (Le Hiep, 2020).

*Can Tho* is known as the valley of entrepreneurship of MRD due to outstanding achievements in many years. Since 2016, this province has been conducting several administrative procedures, taxes, land and fund access, and market development. Up to now, Can Tho Startup Ecosystem involves 9 members, and MRD incubators network includes 7 members. Every year, there are around 10,000 business created in Can Tho. Importantly, Plan 175 of the People's committee especially emphasizes on entrepreneurial ecosystem which connect investors, entrepreneurs, government, mentors, universities, and other entities inside and outside of the province for the purpose of entrepreneurship development. As a result, by 2018, Can Tho organized more than 30 events including (1) Workshops of experience in creative and innovative start-up, (2) business incubators to stimulate creative start-up ideas, (3) activities of the technology community, (4) skills and knowledge training (Nguyen Hong Gam & Nguyen Thi Ngoc Anh, 2019).

*Kien Giang* sets up an entrepreneurship supporting gate that uses a multichannel supporting model including direct channel, indirect channel, and cross-link channel. The direct channel allows people to request entrepreneurial help directly at the office or their home. In turn, the indirect channel offers online support, email, website, social network. The cross link model allows third parties such as government, investors, suppliers, or head hunters to join and support entrepreneurs in business development. One of this gate's functions is usually organizing the workshop and entrepreneurial products exhibition during years with government and mentors' participation inside and outside the province. Simultaneously, Kien Giang runs a center of creative and



## Status Quo of Entrepreneurship in the Mekong River Delta

innovative entrepreneurship with the function of stimulating ecosystem in the province as the suggested direction of Prime Minister (Kien Giang Entrepreneurship, 2018).

*Soc Trang* has been focusing on developing SMEs and creative and innovative ideas since 2014 with the funding support of the Canadian government. Soc Trang issued many supporting business policies; created Center for Investment Promotion and Business Support at the end of 2013; Established Credit Guarantee Fund in 2014 to support enterprises to access available capital sources in the province. With the incubator program's appearance in 2019, Soc Trang has been finding, supporting and incubating start-ups / groups through the provision of non-financial and financial incubation services to promote formation of start-ups and stimulate innovative start-up orientation (Mai Phuoc Hung, 2018).

To conclude, entrepreneurship in the MRD has gains some significant achievements. First, the increase in the number of start-ups day by day proves that MRD people have caught up with the trend of entrepreneurship in the world. Second, entrepreneurial activities are diversified and attractive, including start-up idea competitions, business incubators, workshops, skill and knowledge training. Third, the entrepreneurial ecosystem's foundation, centers of entrepreneurship development, entrepreneur associations, and other supporting institutions create opportunities for entrepreneurs, investors, government, suppliers, customers inside and outside the province to exchange experience and cooperate for entrepreneurship development in the region. Fourth, the government has taken part in the entrepreneurship ecosystem. Many policies and plans of every province of MRD have been issued to create an attractive legal environment in MRD.

### A. Entrepreneurial Intention of People in the MRD

*Phan Anh Tu and Chau Thi Le Duyen (2019)* explored that the people in MRD's entrepreneurial intention positively impact entrepreneurial knowledge through the indirect effect of entrepreneurial competence. This study was conducted in four cities (Can Tho, Soc Trang, Kien Giang, and Ca Mau) from 2018 to 2019. Among 447 respondents, more than 130 respondents have a probability of starting a business 50%; more than 100 have a probability of starting a business from 50% to 75%, and more than 120 respondents have a probability of starting a business from 75% to less than 100%, and 97 respondents are sure to start-up in the future. The study furthermore investigated entrepreneurial reasons. The results showed that more than 180 respondents want to earn money, more than 170 respondents recognize the entrepreneurial opportunity, and the rest intend to start up because they want to do business, be self-employed and independent.

*Chau Thi Ngoc Thuy and Huynh Le Thien Truc (2018)* investigated entrepreneurial intention of students at An Giang University. According to the report of the Quality Assurance and Examination Department of An Giang University (2018), the rate of getting jobs after six months of graduation is 73.5%. 49.2% of graduates work for companies, 12.5% work for governmental agencies, 4.8% work for foreign business, and only 1.8% start-up work for themselves. After surveying 400 graduates, the study proved that 6 factors in the theoretical model affect the entrepreneurial intentions of students of the University of Science, including (1) Entrepreneurial environment; (2) Entrepreneurial education in universities (vocational education); (3) Perceived Behavioral control; (4) Subjective norms; (5) Risk Acceptance Trend; (6) Confidence (STT).

*Phan Anh Tu and Nguyen Thanh Son (2015)* identified factors affecting business initiative intentions of economic graduates in Can Tho city. The research results show that the motivations of their entrepreneurial intention include themselves (53.6%), family (22.9%), friends (17.6%). Especially, 15% of graduates do not intend to start up mainly because of lacking knowledge, skills and experience (37.2%), lacking capital (22.2%). Around 38% of respondents think that starting up is not easy; the others (49.7%) find it not easy. Suppose inheriting an immense amount of money, 68.9% of respondents will start-up. The survey results note that 56.1% will seize the opportunity of business capital contribution. A small proportion of graduates (28.3%) used to take part in entrepreneurial courses.

### B. Entrepreneurial Opportunity Recognition of People in the MRD

The taking effect of the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) and the EVFTA (Vietnam - EU Free Trade Agreement) is an essential milestone for the MRD in opening more opportunities for creating new businesses and developing existing ones. The two above agreements affect economics and state management, namely the procurement of public property, anti-counterfeiting, and counterfeiting activities. Even in the Covid-19 epidemic, MRD entrepreneurs still have many opportunities. For example, in the mid-2020, a workshop of "Innovation day - Opportunity to connect trade between innovation start-ups and businesses in the Mekong River Delta " organized by the Southern Affairs Department (Ministry of Science and Technology) in collaboration with Vietnam - Korea Industrial Technology Incubator (KVIP - Can Tho Department of Science and Technology) in Can Tho. This workshop emphasized the role of applying science and technology to the manufacturing of start-ups in the MRD.

However, how to recognize and take advantage of these opportunities is the problem. An empirical study was conducted by Phan Anh Tu et al. (2019) to conclude that opportunity exploration positively impacts opportunity exploitation. At the same time,

## Status Quo of Entrepreneurship in the Mekong River Delta

opportunity exploitation has a positive effect on entrepreneurial intention. In other words, the more practical business opportunity exploitation is, the stronger the entrepreneurial purpose is, and the entrepreneurial behaviour will soon occur. The study finally suggests that the government has timely and accessible funding support policies for those who intend to start up in the MRD and entrepreneurs should do more research to discover attractive opportunities, thereby seize the opportunities and use available resources to create the enterprise.

### C. Entrepreneurial competence of people in MRD and the role of education

According to the report at the Workshop of MRD business environment assessment (2020), in the past 5 years, the MRD has topped the PCI (Provincial Competitiveness Index) in the six economic regions of the country and outperformed many indices compared to other areas. This is an important signal showing the quality of economic governance of the provincial government, administrative reform efforts, the level of improvement of the investment and business environment of the locality.

According to the Ministry of Education and Training (2017) statistics, there are 17 universities and 26 colleges in the MRD. This means that about 150.000 students graduate from schools every year and look for jobs or start up their own business. This workforce keeps a vital role in economic development because they are well educated and trained in entrepreneurial knowledge and skills. The survey result shows that nearly half of respondents learn Finance, Marketing, International Business, and Business

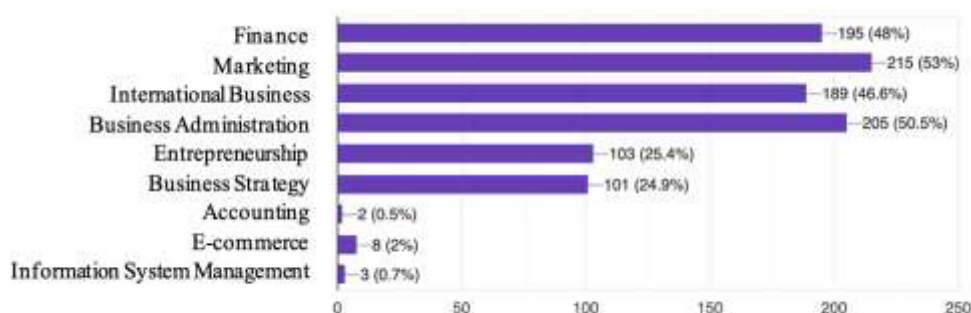


Figure 3. Entrepreneurial Modules Taught in Universities in the MRD

Administration in their university curriculum. A quarter of 406 respondents involve Entrepreneurship modules and Business Strategy in their university program (Figure 3).

Especially, local government and functional authorities usually organize training courses for resourced lecturers of entrepreneurship who will be in charge of educating students directly and giving entrepreneurial contestants advice.

### D. Business Model of Start-Ups in the MRD

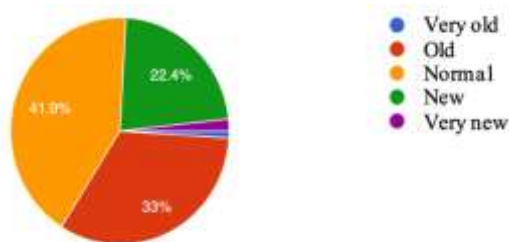
Recently, many key products of the locality catch up combining product exploitation with natural resource conservation. MRD is the largest rice and fruit granary in the country, where unique start-ups from agricultural products are increasing annually. Especially, start-ups in the MRD based on raw agricultural products to combine new ideas and modern technology to improve agricultural products' quality and create economic values many times higher than the traditional way. For example, "soft dried sprouted coconut" is a unique start-up product of Ben Tre province, "brown rice milk" is an entirely natural product of a Can Tho start-up, "Calligraphy painting on a dried lotus leaf" comes from a start-up of Dong Thap province (Anh Tuyet, 2019).

According to Huy Tu (2020), Dong Thap is the first province to conduct agricultural economic restructuring and gained some achievements. Firstly, the economic structure gradually reduces agricultural production by quantity to an efficient agricultural economy and increases the industry's proportion - trade – service. Secondly, 18 provincial specific agricultural brands have been granted certificates of registration for the establishment of intellectual property protection, and 150 start-up products are accepted by the market and improve the competitiveness of the market. Thirdly, models of handicraft production and traditional craft villages develop in increasing the technology, promoting networks, cooperating production and consumption.

However, according to the survey results, entrepreneurial models in the MRD are not really creative and innovative. Many start-up products are average (41.9%); even 33% of entrepreneurs admitted that their products are old. However, there are still 22.4% is doing business with new products. Despite little new ideas, this proves entrepreneurs in the MRD are targeting innovative business models.

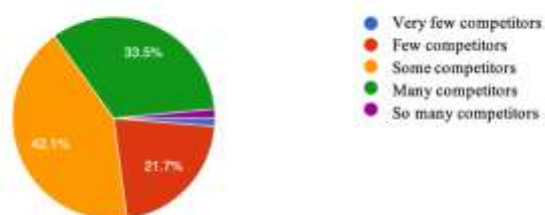


## Status Quo of Entrepreneurship in the Mekong River Delta



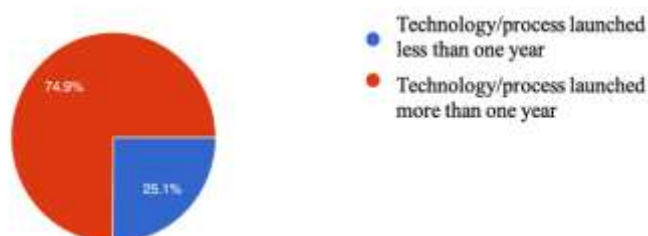
**Figure 4. The novelty of start-up products in the MRD**

When the products on the market are nearly identical, the number of competitors is also increasing more. 42.1% of start-ups have to fight with some competitors in the same market, and 33.5% of the start-ups face many competitors. This number reveals that doing business is difficult unless the entrepreneurs choose to start up a novel or strange products/services. However, 21.7% of the start-ups compete with few rivals because they prefer an innovative business model.



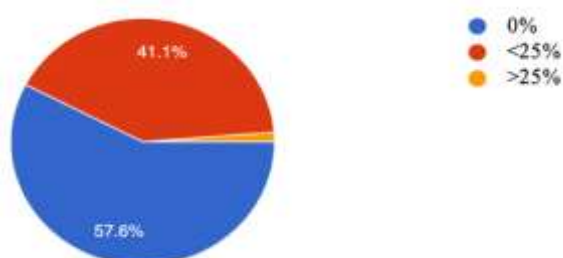
**Figure 5. The number of competitors on the market**

With the strong development of science and technology, especially the industrial revolution 4.0, the technology aspect has been most innovative in start-up activities. However, applying modern technology/process is not easy. Only 25.1% of the respondents admitted that they are using technology/process launched less than one year, and the rest of them (74.9%) are running technology/process launched more than one year.



**Figure 6. The Level of Using Modern Technology/Process in the Start-Ups**

According to GEM survey result in Vietnam in 2017, more than 74% of operations are only in the domestic market among the business in the start-up stage, it means no foreign customers. In the MRD, this rate is lower. 57.6% of start-ups do not have any foreign customers. While other 41.1% start-ups have less than 25% foreign customers, and even 1.3% own more than 25% foreign customers.



**Figure 7. The rate of foreign customers**

## Status Quo of Entrepreneurship in the Mekong River Delta

Despite many difficulties and obstacles in the start-up process, business models can help society solve unemployment. Namely, most graduates (93.3%) believe their business model can create more than six jobs for the society in the next five years. The rest of the start-ups affirm to start from 1-5 jobs in the next five years.

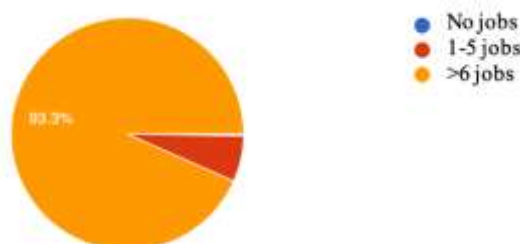


Figure 8. Job creation prospects for workers in the next 5 years

### E. Evaluation of the entrepreneurial ecosystem in MRD

The MRD has build supporting organizations such as Centre of Technological Business Incubators of Can Tho University (CTBI), Soc Trang Business Incubator (SBI), Korea-Vietnam Incubator Park (KVIP), Centre of creative entrepreneurship in the MRD (belong to VCCI), Centre of innovation in information technology-communication (ICT)

Table 4. Entrepreneurs' Evaluations of the Ecosystem in the MRD

Percentage	Evaluations
58.9%	Government commercializes and transfers scientific research results to enterprise.
57.2%	Business supporting services such as intellectual property right protection, accounting, auditing, legal documents are very developed.
46.6%	Government has regulations (e.g. tax, business registration) to support businesses.
46.5%	They have available financial resources (borrowed funds and own equity) for their business activities.
45.3%	Business modules are taught at the higher education (college, university, postgraduate education)
44.5%	Business modules are taught at the general education (elementary, secondary, and high school)
43.1%	Government has policies to support business.
37.2%	They can access governmental business supporting programs.
35.5%	New businesses can easily access infrastructure and utility services such as: transportation, electricity, water, gas, and communications.
33.7%	Social norms and cultures encourage or allow business development to make a profit.
31.1%	The domestic market, including the consumer market and industrial market, is very dynamic.
25.8%	New business can easily entry the market.

by the Brainworks Group and a lot of incubators, centres created in all provinces in the MRD.

As reported, the start-ups in the MRD can get financial support from venture capital funds and angel investors and raise capital from famous groups such as FPT Ventures, Viettel Ventures, and CMC Innovation funds. These funds involve priority investment for incubating start-up ideas to make breakthrough ideas come true. The survey results show entrepreneurs' evaluation of the ecosystem in the MRD in table 4.

When comparing the entrepreneurial ecosystem of the MRD with Vietnam, the order of business conditions is different. In particular, Vietnam's two business conditions that rank the highest are Domestic market dynamics, Culture and social norms. In the MRD, technology transferring (58.9%) and business support services (57.2%) are valued to be the most positive. On the contrary, two factors that can be considered less favourable to starting a business in the MRD than in other regions are the market munificence (25.8%) and the domestic market dynamics (31.1%).

### F. Problems in starting entrepreneurship ventures

After getting a university degree, a large proportion of graduates find an occupation in companies, governmental agencies, or in their parents' enterprises. Few of them choose to work for themselves. For example, only 1.5% of graduates of An Giang University start up their own business. These reasons have roots in themselves and the entrepreneurial environment in MRD.

Despite receiving individual policy priorities from the state, political and social organizations, and society's concern and the excitement and support of stakeholders, entrepreneurs, in general, have to face a lot of individual obstacles.

## Status Quo of Entrepreneurship in the Mekong River Delta

*Entrepreneurial competence.* According to GEM (2017) the proportion of adults surveyed in Vietnam who self-assessed with enough knowledge, skills, and experience needed to start a business tended to decrease. Most founders lack skills in management, business administration, promotion, and product development. This shows that the MRD and other regions continue to improve the education system, training entrepreneurship knowledge, skills and operating business activities for people and develop programs to support entrepreneurship training. *Finance.* Financing remains a major obstacle and a current difficulty for enterprises. The primary sources of finance for entrepreneurs would be savings and loans. Entrepreneurship projects are often started from the limited equity capital of founders whose ability to borrow money from banks or call for investment funds is meager. Lack of capital makes businesses miss development opportunities. 62.1% of the start-ups admitted that they used to fail in business because of financial problems. However, most entrepreneurs do not have experience in raising external capital for new ventures due to entrepreneurs' low credit history and cash flow management.

*Tax and administrative procedures.* Entrepreneurs often have minimal experience in implementing market entry-related managerial procedures (business registration, land, business license ...), intellectual property protection, product commercialization (standard registration, meeting technical regulations), finance (accounting standards, invoices, tax declaration, tax incentives ...). Although tax is not a big obstacle and does not directly cause business failure, it is an anxiety of entrepreneurs in developing the business.

According to the survey results and above obstacles, entrepreneurs have to close their business because of many difficulties from a business environment, including powerful rivals, better opportunities, and skilled workers' recruitment. Therefore, the government support policies for start-ups need to be designed more appropriately to enhance start-up activities effectively. Additionally, these findings indicate the government and financial institutions' role in creating an impetus to entrepreneurial growth.

## V. CONCLUSION AND RECOMMENDATIONS

This study provides a status quo of entrepreneurship in Mekong River Delta with emphasis on (1) Achievements in entrepreneurship in the MRD; (2) Researches in entrepreneurial intention, opportunity, and competence of the people in the MRD; and (3) business models, motives, and difficulties of entrepreneurs; and (4) evaluations and recommendation for the entrepreneurship in the MRD. The study provides five significant findings.

*First*, entrepreneurial models in the MRD are not really creative and innovative. A majority of their products are popular and old, only 22,4% are new products. They have to encounter many competitors on the market and have not applied modern technology in their start-ups. This result is consistent with the results of Vietnam in 2017. Research has shown that Vietnam's start-up activities need to use technology to create more new products and decrease competitors' numbers.

*Second*, according to the GEM survey results in Vietnam in 2017, among business activities in the start-up stage, 24.2% of business operations have less than 25% foreign customers). This number is higher in the MRD in 2020 (41.1%). This may be explained that in 2020, there is an increasing in the level of entering into international market of the start-ups. On the other hand, technology development also creates a convenient environment for start-ups to deal with foreign customers. For example, social networks (Facebook, Zalo, Instagram), e-commerce platform (lazada.vn, tiki.vn, amazon.com) allows start-ups to promote their products to international customers.

*Third*, GEM (2017) reported that Vietnamese start-ups are a mainly small business or individual business households, so in terms of job creation prospects over the next 5 years, 59.9% of start-ups are expected not to create more jobs. However, this study finds no businesses that create no jobs in the next 5 years. Mostly, there are 93.3% of start-ups expect to create more than 6 jobs for the market. This number shows that most start-ups are very positive in developing their business, and the concept of "entrepreneurs do everything themselves" will be out of date. In fact, in the multichannel business generation, the entrepreneurs have to run their business in different platforms such as online shops combining with brick and mortar stores to maximize revenue. This requires more human resources.

*Fourth*, according to GEM (2017) in Vietnam, only 15.9% of people started a business because there was no better job choice. While this number is 86% in the MRD in 2020. This may be known that applying for jobs becomes more difficult. Additionally, the Covid-19 in 2020 causes losing jobs in large numbers. Therefore, starting up is the best choice in this situation.

*Fifth*, if the ecosystem of Vietnam was evaluated the best in the infrastructure (GEM, 2017), the MRD level is the best in the level of government commercializing and transferring scientific research results to the enterprise. This number is thought to be opposite to using modern technology/process in the start-ups (only 25.1%). This contradiction is due to how respondents understand the questions. Namely, "commercializing and transferring scientific research results to the enterprise" is understood to be products applied technology such as "soft dried sprouted coconut", "brown rice milk", "Calligraphy painting on a dried lotus

## Status Quo of Entrepreneurship in the Mekong River Delta

leaf" appearing more and more in the MRD. The respondents realized that trend and concluded that entrepreneurial products are commercialized and transferred scientific research results successfully.

From the the results discussed above, the author proposes the following recommendations to enhance entrepreneurship activities for graduates in Mekong River Delta in the next stage.

### **G. The Role of Universities and Training Institutions**

In response to growing interest among younger people in starting their businesses, besides educating entrepreneurship spirit, universities should:

First, develop training programs that allow students to interact business practices and participate in business networks. Based on the specific situation, universities can provide training modules on entrepreneurship to the curriculum framework. Also, extracurricular activities and practical activities during the learning process are very important to give students the opportunity to improve leadership, administration, and group management skills. Seminars, business talks or exhibitions of start-up models also help create an opportunity to exchange and develop ideas for starting a business among students and graduates.

Second, establish a centre for consulting and supporting students and graduates to start up. This centre will usually organize career guidance and entrepreneurship workshops to stimulate success aspirations and challenges, attitudes towards entrepreneurship, awareness of behavior control, entrepreneurship experience, and creativity.

Third, issue newsletters on entrepreneurship to introduce typical youth start-up examples and effective business models, thereby motivating and encouraging young people to start up and get rich. This newsletter also provides governmental policies, entrepreneurship grants, entrepreneurship training programs and other necessary information for individuals or groups to start up.

Fourth, create a good relationship with outside businesses so that students can have professional visits and practices during their business curriculum. This helps students interact with real business context and develops employers' trust in students' competence.

Fifth, innovate the curriculum at the high school level towards training creativity, independence, and teamwork. Simultaneously, it is possible to gradually introduce some business knowledge to help students early orient their careers for the future.

### **H. Entrepreneurial ecosystem**

The results of entrepreneurship contests organized in each province every year proved that entrepreneurship projects' ideas lack creativity, low technology application, and less useful in real life. The main reason is that most entrepreneurs do not experience and necessary tools for starting up a business. To fill this gap, it is urgent to improve the entrepreneurial ecosystem in the region.

First, to build an efficient entrepreneurial ecosystem, it is necessary to combine the role of government, education and training institutions, financial institutions, centres of entrepreneurship, business incubators, suppliers, investors, researchers, and other business parties. In the ecosystem, the government has the highest role in building specific policies for start-ups and actors in the ecosystem.

Second, legal process is one of the most important issues facing entrepreneurship. The government should reform the legal process and simplify administrative procedures scientifically to enable start-ups to legally enter the business environment. For instance, tax is also a matter of concern for many entrepreneurs. Therefore, start-ups should be the free tax for the first years. Also, financial support programmes and grants are needed to support firms to develop new products and markets.

Third, the industrial revolution 4.0 stimulates creative and innovative start-ups to apply technology in developing the business based on competitive advantage. It is necessary to promote joint activities between research centers with enterprises to apply and commercialize research results, especially in the fields of information technology, agriculture and technology. Government encourages to develop digital engineering to create new products, services, and business models. Seminars, forums and fairs should be organized more often to connect and transfer technology among ecosystem.

Fourth, there should be a mechanism to encourage the development of private models of start-up funds such as venture capital funds, angel investment funds, crowdfunding funds to meet capital requirements for start-ups. Besides, the development of financial services must also match to the characteristics of business activities through each stage of development: potential, start-up, stable development.

To conclude, in the context of an integrated economy with many opportunities and challenges, especially the Coronavirus disease (Covid-19) is causing many difficulties for all nations of the world, entrepreneurship is seen as an effective method to handle social problems and create new values for the economy. Promoting entrepreneurship in Mekong River Delta is an urgent issue that determines each locality's long-term economic development potential.

## Status Quo of Entrepreneurship in the Mekong River Delta

The study remains two limitations. *Firstly*, the main target of this research is the graduates in the MRD region. Thus, it is difficult to generalize the results for different provinces or different regions. *Secondly*, the survey was conducted in 2020, but the author compares the results with the report of GEM (2017). This causes a big asymmetry. It is therefore recommended to extend future research to other provinces of the MRD and to update the nearest report of GEM.

## ACKNOWLEDGMENT

The authors sincerely thank the participants who took time with us to complete the questionnaires. Next, the authors also thank local entrepreneurship management in six provinces who provided us important reports about the entrepreneurship. Finally, the authors express sincere appreciation to Science Council of Economics School of Can Tho University who gave excellent comments and suggestions regarding earlier drafts of this paper.

## REFERENCES

- 1) Amit R. and Zott C. 2001. Value creation in e-business. *Strategic Management Journal*. Vol 22, Iss. 6–7, 493–520.
- 2) Anh Tuyet .2019. A series of unique start-up models in the Mekong Delta. Retrived from <https://thainguyentv.vn/hang-loat-mo-hinh-khoi-nghiep-doc-dao-tai-dong-bang-song-cuu-long-74707.html>.
- 3) Ao, J., & Liu, Z. 2014. What impact entrepreneurial intention? Cultural, environmental, and educational factors. *Journal of Management Analytics*, 1(3), 224-239.
- 4) Bird, B. 1988. Implementing entrepreneurial ideas: the case for intention. *Academy of Management Review*, 13(3), 442-453.
- 5) Chau Thi Ngoc Thuy and Huynh Le Thien Truc. 2018. Factors affecting entrepreneurship intentions of students of An Giang University. *Industry and trade magazine*.
- 6) Chesbrough, H., and R. S. Rosenbloom. 2002. The role of the business model in capturing value from innovation: Evidence from Xerox Corporation's technology. *Industrial and Corporate Change*, 11, 529–555.
- 7) Drucker, P. F. 1985. Entrepreneurial strategies. *California Management Review*, 27(2).
- 8) Eckhardt, J. T., & Shane, S. 2010. An update to the individual-opportunity nexus. In *Handbook of entrepreneurship research* (pp. 47-76). Springer, New York.
- 9) Kien Giang Entrepreneurship. 2018. Entrepreneurship supporting gate. Retrived from <https://khoinghienvietnam.org/mang-luoi/khoi-nghiep-kien-giang>.
- 10) Gartner, W. B., Shaver, K. G., Gatewood, E., & Katz, J. A. 1994. Finding the entrepreneur in entrepreneurship. Baylor University
- 11) GEM. 2017. GEM 2017/2018 Global Report. The youth publisher.
- 12) George I Balabanis, Eva.S Katsikea. 2003. Being an entrepreneurial exporter: does it pay? *International Business Review* 12, 233-252.
- 13) Hunt, J.M. 1998. "Toward the development of a competency model of family firm leadership",,. paper presented to the 12th Annual National Conference. United States Association for Small Business and Entrepreneurship, Clearwater, FL, 15-18 January.
- 14) Huy Tu. 2020. Dong Thap - a model in economic restructuring and start-up. Retrived from: <https://baodautu.vn/dong-thap--hinh-mau-trong-tai-co-cau-kinh-te-va-khoi-nghiep-d131468.html>.
- 15) Korsgaard, S., & Anderson, A. R. 2011. Enacting entrepreneurship as social value creation. *International Small Business Journal*, 29(2), 135-151.
- 16) Le Hiep. 2020. Implementation plan of the Entrepreneurship Program of Vinh Long province in 2020. Retrived from <https://skhdt.vinhlong.gov.vn/portal/wpskhdt/wps/page/xemtin.cpx?item=5ed617f69332501cb14dd88a>.
- 17) Liñán, F. 2004. Intention-based models of entrepreneurship education. *Piccola Impresa/Small Business*, 3(1), 11-35.
- 18) Mai Phuoc Hung. 2018. Soc Trang Entrepreneurship. Retrived from <https://vuonuoandoanhnghiep.soctrangsmc.vn/khoi-nghiep-o-soc-trang.10565.bai-viet.kvn>.
- 19) McMullen, J. S., L. A. Plummer, and Z. J. Acs. 2007. What is an entrepreneurial opportunity? *Small Business Economics*, 28, 273–283.
- 20) Mishra, C. S., & Zachary, R. K. 2014. *The Theory of Entrepreneurship*. Palgrave Macmillan, New York.
- 21) Nguyen Hong Gam & Nguyen Thi Ngoc Anh. 2019. Creative and Innovative entrepreneurship in the Mekong Delta. *Can Tho Journal of Science*. - 2019. – No 1.- Tr. 18 – 27
- 22) Nuthall, P.L. 2006. "Determining the important management skill competences: the case of family farm business in New Zealand", *Agricultural Systems*, Vol. 88 Nos 2/3, pp. 429-50.

## Status Quo of Entrepreneurship in the Mekong River Delta

- 23) Phan Anh Tu and Chau Thi Le Duyen. 2019. Factors affecting entrepreneurship intentions of people in the Mekong Delta. Journal of finance.
- 24) Phan Anh Tu and Nguyen Thanh Son. 2015. Factors affecting the intention to start a business of economics graduate students in the city of Cần Thơ. Science Journal of Can Tho University, 39-49.
- 25) Phuong Nam. 2020. An Giang Youth Start-up Support Center: A place to support young people to overcome difficulties. Retrived from <http://angiang.gov.vn/wps/portal/Home/chi-tiet-tin-tuc/trung-tam-ho-tro-thanh-nien-khoi-nghiep-tinh-an-giang-noi-ho-tro-thanh-nien-vuot-kho>.
- 26) Rocha, H. 2004. "Entrepreneurship and development: the role of clusters", Small Business Economics, Vol. 23 No. 5, pp. 363-400.
- 27) Shane, S., and Venkataraman, S. 2000. The promise of entrepreneurship as a field of research. Academy of management review, 25(1), 217-226.
- 28) Timmons, J.A. 1989. The entrepreneurial mind, andover, mass. Brick House Publishing.



## Factors Influencing Changes in the Rate of the National Currency and the Ways of Its Stabilization



Ermat Kadirov<sup>1</sup>, Guzal Babaeva<sup>2</sup>

<sup>1</sup>Candidate of Economic Sciences, Associate Professor, Tashkent Institute of Finance

<sup>2</sup>Senior Lecturer, Tashkent Institute of Finance

---

**ABSTRACT:** This scientific article analyzes the influence of such factors as the growth rate of prices of gross domestic product, the growth rate of prices for goods, works and services during the year, the state of the foreign trade balance, the balance of the state budget on the rate of the national currency of Uzbekistan, while considering their positive or negative impact, as well as a forecast of its further changes. On the basis of the study, individual proposals were formulated to stabilize and strengthen the exchange rate of the national currency in Uzbekistan, among them the development and implementation of a fundamentally new economic policy with the orientation of market reforms in sectors whose share is small in the creation of the country's domestic product, to develop measures using market instruments to reduce the financial pressure of foreign currencies, which exert significant pressure on the domestic financial market, developing measures to increase the minting of gold coins and establishing the issuance of treasury gold bonds, active privatization of inefficient state assets, stimulating exports and expanding the localization of imports, as well as to achieve a positive balance of payments by market mechanisms, an increase in state budget spending on economic development by reducing spending on the social sphere, defense and management, and more.

**KEYWORDS:** National currency exchange rate, inflation, gross domestic product, gross domestic product per capita, growth rates of prices for goods, works and services, foreign trade balance, balance of payments, exports, imports, state budget balance, deficit, surplus, treasury gold bonds, government assets, targeting.

---

### INTRODUCTION

*According to the chairman of the Central Bank of the Republic of Uzbekistan Mamarizo Nurmuratov, the exchange rate of the sum, which is the national currency at present, in relation to foreign currencies is established on the basis of a free floating rate, with the help of market mechanisms, i.e. based on supply and demand in the domestic market. However, it should be noted that even after the liberalization of the "sum" exchange rate since September 2017, the national currency rate has been constantly decreasing, and it is not known how long this process will continue?*

*The answer to this question remains open at the present time.*

This situation presents a number of mysteries for all categories of the population, resident and non-resident legal entities (ordinary citizens and entrepreneurs, exporters, importers, foreign and domestic investors and even economists). In short, this makes it difficult to predict long-term business projects and develop real strategic financial plans and investment projects.

In the Republic of Uzbekistan, the Decree of the President of the Republic of Uzbekistan "On priority measures to liberalize foreign exchange policy" is adopted in order to radically reform the current system of foreign exchange regulation, liberalize foreign exchange policy, create equal conditions for conducting foreign economic activity for all business entities[1].

In accordance with national legislation, the exchange rate for transactions involving the purchase and sale of foreign currency in the territory of the Republic of Uzbekistan is determined on a contractual basis, based on the supply and demand for foreign currency. When determining the exchange rate of the currency of the Republic of Uzbekistan in relation to foreign currency, market mechanisms are exclusively used.

When establishing the procedure for buying and selling foreign currency, the Central Bank provides creation of conditions for determining the exchange rate based on the demand for foreign currency and its supply. The Central Bank regularly sets the



## Factors Influencing Changes in the Rate of the National Currency and the Ways of Its Stabilization

exchange rate for the purposes of accounting, statistical and other reporting on foreign exchange transactions, as well as for calculating customs and other mandatory payments in the territory of the Republic. Uzbekistan. [2].

Many economists have tried to find out which factors have the greatest impact on the exchange rate. Let's analyze the main ones. Let's start with foreign economists.

The American economist R. J. Fisher proposed that the exchange rate depends on the amount of gold. G. Knapp in the nominalist theory considered the exchange rate exclusively as a creation of the state, for the management of the country's economy. He denied the value basis of the exchange rate ratios. [3].

J. Keynes in his book "The General Theory of Employment, Interest and Money" described the theory of neutral rates, the meaning of which is that the exchange rate is determined by the supply and demand of currency and is a consequence of exchange transactions. [4].

In another article, "The Future of Exchange Rates" (1935), J. Keynes also identified capital flows as a factor affecting currency stability. [5].

J. Williamson found that factors such as employment and inflation rate affect the exchange rate. [6].

In the 70s the Mundell-Fleming model appeared, created independently by R. Mundell and M. Fleming. The model can be used to establish which monetary (real interest rate, balance of payments equilibrium, and foreign direct investment) and fiscal (money supply and tax) factors affect the exchange rate. [7].

L.S. Padalkina in her textbook "World Economy" highlights structural and conjunctural factors (associated with fluctuations in business activity in the country, the political situation, rumors and forecasts. [8]

Gruzinskaya E.V. in her study highlighted that with an increase in consumer demand for imported goods, the foreign exchange rate increases, and the national one, accordingly, falls. Conversely, an increase in demand for domestic goods will lead to a strengthening of the national currency. [nine].

B.A.Mamedova in her article "The impact of changes in the exchange rate on the country's economy and methods of its regulation" additionally highlights the following determinants of the exchange rate: 1) Change in demand for foreign securities, bank loans, cash. With an increase in demand for foreign securities, bank loans and cash, foreign exchange will strengthen. Conversely, when the demand of foreign investors for the assets of a given country grows, its currency strengthens. 2) Preference of the population to keep savings in foreign or national currency. The currency in which the population prefers to keep their savings affects its demand. If the majority of the population keeps their savings in foreign currency, this negatively affects the exchange rate of the national currency. This demand is very difficult to regulate.[10]

N.P.Belotelova considers the rate of economic growth (growth in gross domestic product, industrial production), inflation rates and inflation expectations, the state of the country's balance of payments, the level of interest rates and yields on securities, the degree of currency use in the world market [11].

So, DP Udalishchev names the following factors: demand and supply of currency, inflation rates, the level of interest rates and securities yields, the state of the balance of payments [12].

According to L. P. Naumova, "under any circumstances, the most significant factors are the dynamics of GDP, inflation, money supply and the balance of payments" [13].

An analysis of various theoretical positions and views of scientists has shown that among domestic legal scholars there is no consensus about the significance of certain factors affecting the exchange rate of the national currency. The authors (both theorists and practitioners) point to the most diverse among the most significant course-forming factors. So some domestic scientists-economists among the main factors influencing the exchange rate are called: deficit balance of payments, state budget deficit, the monetary policy of the Central Bank, inflation, public external debt [14].

According to others "The number of factors of economic, political, structural, legal or psychological nature and directly or indirectly affecting the dynamics of the exchange rate reaches several dozen" [15].

### MAIN PART

Therefore, in this scientific article, analyzing individual indicators, we will determine which factors have a positive or negative effect on the stabilization and strengthening of the national currency in developing countries, including our Republic, we will justify scientifically correct answers to the above question.

**First factor.** The growth rate of the prices of the gross domestic product (GDP) (i.e., goods, works and services) produced during the year, **excluding inflation** and their number per capita. If we analyze the dynamics of official statistics over the past few years (Table 1) for this macroeconomic financial indicator, we will see that:

## Factors Influencing Changes in the Rate of the National Currency and the Ways of Its Stabilization

**Table 1. Dynamics of changes in GDP per capita in Uzbekistan[16].**

Years	Gross domestic product: total billion soums	Per capitathousandsoums
2017 year	254,043.1	7 843.9
2018 year	407 514.5	12 365.6
2019 year	511,838.1	15,242.0
2020 year	580 203.2	16,949.1

The above data show that GDP growth and GDP per capita growth in the country more than doubled in 2017–2020. Despite a positive increase in this indicator by 5-6% per year, it cannot stop the trend of a sharp devaluation of the national currency rate, and a decrease in the GDP growth rate, since there is too much inflationary pressure on the national currency rate in the country.

When calculating US dollars at the average exchange rate for the reporting period, nominal GDP was formed in the amount **57698.5** USD million (2019 - USD 57,711.9 million). From the above data, it can be seen that in 2020, GDP per capita in Uzbekistan at current prices amounted to 16,949.1 thousand sums (or, in the equivalent, 1,685.5 US dollars) and, in comparison with 2019, **decreased by 0.3%**. Therefore, this year, a state program has been developed and adopted to ensure economic stability in the country, in accordance with which about 29 trillion rubles will be allocated to finance the activities of which. 500 billion sums, as well as more than 2 billion 600 million US dollars and 57.5 million euros. [17]. All this, to a certain extent, will ensure economic stability and poverty reduction.

**Second factor is** the containment of the inflation rate in the country, i.e. the rate of growth of prices for goods, works and services during the year. Everyone knows that at present the Government of the country regulates prices for 37 types of goods and services, which ultimately negatively affects free competition. Analyzing this problem using official statistics, we can observe the following negative points:

**Table 2. Dynamics of changes in the inflation rate in Uzbekistan[16]**

Years	Inflationrate inpercents
2017	14.4
2018	15.5
2019	14.9
2020	11.1
2021 forecast	10.0

The above data show that since September 2017 (the Central Bank liberalized the foreign exchange market), the inflation rate in the country has remained in the range of more than 10-15 percent in annual terms. The Central Bank of the Republic of Uzbekistan has started to implement a system of inflationarytargeting from January 1, 2021. In the future, it is necessary to reduce its level to 5 percent in 2023.

During studying the problem of the depreciation of the national currency in relation to foreign currency as an aggravating negative factorinflationary pressure, that is rise in prices in the country.

The reason for such a sharp rise in domestic prices is the financing of the national economy in foreign currency (by attracting deposits and the rapid growth of loans, especially through concessional government loans). The central bank has been trying to use targeting policies to curb inflation in the 5-10% range in recent years. But with a high level of foreign currency funding, it is very difficult to achieve any containment through monetary policy, since our domestic capital market in the financial marketis still underdeveloped.

**Third factor.** The state of the foreign trade balance (negative or positive balance). To analyze this factor, we refer to statistics for the particular period, which have the following trend:

## Factors Influencing Changes in the Rate of the National Currency and the Ways of Its Stabilization

**Table 3. The state of the foreign trade balance of Uzbekistan[18].**

Years	Foreign trade turnover, USD million	Export	Import	The remainder (+ positive, - negative)
2017	26.9	12.9	14.0	- 1 118.9
2018	33.8	14.3	19.6	- 5300.0
2019	28.4	12.5	15.9	- 3 507.3
2020	36.3	15.1	21.1	- 5 407.3

An analysis of official statistics of foreign trade shows that in 2017-2020 it increased by 35.0%, while exports increased by 17% and imports by 51%. The growth of foreign trade turnover is due to the increase in imports. This is true in the sense that after the liberalization of foreign trade, the demand for foreign exchange in our country has increased, and imports will increase by more than 51 percent, that is, in foreign currency, which leads to an increase in the exchange rate and a sharp devaluation of the national currency.

In other words, the country's foreign trade balance is passive, and by the end of 2020, its negative balance is about \$ 6.0 billion. USA. Such an impressive size negative balance in foreign currency will lead to a sharp drop in liquidity within the country, and the depreciation of the national currency, the sum, will exacerbate the pressure.

In this situation, the Central Bank and the government should not just be a spectator, they need to develop an urgent and fundamentally new economic and monetary policy.

**Fourth factor.** Balance of the state budget (deficit or surplus). This indicator is also one of the factors that have a significant impact on the exchange rate of the national currency. Consider the statistical data on the dynamics and balance of income and expenditure of the state budget:

**Table 4. Dynamics of income and expenses of the State budget of the Republic of Uzbekistan for 2017-2020[16]. (excluding extrabudgetary special funds)**

Years	Income, in trillion sums	Costs in trillion sums	Deficit "-" Surplus "+", in trillion sums
2017	49.7	49.3	0.3
2018	62.5	74.0	-11.5
2019	112.2	118.0	-6.8
2020	98.2	108.0	-2.6

The above analysis of the dynamics of official statistics shows that the state budget expenditures are growing with a greater tendency than its revenues, and there is also a deficit. If its indicator in the 2017 fiscal year was 0.3 trillion sums, in 2020, according to the above data, it amounted to 2.6 trillion sums more than 8 times compared to 2017.

## RESULTS AND DISCUSSION

Thus, all four named factors being analyzed are negative, so the exchange rate of the national currency and its purchasing power in relation to other currencies will tend to decline.

So, making a general conclusion for the near future, it can be argued that the exchange rate of the national currency of the Republic of Uzbekistan - the sum in relation to foreign currencies, despite the annual GDP growth of 5-6%, will continue to decline over the next 2-3 years.

## CONCLUSION

The exchange rate has a huge impact on all economic processes of the country, therefore its forecasting is necessary, since the timely levelling of the negative consequences of exchange rate fluctuations helps to avoid crisis situations. In order to eliminate the consequences of fluctuations in the exchange rate, it is necessary to determine which factors have the greatest impact on the national currency exchange rate and build a forecast with their help.

## Factors Influencing Changes in the Rate of the National Currency and the Ways of Its Stabilization

Therefore, **firstly**, it is necessary to develop and implement a fundamentally new economic policy, with the orientation of market reforms in sectors that do little to create the country's domestic product.

**Secondly**, The Central Bank and the Ministry of Finance need to jointly develop measures using market instruments to reduce the financial pressure of foreign currencies, which is putting significant pressure on the domestic financial market, develop measures to increase the minting of gold coins and establish the issuance of treasury gold bonds and activate privatization of ineffective state assets.

**Thirdly**, in the current operations of the country's balance of payments, it is necessary to stimulate exports and expand the localization of imports, as well as to achieve a positive balance by market mechanisms.

**Fourth**, it is necessary to increase the state budget expenditures on economic development by reducing spending on the social sphere, defense and management, which do not provide a certain economic efficiency.

**Fifth**, no matter what happens in the domestic financial market, the Central Bank should not engage in manipulation of the national currency rate, so as, of course, not to join the countries to which the United States applies additional sanctions.

The exchange rate is one of the indicators of the state of the national economy. It reflects not only confidence in the national currency, but also the development of the country's industry. The state with a strong economy is usually characterized by a stable currency, and strong fluctuations in the exchange rate and its constant weakening usually indicate the instability of the economy or its weak development.

## REFERENCES

- 1) Decree of the President of the Republic of Uzbekistan "On Priority Measures to Liberalize Monetary Policy" from September. 2 2017, No. 5177
- 2) Law of the Republic of Uzbekistan "On Currency Regulation" No. 573 dated on 22<sup>nd</sup> October, 2019
- 3) Krasavina L.N. International monetary and financial relations: textbook for universities / L.N. Krasavina, D.V. Smyslov, S.A. Byliniyak, T.D. Valovaya, V.Yu. Katasonov, I.N. Platonova, M.A. Tailor, T.M. Sergeeva, A.L. Smirnov, Yu.S. Stolyarov, E.S. Khesin, A.G. Chumachenko, I.Z. Yarygin; under edition of L.N. Krasavina. - 3rd edition. - M.: Finance and statistics, 2005, 576 p.
- 4) Keynes J. M General theory of employment, interest and money: Mn. - M.: Eksmo, 2007.- 960 p.
- 5) Kharitonova Yu.A. Genesis of modern theories of the exchange rate // Bulletin of the Ural Institute of Economics, Management and Law. - 2009. - No. 4. 44-54 pages
- 6) Moiseev S.R. Correct euro rate // Currency speculator. - 2002. - No. 6. - P.14-17
- 7) Drobyshesky S.M., Polevoy D.I. Problems of creating a single currency zone in the CIS countries. - M.: IET, 2004.S. 110
- 8) Padalkina L.S. World economy: textbook / L.S. Padalkina, V.V. Klochkov, S.V. Tarasova [and others]; under the general edition. I.P. Nikolaeva. - M.: Prospect, 2007. -- 240 p.)
- 9) Gruzinskaya E.V. Currency system and currency exchange operations: teaching aid for 3rd year students. - Minsk: BSEU, 2009 .49 p.)
- 10) Mamedova B.A. The impact of changes in the exchange rate on the country's economy and methods of its regulation // Science Time. - 2015. - No. 4 (16). 456 – 460p
- 11) Belotelova N.P. Money. Credit. Banks: textbook / NP Belotelova, Zh. S. Belotelova; under edition of Belotelova N.P. - M.: Dashkov, 2013 .-400 p.
- 12) Money, credit, banks: textbook. / ed. E.F. Zhukova. - 3rd ed., Rev. and add. - M., 2008. -- P. 146.
- 13) Finance, money circulation and credit: textbook. / M.V. Romanovsky et al. - M., 2007. -- P. 462.
- 14) International monetary and credit relations / Textbook. T. Bobakulov, U. Abdullaev. U - Tashkent: "Iqtisod - Moliya", 2019. (226 p.)30-35pages
- 15) International monetary and credit relations / Textbook. Sh. Z. Abdullaeva, U.U. Azizov, Sh.Sh. Davirova; T.: "Iqtisod-Moliya", 2020, (732 p.) 128-138 pages.  
<https://stat.uz/ru/ofitsialnaya-statistika/national-accounts>
- 16) Decree of the President of the Republic of Uzbekistan "On the state program for the implementation of the strategy of Actions in five priority areas of development of the Republic of Uzbekistan in 2017–2021 in the “Year of support for youth and strengthening the health of the population” No. 6155 dated on 02. 2021  
<https://cbu.uz/ru/monetary-policy/annual-inflation/>
- 17) Lutfullaevich, Y. G. (2020). RISK ANALYSIS OF FOREIGN DIRECT INVESTMENTS IN INNOVATIVE PROJECTS: CASE OF UZBEKISTAN. AsiaPacificJournalofBusinessReview, 5(1), 11-19.

## Effects of TQM Practices Against Outsourcing Employee Satisfaction and Loyalty Electricity Sector



**Noviardi Ferzi**

Sekolah Tinggi Ilmu Ekonomi Jambi (STIE Jambi), Indonesia

---

**ABSTRACT:** This study examines the relationship of Total Quality Management (TQM) to the satisfaction and loyalty of Outsourcing PT employees. PLN Bungo area, Indonesia. The TQM variables used include employee training, employee empowerment, teamwork, employee compensation, and management leadership. The research results are poured into a theoretical model that shows the satisfaction and loyalty of outsourcing employees. This study uses structural equation modeling (SEM) with the Partial Least Squares (PLS) approach. The computer program used is SmartPLS version 3.0. The number of samples used was 176 respondents. The results showed that employee empowerment, employee compensation, teamwork, and management leadership were significant positive predictors of employee satisfaction, and employee loyalty can be increased through employee satisfaction.

**KEYWORDS:** Total Quality Management (TQM); PLN; Outsourcing; Employee satisfaction; employee loyalty.

---

### INTRODUCTION

The increasing need for electrical energy encourages PT. PLN Bungo area is an organization that is oriented towards providing reliable, continuous, and evenly distributed electricity network services in all company work areas. To carry out its mission, PT. PLN Bungo area employs 367 outsourcing employees on the front lines of its operational services. Of these, 135 work in the electricity construction sector, which builds, operates, and maintains the network, while 232 people work in offices in the administration, finance, customer service, registration clerk, cashier, security, and cleaning services.

As a company engaged in the electricity sector, PLN has made various efforts to improve service quality through outsourcing employee satisfaction and loyalty. To realize this, the efforts made by PLN include TQM courses, employee empowerment, repair teams, employee compensation, and management leadership. With efforts to implement TQM for 15 years since 2006, PT. PLN Bungo Area tries to improve service quality through outsourcing employee satisfaction and loyalty. In this case, no model studies TQM practices' effect on outsourcing employees, so this study takes outsourcing employees as the study population to empirically determine the effect of TQM practices on employee satisfaction and loyalty.

### *Theoretical background and hypotheses*

Total Quality Management (TQM) is a management approach to long-term success used by organizations worldwide to improve their products and processes and achieve customer satisfaction, which is considered a source of competitive advantage [1]. Furthermore, Camilleri [2] mentions the total quality in question is an approach in business that seeks to maximize an organization's competitiveness through continuous improvement of the quality of its products, services, people, processes, and environment.

Many empirical studies have shown that it is impossible to maintain a satisfied and loyal customer base without having satisfied and loyal employees. Research by Kurdi et al. [3] states that customer satisfaction is often related to improving employee attitudes and behavior. This is where an organization's importance is to understand the nature of employee satisfaction and loyalty, which refers to the practice of TQM, which explains the direct and indirect effects between employees and the presence of organizational satisfaction and loyalty.

Research Denrell & Kovács [4], mentions several problems that arise in implementing TQM, such as the low understanding of senior management about TQM, the absence of realization of an agreed plan, lack of support for teamwork, and failure to adapt

## Effects of TQM Practices Against Outsourcing Employee Satisfaction and Loyalty Electricity Sector

improvement projects to employee resource skills. In the TQM literature, employee engagement, empowerment, and top management leadership and commitment are essential elements for the TQM program's success [5]. Also, Sweis et al. [6] stated that the factors of top management leadership and employee empowerment are considered the two most important principles of TQM.

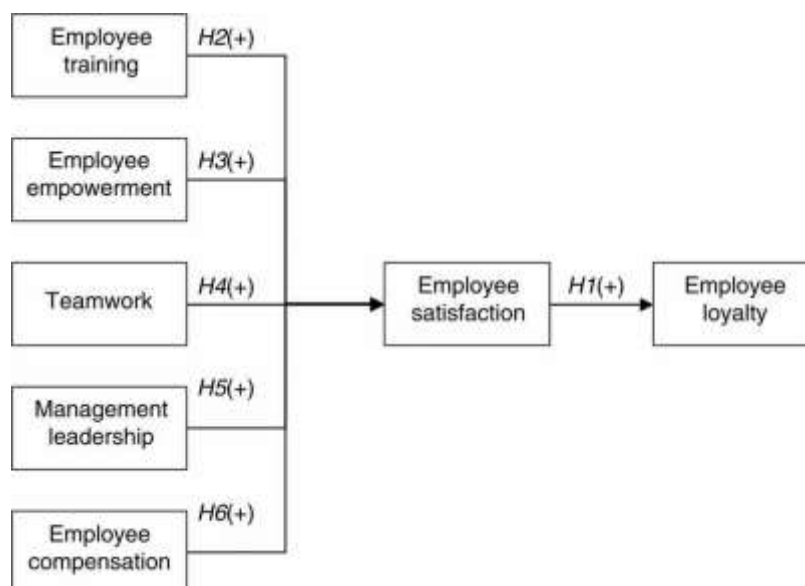
One of the studies on this developed by Musenze et al. [7] also noted that teamwork and employee training are also important because organizations implement TQM. Another aspect of the employee training program to solve problems and exercise control during the work process can encourage continuous service quality, Van Assen [8]. Besides, the compensation variable is also assessed as an important principle of TQM. The compensation policy in which payments are based on each individual's achievement of goals will encourage a more effective TQM program in the company [9].

This study's main objective is to develop an empirical model that shows the relationship between TQM practices, employee satisfaction, and employee loyalty, including finding out how TQM practices impact employees of Outsourcing PT. PLN Bungo area. The hypothesis behind this research is that employee loyalty of Outsourcing PT. The level of employee job satisfaction influences PLN Bungo Area. Thus maintaining a loyal workforce is a prerequisite for successful TQM implementation. This is in line with various studies showing that TQM practice will directly affect employee job satisfaction [10], [11].

From the various discussions above, this study aims to determine how employee satisfaction and loyalty can be influenced by a series of TQM practices related to HRM, particularly for employee training, employee empowerment, teamwork, employee compensation, and management leadership. As the research model in Figure 1.

### *Employee satisfaction and loyalty*

Theresa & Henry, C [12] define job satisfaction as the unification of the effects generated by the individual's perception of meeting his needs about work and the surrounding environment. Besides, employee satisfaction is defined as a pleasant emotional state resulting from their job appraisal, Dziuba et al., [13]. So that in general, employee satisfaction is assessed as an important motivator for employee performance, Ekundayo [14]. However, there are different views on the impact of employee loyalty. However, Hart and Thompson [15] stated that the concept of loyalty could be seen as a feeling that is tied to employee behavior in an organization [16].



**Figure 1. Conceptual model of the relationship between constructs**

The implementation of TQM, a service from HRM, is believed to increase employee satisfaction and loyalty, leading to better productivity and service quality. Employee satisfaction and loyalty are seen as important to an organization's ability to respond effectively to customer needs [17]. Several studies have shown that employee satisfaction is positively related to employee loyalty to their company [18].

The results of these studies indicate that the organization must satisfy employees to be loyal. Several studies in the literature discuss performance as a mediating variable between satisfaction and loyalty. Other research findings on performance and satisfaction support linking performance with satisfaction, not loyalty with performance [19]. This study is intended to emphasize



## **Effects of TQM Practices Against Outsourcing Employee Satisfaction and Loyalty Electricity Sector**

the practice of TQM and its effect on employee satisfaction and loyalty. Therefore, there must be a relationship between employee satisfaction and loyalty in the Jambi area of PLN. From the description above, the following hypothesis can be formulated:

H1: Employee satisfaction has a positive effect on employee loyalty.

### ***Employee Training***

Research shows that employee training positively impacts employee productivity, which results in a higher level of employee satisfaction [20]. Employee training provides employees with opportunities to expand their knowledge and skills to engage in more efficient teamwork. And achieving individual growth and development, Numerous studies have observed that workers who receive training have higher levels of job satisfaction than those who are not trained. Competency enhancement through various training programs has a positive impact on employee satisfaction [21]. Several studies also show the benefits of training, such as increased skills, motivation, higher productivity, and knowledge transfer from employees [22].

In particular, employee training is believed to improve employees' ability to perform tasks [23]. Employee training has also been found to facilitate skills renewal, increase professionalism and increase employee commitment and satisfaction to the organization, Joo et al., [24]. Different research studies have also argued that lack of training has been associated with shorter tenure, frustration, and job dissatisfaction [25]. Therefore, it is important to clarify the causal relationship between employee training and satisfaction, whether employee training will increase employee satisfaction or not. From the description above, the following hypothesis can be formulated:

H2: Employee training has a positive impact on employee satisfaction.

### ***Employee Empowerment***

The definition and construction of empowerment have been put forward by Billy et al. [26], which defines empowerment as a process of increasing feelings of self-efficacy among organizational members through the identification of conditions that encourage helplessness, and through the elimination of formal organizational practices and informal techniques in providing information. Dinko & Heyns [27] mentioned employee empowerment as one of the most important principles of TQM. Thus, in TQM organizations, employee empowerment operates by encouraging employees to respond to quality-related issues and giving them the resources and authority.

Research also shows that empowered employees have higher levels of job satisfaction and performance primarily because of their involvement in goal setting and decision-making that affects their work [28]. Furthermore, Bharadwaja & Tripathi [29] admitted that empowerment positively affects employee attitudes and behavior. Many studies have found that empowerment programs provide positive work experiences to employees and lead to higher employee satisfaction [30]; [31]. From the description above, the following hypothesis can be formulated:

H3: Employee empowerment has a positive impact on employee satisfaction.

### ***Teamwork***

Teamwork means working together involving groups of interdependent employees who work cooperatively to achieve common goals [32]. Teamwork can still be a source of employee cohesion, meaning bonding with team members and satisfaction [33]. An effective team working together towards a common goal can improve work motivation and increase job satisfaction [34].

Research on teamwork has shown that team members' job satisfaction is determined by several factors such as team composition, group processes within the team, and the nature of the work itself [35]. These factors operate in combination; there is no simple process by which teamwork affects job satisfaction. Therefore, employee satisfaction cannot accurately predict whether teamwork will be included. From the description above, the following hypothesis can be formulated:

H4: Teamwork has a positive impact on employee satisfaction.

### ***Management Leadership***

The relationship between leadership behavior and job satisfaction has also received a lot of attention in previous research. Previous research has examined the relationship between management leadership and job satisfaction. Research findings report a positive relationship between leadership behavior and job satisfaction [36]. When leaders are careful to help and support employees who are contacted and concerned about their needs, they will feel more satisfied [37]; [38].

Such supportive leader behavior has been found to be associated with employee job satisfaction [39]. Leaders set service standards with their behavior and management style, [40]. Management leadership is an important element in creating and maintaining an effective and positive service orientation. However, another research study found no relationship between management leadership and employee satisfaction [41]; [42]. From the description above, the following hypothesis can be formulated:

H5: Management leadership has a positive effect on employee satisfaction.

## Effects of TQM Practices Against Outsourcing Employee Satisfaction and Loyalty Electricity Sector

### Employee Compensation

The employee compensation system is most often considered as one of the key factors affecting employee satisfaction [43]; [44]. Previous research has shown that employee compensation positively affects employee job satisfaction [45]. Employee compensation often consists of financial and non-financial rewards for individuals and teams contributing to TQM efforts [46]. Employee rewards are positive reinforcement, ensuring that service excellence is the company's top priority [47]. However, management compensation is not always related to achieving quality objectives. Service researchers have shown that to ensure quality, and an organization should reward its employees based on their behavior rather than their results [48]; [49]. Therefore, employee compensation is also significant in determining employee satisfaction. From the description above, the following description can be formulated:

H6: Employee compensation has a positive effect on employee satisfaction.

## RESEARCH METHOD

### Population dan Sample

The population of this study was 372 employees of Outsourcing PT. PLN Bungo Area. A population sampling is carried out stratified in 39 work units that provide direct services to previously randomly selected customers. Sampling begins with grouping members of the population into relatively homogeneous subgroups before sampling. Then random sampling is applied in each sub-population. Stratified sampling improves sample representativeness by reducing sampling errors, Hamed Taherdoost, [50].

A total of 200 PLN Outsourcing employees participated as respondents in the study. Respondents were asked to fill out a survey in direct interviews. Questionnaires were distributed and collected in each work unit. In this way, the anonymity and confidentiality of the answers are guaranteed. A total of 167 completed questionnaires could be returned, or 83.5% of the questionnaires were redistributed [51].

The demographic characteristics of the sample are described in Table 1.

Table 1. Demographic characteristics of sample.

Demographic variable	Sample composition	
Gender	Men	19.6%
	Women	80.4%
Age	Over 51 years	0.6%
	41–50 years	18.5%
	31–40 years	39.9%
	21–30 years	31.0%
	Less than 20 years	10.1%
Education	Graduate degree	10.7%
	Some graduate work	41.7%
	University or college degree	35.7%
	Some university or college	11.9%
Government work experience	Secondary school or less	0.0%
	Less than 1 year	11.3%
	1–5 years	31.5%
	6–10 years	18.5%
Department work experience	Over 10 years	38.7%
	Less 1 year	14.3%
	1–5 years	47.0%
	6–10 years	14.9%
	Over 10 years	23.8%

### Measurement

The measurement scale is important because it reflects the context of the study. In this study, all question items were rated on a scale of five, with a range of 1 ¼ Strongly disagrees, 3 ¼ Neutral, and 5 ¼ Strongly agree. All variables measured as latent, reflective constructs (see Table 2) were captured indirectly by direct measurement items. Employee loyalty is measured by a scale developed by Blake et al. [52]. Employee satisfaction is measured using a scale developed by Homburg and Stock [53]. Jun et al., [54]: (1) employee compensation; (2) employee empowerment; (3) teamwork; (4) management leadership; and (5) employee training. The TQM practices are identified as shown in Table 2 below:

Table 2. Measurement.

Constructs	Items
Employee Loyalty	4
Employee Satisfaction	4
Employee Empowerment	3
Employee Training	3
Teamwork	3
Employee Compensation	3
Management Leadership	3

**Data analysis and results**

Structural equation modeling (SEM) is used to analyze data on the causal relationship between variable constructs. SEM analysis is used because SEM can analyze all pathways in one analysis [55]; [56]. While the Partial Least Squares (PLS) approach is considered superior to other SEM approaches for this study because of its flexibility in distribution assumptions, small sample size requirements, and its strength in handling complex prediction models [57]; [58]. On the other hand, PLS supports exploratory research, and this study uses PLS as a proposed research model, which is consistent with all currently available theoretical knowledge and collects data to test the theory [59]. According to Erlita & Priyanto, [60], the computer program used for this analysis is SmartPLS version 3.0, because this research aims at theory development rather than theory testing.

The data analysis procedure with PLS suggested by Hulland was followed and selected using the bootstrap method to determine the significance of the structural model paths. Standard error parameters are calculated based on 500 bootstrap processes [61]. The sample size of 167 exceeds the recommended minimum number of 60, which represents 10 times the: (1) number of items comprising the most complex constructs; or (2) the number of independent constructs that directly affect the dependent constructs [62]. According to Henseler et al., [63], the PLS model is analyzed and interpreted in two stages. In the first stage, the measurement model must be tested by conducting a validity and reliability analysis on each model measure to ensure that only reliable and valid construct measures are used before conclusions about the construct relationships' nature are drawn. In the second stage, the structural model is tested by estimating the path between the model's constructs, determining its significance, and the model's predictive ability.

**Reliability and convergent validity**

The measurement model's adequacy is evaluated by the criteria for reliability, convergent validity, and discriminant validity. Reliability and validity were tested by taking into account: (1) the reliability of individual items; (2) convergent validity of the measures associated with individual constructs; and (3) discriminant validity. First, the reliability was checked using the composite reliability value. Table 3 shows that all values are above 0.8, which is the generally accepted explanatory research level.

The convergent validity of the scale was verified using two criteria suggested by Sujit & Rajesh [64]: (1) all indicator loads must be significant and exceed 0.7; (2) the mean of variance extracted (AVE) by each construct must exceed the variance due to the measurement error for that construct (AVE must exceed 0.50). For the current measurement model, most of the indicator loads are above the 0.70 thresholds (see Table 4), one is expected at 0.63. AVE ranges from 0.69 - 0.79 (see Table 3). Hence, both conditions for convergent validity were met.

Table 3. Reliability and convergent validity.

Constructs	AVE	Composite reliability	R square	Cronbach's Alpha
Compensation	0.74	0.89	—	0.82
Loyalty	0.68	0.90	0.59	0.84
Leadership	0.72	0.89	—	0.81
Empowerment	0.79	0.92	—	0.87
Satisfaction	0.69	0.90	0.66	0.85
Training	0.76	0.90	—	0.84
Teamwork	0.74	0.90	—	0.83

Table 4. PLS confirmatory factor analysis and cross-loadings.

	CP	LO	LS	PO	SA	TR	TW
CP1	0.88	0.48	0.53	0.49	0.58	0.47	0.40
CP2	0.85	0.45	0.44	0.39	0.46	0.42	0.39
CP3	0.85	0.53	0.52	0.46	0.54	0.46	0.51
LO1	0.45	0.86	0.58	0.60	0.69	0.57	0.62
LO2	0.44	0.83	0.58	0.48	0.59	0.46	0.48
LO3	0.44	0.86	0.54	0.43	0.64	0.40	0.52
LO4	0.55	0.76	0.52	0.49	0.60	0.46	0.48
LS1	0.43	0.49	0.79	0.59	0.58	0.55	0.60
LS2	0.50	0.61	0.87	0.66	0.64	0.66	0.56
LS3	0.54	0.59	0.89	0.77	0.69	0.67	0.64
PO1	0.40	0.54	0.67	0.90	0.63	0.65	0.59
PO2	0.50	0.57	0.75	0.89	0.65	0.70	0.67
PO3	0.49	0.51	0.70	0.88	0.62	0.63	0.57
SA1	0.42	0.63	0.71	0.68	0.89	0.50	0.53
SA2	0.43	0.64	0.69	0.71	0.88	0.55	0.64
SA3	0.68	0.56	0.52	0.43	0.73	0.38	0.46
SA4	0.56	0.72	0.57	0.54	0.82	0.47	0.52
TR1	0.45	0.54	0.67	0.68	0.53	0.88	0.61
TR2	0.49	0.43	0.60	0.61	0.47	0.85	0.58
TR3	0.43	0.51	0.66	0.65	0.49	0.88	0.62
TW1	0.54	0.51	0.63	0.62	0.51	0.64	0.85
TW2	0.38	0.53	0.66	0.67	0.56	0.63	0.88
TW3	0.39	0.61	0.55	0.50	0.60	0.54	0.85

**Discriminant validity**

Discriminant validity implies that a particular construct's size is different from others Ronkko & Cho, [65]. The discriminant validity of the scale assessed using the AVE square root of the construct should be greater than the co-correlation between that construct and others in the model. Table 5 lists the correlations between the constructs, with the square root of the AVE diagonals. All diagonal values exceed the correlation between constructs; then, the discriminant validity test can be accepted. Therefore, we conclude that the scale must have sufficient construct validity.

**Path coefficients and predictive ability**

The structural model assessment involves estimating the path coefficient and R<sup>2</sup> value. The path coefficient shows the strength of the relationship between the independent and dependent variables, while the R<sup>2</sup> value is a measure of the model's predictive power for the dependent variable. Table 6 and Figure 2 show the path coefficient, significance level, an R<sup>2</sup> value of the endogenous variables. The PLS analysis results (see Figure 2) show that only one hypothesis has a negative effect, and the other hypotheses are supported. Thus the theoretical model proposed in Figure 1 is partially supported. In this study, the model accounted for 58.7% to 66% of the variance (R<sup>2</sup> score). Additionally, all paths were significant at the 0.05 level (Figure 2). Thus, the overall fit of the model is good. Employee satisfaction increases organizational loyalty (b ¼ 0.82, p, 0.01). Employee empowerment (b ¼ 0.28, p, 0.01), teamwork (b ¼ 0.18, p, 0.05), management leadership (b ¼ 0.39, p, 0.01) and employees.

## Effects of TQM Practices Against Outsourcing Employee Satisfaction and Loyalty Electricity Sector

Notes: CP: employee compensation; LO: employee loyalty; LS: management leadership; PO: employee empowerment; SA: employee satisfaction; TR: employee training; TW: teamwork. Square root of AVE is on the diagonal.

Table 5. Latent variable correlation matrix.

Constructs	CP	LO	LS	PO	SA	TR	TW
Compensation	0.86	–	–	–	–	–	–
Loyalty	0.57	0.83	–	–	–	–	–
Leadership	0.58	0.67	0.85	–	–	–	–
Empowerment	0.52	0.61	0.80	0.89	–	–	–
Satisfaction	0.62	0.77	0.75	0.71	0.83	–	–
Training	0.53	0.57	0.74	0.74	0.57	0.87	–
Teamwork	0.50	0.64	0.71	0.69	0.65	0.70	0.86

Table 6. Summary of the hypothesis test results.

Association	Hypothesis	Casual path	Path coefficients	t-value	Supported
Loyalty Satisfaction	H1	SA → LO	0.82	31.96 <sup>b</sup>	Yes
	H2	TR → SA	-0.17	2.08 <sup>a</sup>	No
	H3	PO → SA	0.28	2.84 <sup>b</sup>	Yes
	H4	TW → SA	0.18	2.24 <sup>a</sup>	Yes
	H5	LS → SA	0.39	3.86 <sup>b</sup>	Yes
	H6	CP → SA	0.25	3.37 <sup>b</sup>	Yes

Notes: aSignificant at p , 0.05 level; bSignificant at p , 0.01 level.

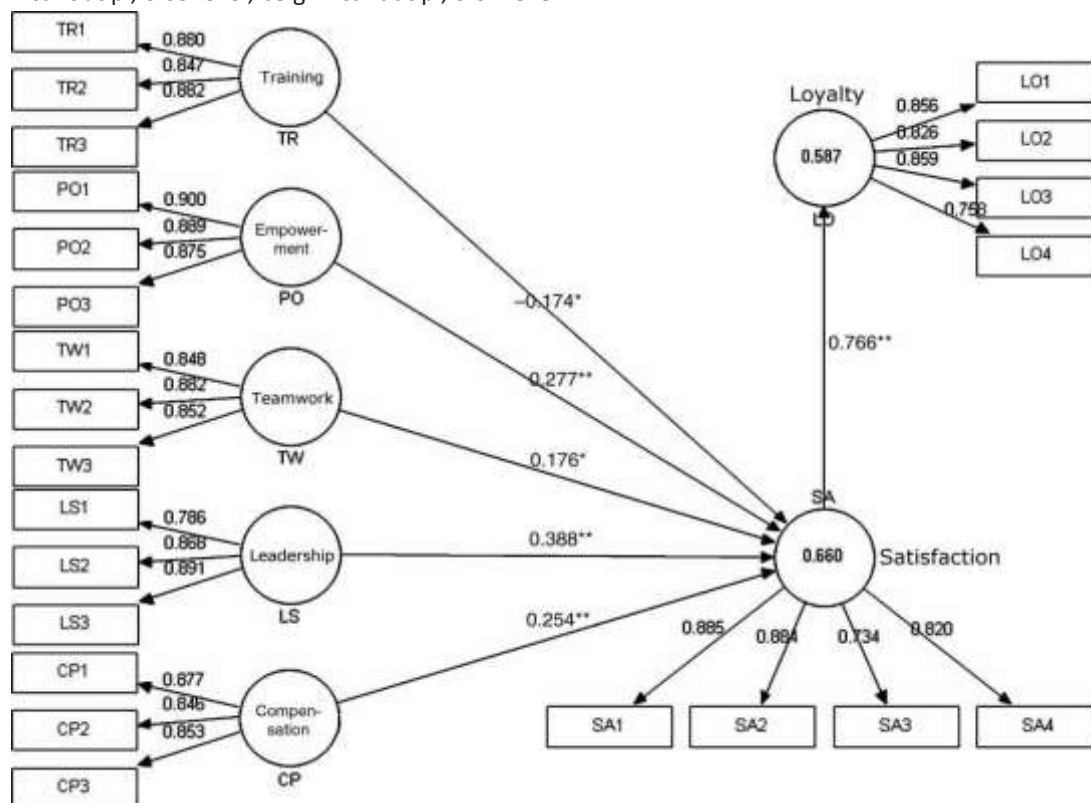


Figure 2. Structure model and results of the partial least-squares analysis.

Note: \* significant at the 0.05 level; \*\*significant at the 0.01 level.

Compensation (b = 0.25, p, 0.01) increases employee satisfaction. However, employee training (b = -0.17, p, 0.05) in this study showed a negative effect on employee satisfaction which deserves our attention. The R<sup>2</sup> value of the endogenous construct was 0.587 (employee loyalty) and 0.66 (employee satisfaction). Thus, it can be concluded that the hypothesized model can be used or accepted.



### DISCUSSION

In the HRM study, this research shows the effects of TQM practice at PT. PLN Bungo area. The results prove that employee compensation, empowerment, teamwork, and management leadership have a significant and positive relationship with employee satisfaction. Several TQM researchers have previously examined the relationship between satisfaction and loyalty from an HRM perspective. Still, this study's results are important to examine the role of TQM practices in outsourcing employees, especially in the power sector.

This result is in line with various previous studies that state that employee satisfaction is positively related to employee loyalty. However, this research was conducted in the private electricity sector, namely PT. PLN Bungo area. The results showed that TQM practice indirectly affects employee loyalty through the mediating effect of employee satisfaction.

#### *Theoretical implications*

The implication of this research is to expand the study of HRM in the TQM program for employee outsourcing. The results show that many empirical similarities among TQM practices, such as employee satisfaction and loyalty, were also significant in this study. In other words, TQM as a holistic management philosophy can be applied in various types of organizations, such as for-profit or non-profit organizations. The results of this study confirm that outsourcing employee satisfaction has a significant positive effect on their loyalty to the organization, and the effect size is substantially large ( $R^2 \frac{1}{4} 0.587$ ).

The strong relationship between employee satisfaction and employee loyalty can be attributed to its unique workplace culture. This study also found that all TQM practices will affect employee satisfaction. Management leadership, empowerment, teamwork, and employee compensation have a significant and positive effect on employee satisfaction. Increased employee satisfaction leads to a higher level of employee loyalty. In addition, this study found that employee training has a negative effect on employee satisfaction; it has broad implications for the size of the number of employees participating in a training conducted by the company.

#### *Practical implications*

This study's contribution is very important to enrich the literature on TQM carried out by companies, especially the management of outsourcing employees in organizations, because this relationship has rarely been studied before. The finding implies that employee satisfaction significantly affects their loyalty to the organization, resulting in company managers needing to increase overall employee satisfaction. The applied TQM practice must be seriously verified because it affects employee satisfaction. Because companies can increase employee satisfaction through TQM practices.

Furthermore, to empower employees to achieve higher job satisfaction levels, it is necessary to change work efficiently. This is important because employee involvement in goal setting and decision making affects the work they do. Proper empowerment can provide employees with positive work experiences and lead to higher employee satisfaction. Although teamwork has a significant effect on employee satisfaction, there are still several factors such as team composition, group process within the team, lack of knowledge of employees about the contributions of their co-workers, high levels of trust, or the nature of the work itself, which determine the construction of teamwork.

Future research may consider these additional factors when analyzing the effects of teamwork. The research findings state that there is a positive relationship between leadership behavior and job satisfaction. When leaders take care to help and support employees and raise concerns about their needs, they will feel more satisfied. Employee compensation often consists of financial and non-financial rewards for individuals and teams that contribute to TQM efforts and positively influence employee job satisfaction.

An important practical implication of this finding is that companies can increase employee loyalty through employee satisfaction. TQM practices carried out by PT. PLN Bungo area in this research is proven to increase employee satisfaction, except for training. Different research studies argue that a lack of training has been associated with shorter tenure, frustration, and job dissatisfaction. This study's results are also different: employee training has a negative effect on employee satisfaction, so it needs to be watched out for [66].

There are several reasons for this finding for findings on the effect of employee training on satisfaction, including: being associated with too long training hours; some training courses at PLN require too much time and manpower for outsourcing employees who already have a heavy workload. Therefore, company management needs to design and provide courses with appropriate hours of training. Another reason for the work management structure in the field makes employees less motivated to receive training because training creates expectations that cannot be met. After all, career opportunities are not available. Besides, the size of some of the training classes conducted by PLN tends to be too large, Hayat Aoumeur [67], in his research, concluded that people who received training conducted in small groups were more satisfied with education. So, keeping the training class small may be an effective way to increase satisfaction. Also, the training course design must be properly linked to the job skills and competencies



## Effects of TQM Practices Against Outsourcing Employee Satisfaction and Loyalty Electricity Sector

required by employees. Finally, this study suggests that companies implementing training programs must be very careful in redesigning schedules and programs based on diverse employees' needs to effectively maintain the quality of training.

Another TQM practice that is also very important for PLN is to improve service quality.

Companies must organize employees as a team and build trust among team members. Companies can also provide employees with sufficient empowerment to make them feel more identified and reduce helplessness regarding policies. An effective strategy is to provide financial and non-financial rewards to organizational employees, especially non-financial rewards such as praise and recognition. The financial recognition system in the PLN system tends to be less flexible than private companies. Practically, an internal service quality award with an official ceremony, for example, has been held by PLN every year, so that Outsourcing employees get recognition and are motivated through non-financial rewards.

Furthermore, it is necessary to encourage company management leaders to pay more attention to employees in increasing satisfaction. Forging long-term relationships between management and employees can increase satisfaction. In corporate organizations, TQM variables, such as employee compensation, employee empowerment teamwork, and management leadership, must be implemented simultaneously, regardless of organizational and cultural context.

### *Limitations and future research*

This research has several limitations to be used as a study to expand similar research in the future. First, the study is based on data collected from power companies in one area. Although there are some similarities among all company organizations, care is needed in generalizing the results of research, especially for those in other regions or countries. Thus, it is hoped that other studies will later be able to verify these results by studying the organization of companies located in different regions or other countries. Second, because the studies were conducted on five types of TQM practices related to human resources, while other important practices such as employee withdrawal, job security and selective new employee development, were excluded from the study model. Third, when examining the effect of employee satisfaction on employee loyalty, the mediating variable 'perceived performance' is ignored in the research model due to simplification considerations. Future studies can include performance to examine the mediating effect between satisfaction and loyalty.

### **CONCLUSION**

This study proves that the satisfaction and loyalty of PLN Outsourcing employees can be increased through the implementation of TQM practices related to human resources. The empirical test of PLN's TQM practices shows that the model has a very strong relationship, with only one path showing a negative effect: employee training. These results indicate that employee empowerment, employee compensation, teamwork, and management leadership are significant positive predictors of outsourcing employee satisfaction.

Furthermore, this study proves that employee loyalty is built through employee satisfaction. Therefore, researchers must consider the unique corporate environment when investigating the relationship between training and satisfaction. With the various evidence above, this study is expected to contribute to the service management literature by supporting theoretically and empirically the results of the relationship between TQM practice and employee satisfaction and loyalty in companies that employ outsourcing employees.

### **References**

- 1) Jorge Bezaquen & Josep Charles, 2020. A stratified bootstrapping approach to assessing the success of TQM implementation in Peruvian companies; Total Quality Management & Business Excellence; <https://doi.org/10.1080/14783363.2020.1816165>
- 2) Mark Anthony Camilleri (2017) Corporate sustainability and responsibility: creating value for business, society and the environment ; Asian Journal of Sustainability and Social Responsibility 2, 59 – 74
- 3) Barween Al Kurdi, Dr. Muhammad Turki Alshurideh & Ahmad Salih Alnaser (2020). The impact of employee satisfaction on customer satisfaction: Theoretical and empirical underpinning; Management Science Letters, DOI: 10.5267/j.msl.2020.6.038
- 4) Jerker Denrell, Balázs Kovács (2020). The Ecology of Management Concepts ; <https://doi.org/10.1287/stsc.2020.0108>
- 5) Abuaraki Ahmed, Abdalla Abdelrahim Idris (2020) Examining the relationship between soft total quality management (TQM) aspects and employees' job satisfaction in "ISO 9001" Sudanese oil companies ; TQM Journal ahead-of-print(ahead-of-print) DOI: 10.1108/TQM-05-2019-0147
- 6) Rateb Jalil Sweis, Asma'a Ismaeil, Bader Obeidat, Raed Kanaan (2019) Reviewing the Literature on Total Quality Management and Organizational Performance ; DOI: 10.25255/jbm.2019.7.3.192.215

- 7) Ibrahim Abaasi Musenze, Mayende Sifuna Thomas & Balan Sundarakani (2020) Development and validation of a total quality management model for Uganda's local governments ; <https://doi.org/10.1080/23311975.2020.1767996>.
- 8) Marcel F. van Assen (2020) Training, employee involvement and continuous improvement - the moderating effect of a common improvement method ;<https://doi.org/10.1080/09537287.2020.1716405>
- 9) Ebrahim Soltani, Adrian Wilkinson (2018) TQM and Performance Appraisal: Complementary or Incompatible?; *European Management Review* <https://doi.org/10.1111/emre.12317>
- 10) Windy Bittie, Sifrid S. Pangemanan, Ferdinand J. Tumewu (2018) The Effect Of Total Quality Management (TQM) On Employee Satisfaction In Bank Rakyat Indonesia (BRI) Manado ; Faculty of Economic and Business, International Business Administration, Management Program Sam Ratulangi University Manado.
- 11) Muhammad Naeem Khan, Shahab Alam Malik, Yousaf Janjua (2019) Total Quality Management practices and work-related outcomes: A case study of higher education institutions in Pakistan ; *International Journal of Quality & Reliability Management* DOI: 10.1108/IJQRM-04-2018-0097
- 12) Theresa Ifeyinwa Ndulue, Henry Chinonso Ekechukwu (2016) Impact Of Job Satisfaction On Employees Performance: A Study Of Nigerian Breweries Plc Kaduna State Branch, Nigeria ; Kuwait Chapter of Arabian Journal of Business and Management Review
- 13) Szymon Dziuba, Manuela Ingaldi & Marina Zhuravskaya (2020) Employees' Job Satisfaction and their Work Performance as Elements Influencing Work Safety ; DOI: 10.2478/czoto-2020-0003
- 14) Oluwayomi Ayoade Ekundayo, Joseph Ayo Babalola University (2018) The Impact of Motivation on Employee Performance in Selected Insurance Companies in Nigeria ; *International Journal of African Development* v.5 n.1 Spring
- 15) David W. Hart & Jeffery A. Thompson (2015) Untangling Employee Loyalty: A Psychological Contract Perspective ; *Business Ethics Quarterly* Published online by Cambridge University Press
- 16) Lovemore Chikazhe, Charles Makanyeza, Nicholas Kakava (2020) The effect of perceived service quality, satisfaction and loyalty on perceived job performance: perceptions of university graduates ; *Journal of Marketing for Higher Education*, DOI: 10.1080/08841241.2020.1793442
- 17) Barween Al Kurdi, Dr. Muhammad Turki Alshurideh & Ahmad Salih Alnaser (2020) The impact of employee satisfaction on customer satisfaction: Theoretical and empirical underpinning ; *Management Science Letters* DOI: 10.5267/j.msl.2020.6.038
- 18) Shweta Rajput, Mayank Singhal & Shivkant Tiwar (2016) Job Satisfaction and Employee Loyalty: A study of Academicians ; *Asian Journal of Management* 7(2):105, DOI: 10.5958/2321-5763.2016.00015.9
- 19) Ismail Razak, Nazief Nirwanto, Boge Triatmanto (2016) The Impact of Product Quality and Price on Customer Satisfaction with the Mediator of Customer Value ; *Journal of Marketing and Consumer Research, International Knowledge Sharing Platform*
- 20) Szymon Dziuba, Manuela Ingaldi, Marina Zhuravskaya (2020) Employees' Job Satisfaction and their Work Performance as Elements Influencing Work Safety ; DOI: 10.2478/czoto-2020-0003
- 21) Elizabeth Landa (2018) Influence of Training on Employees Performance in Public institution in Tanzania ; *International Journal of Human Resource Studies*, DOI: 10.5296/ijhrs.v8i2.13136
- 22) Yuk Ling Angie Lee, Ashish Malik, Philip J. Rosenberger III & Piyush Sharma (2020) Demystifying the differences in the impact of training and incentives on employee performance: mediating roles of trust and knowledge sharing ; *Journal of Knowledge Management*, ISSN: 1367-3270
- 23) Mohammed Raja Salah (2016) The Impact of Training and Development on Employees Performance and Productivity "A case Study of Jordanian Private Sector transportation companies located in the Southern region of Jordan. A particular reference is made to the Govern ate of Maan". ; *Al-Balqa' Applied University*
- 24) Baek-Kyoo (Brian) Joo, Sohee Park, Suhjung Lee (2020) Personal growth initiative: the effects of person-organization fit, work empowerment and authentic leadership ; *International Journal of Manpower*, ISSN: 0143-7720
- 25) Iheanacho Emeka Nwobia, Majeed Saad Aljohani (2017) The Effect of Job Dissatisfaction and Workplace Bullying on Turnover Intention: Organization Climate and Group Cohesion as Moderators ; *International Journal of Marketing Studies*, DOI: 10.5539/ijms.v9n3p136
- 26) Hare Billy, Cameron Iain & Lawani Kenneth (2017) The development of a worker engagement maturity model for the improvement of occupational health and safety in construction ; *Glasgow Caledonian University*
- 27) Dinko H. Boikanyo & Marita Heyns (2019) The effect of work engagement on total quality management practices in a petrochemical organisation ; *South African Journal of Economic and Management Sciences (SAJEMS)*,

DOI: 10.4102/sajems.v22i1.2334

- 28) Adriana AnaMaria Davidescu, Simona-Andreea Apostu, Andreea Paul & Ionut Casuneanu (2020) Work Flexibility, Job Satisfaction, and JobPerformance among Romanian Employees-Implications for Sustainable HumanResource Management ; Sustainability, DOI:10.3390/su12156086
- 29) Manaswita Bharadwaja & Nachiketa Tripathi (2020) Linking empowering leadership and job attitudes: the role of psychological empowerment ; Journal of Asia Business Studies, DOI: 10.1108/jabs-03-2020-0098
- 30) Grace Chacha Busara (2016) Impact Of Employees Empowerment On Organization Performance: A Case Study Of Government Procurement Service Agency ; Management University Tanzania
- 31) Minseo Kim, Terry A. Beehr & Matthew S. Prewett (2018) Employee Responses to Empowering Leadership : A Meta-Analysis ; Journal of Leadership & Organizational Studies, <https://doi.org/10.1177/1548051817750538>
- 32) Robyn Gillies (2016) Cooperative Learning: Review of Research and Practice ; Australian Journal of Teacher Education, DOI: 10.14221/ajte.2016v41n3.3
- 33) Marta Mas-Machuca, Jasmina Berbegal-Mirabent & Inés Alegre (2016) Work-life balance and its relationship with organizational pride and job satisfaction ; Journal of Managerial Psychology, DOI: 10.1108/JMP-09-2014-0272
- 34) Dana Al Rahbi, Khalizani Khalid & Mehmood Khan (2017) The Effects of Leadership Styles on Team Motivation ; Academy of Strategic Management Journal (Print ISSN: 1544-1458; Online ISSN: 1939-6104)
- 35) Nemanja Berber, Agneš Slavic & Marko Aleksic (2020) Relationship between Perceived Teamwork Effectiveness and Team Performance in Banking Sector of Serbia ; Faculty of Economics in Subotica, University of Novi Sad
- 36) P Orthodoxia, Kourtesopoulou Anna & Athanasios Kriemadis (2019) The Relationship between Leadership Behaviors and Job Satisfaction: The Case of Athens Municipal Sector ; Department of Sport Organization & Management, University of Peloponnese
- 37) Jeevan Jyoti & Manisha Dev (2015) The impact of transformational leadership on employee creativity: The role of learning orientation ; Journal of Asia Business Studies, DOI: 10.1108/JABS-03-2014-0022
- 38) Chun-Yu Lin, Chung-Kai Huang (2020) Employee turnover intentions and job performance from a planned change: the effects of an organizational learning culture and job satisfaction ; International Journal of Manpower, ISSN: 0143-7720
- 39) Islam Bourinia, Ashraf Jahmania, Roohi Mumtaza & Faisal A. Al-Bourinib (2019) Investigating the managerial practices' effect on Employee-Perceived Service Quality with the moderating role of supportive leadership behavior ; European Research on Management and Business Economics, <https://doi.org/10.1016/j.iedeen.2018.11.001>
- 40) Esra Cakmak, Ozge Oztekin Bayır & Engin Karadag (2015) The effect of leadership on job satisfaction ; Leadership and Organizational Outcomes, DOI: 10.1007/9783-319-14908-0\_3
- 41) U. D. Abasilim, D. E. Gbervbie & O. A. Osibanjo (2019) Leadership Styles and Employees' Commitment: Empirical Evidence From Nigeria ; Covenant University, Ogun State, Nigeria, <https://doi.org/10.1177/2158244019866287>
- 42) Sabu V.G. & Manoj M. (2020) The Effect of Employee Desire and Employee Engagement on Organizational Performance: Evidence from ICT Sector in Kerala, India ; Bharat Sanchar Nigam Limited (BSNL), Kerala Telecom Circle, <https://doi.org/10.1177/0258042X20939020>
- 43) Danica Bakotic (2016) Relationship between job satisfaction and organisational performance ; Economic Research - University of Pula and Istrian Development Agency
- 44) Mohammad Yousef Abuhashesh, Rand Aldmour & Ra'Ed Masa'deh (2019) Factors that affect Employees Job Satisfaction and Performance to Increase Customers' Satisfactions ; Factors that impact job satisfaction and performance among employees in the Jordanian industrial sector
- 45) Sajjad Nazir, Wang Qun, Muhammad Naseer Akhtar, Amina Shafi & Nadia Nazir (2015) Financial Rewards Climate And Its Impact On Employee Attitudes Towards Job Satisfaction In The Retail Organizations ; European Scientific Journal
- 46) Mohammed Raja Salah (2016) The Influence of Rewards on Employees Performance ; British Journal of Economics, Management & Trade
- 47) Elizabeth Boye Kuranchie-Mensah & Kwesi Amponsah-Tawiah (2016) Employee Motivation and Work Performance: A Comparative Study of Mining Companies in Ghana ; Journal of Industrial Engineering and Management, <http://dx.doi.org/10.3926/jiem.1530>
- 48) Almas Sabir (2017) Motivation: Outstanding Way to Promote Productivity in Employees ; American Journal of Management Science and Engineering, DOI: 10.11648/j.ajmse.20170203.11
- 49) Robert Rybnicek, Sabine Bergner & Alfred Gutschelhofer (2019) How individual needs influence motivation effects: a neuroscientific study on McClelland's need theory ; Rev Manag Sci, DOI: 10.1007/s11846-017-0252-1

## Effects of TQM Practices Against Outsourcing Employee Satisfaction and Loyalty Electricity Sector

- 50) Hamed Taherdoost, 2018. A review of technology acceptance and adoption models and theories; *Procedia Manufacturing*; DOI:10.1016/j.promfg.2018.03.137
- 51) Murdoch et al.,2014. Impact of different privacy conditions and incentives on survey response rate, participant representativeness, and disclosure of sensitive information: a randomized controlled trial; *BMC Medical Research Methodology*
- 52) Davis-Blake, A., Broschak, J.P., & George, E. (2003). Happy together? How using nonstandard workers affects exit, voice, and loyalty among standard employees. *Academy of Management Journal*, 46(4), 475–485.
- 53) Homburg, C., & Stock, R. (2005). Exploring the conditions under which salesperson work satisfaction can lead to customer satisfaction. *Psychology & Marketing*, 22(5), 393–420.
- 54) Jun, M., Cai, S., & Shin, H. (2006). TQM practice in Maquiladora: Antecedents of employee satisfaction and loyalty. *Journal of Operations Management*, 24(6), 791–812.
- 55) Jose Benitez, Jorg Henseler, Ana Castillo, Florian Schubert, 2020; How to perform and report an impactful analysis using partial least squares: Guidelines for confirmatory and explanatory IS research; *Information & Management*; <https://doi.org/10.1016/j.im.2019.05.003>
- 56) D. Russo, 2021. PLS-SEM for software Engineering Research; An Introduction and Survey. *ACM Computing Surveys*, 54(4), 37 pp. 2021.
- 57) Tran, V. Nguyen, Nguyen, Ni Huang, 2020. The Impact of Organisational Commitment on the Relationship between Motivation and Turnover Intention in the Public Sector; *International Journal Innovation, Creativity and Change*
- 58) Rizman, Tominc & Milfelner, 2020. A Comparative Study Using Two SEM Techniques on Different Samples Sizes for Determining Factors of Older Employee's Motivation and Satisfaction; *MDPI Academic Open Access Publishing*; <https://doi.org/10.3390/su12062189>
- 59) Patrick Mikalefa & John Krigathea, 2018. Big data analytics capabilities: a systematic literature review and research agenda; *Econ Papers*
- 60) Erlita & Priyanto, (2020). Analysis of Acceptance of Vocational High School eReport in Temanggung District Using the UTAUT Model (Unified Theory of Acceptance and Use of Technology); *Journal of Physics: Conference Series*
- 61) Sandra Streukens & Sara Leroi Werelds, 2016. Bootstrapping and PLS-SEM: A step-by-step guide to get more out of your bootstrap results; *European Management Journal*; <https://doi.org/10.1016/j.emj.2016.06.003>
- 62) Uthaya Sangkar Sivirajah & Vishanth Weerakkooddy, 2017. Critical analysis of Big Data challenges and analytical methods; *Econ Papers*; DOI: 10.1016/j.jbusres.2016.08.001
- 63) Jorg Henseler, Geoffrey Hubona & Pauline Ash Ray (2016). Using PLS Path Modeling in New Technology Research: Updated Guidelines; *Industrial Management & Data Systems*
- 64) K.S Sujit, B. K. Rajesh, (2016). Determinants of Discretionary Investments: Evidence From Indian Food Industry; *Sage Journals*; <https://doi.org/10.1177/2158244016636429>
- 65) Mikko Ronkko & Eunseong Cho (2020) An Updated Guideline for Assessing Discriminant Validity ; *Organizational Research Methods*, <https://doi.org/10.1177/1094428120968614>
- 66) Muntazeri & Indrayanto, 2018. The impact of education, training and work experience on job satisfaction and job performance; *Jurnal Akuntansi, Manajemen Dan Ekonomi Universitas Jendral Soedirman*; <http://jos.unsoed.ac.id/index.php/jame/article/view/1226>
- 67) Hayat Aoumeur (2017). The Impact of Class Size on Teaching and Learning English as a Foreign Language: The Case of the Department of English at Abdelhamid Ibn Badis University; *Arab World English Journal*; DOI:10.24093/awej/vol8no2.25

## An Important Factor in Solving the Poor Problem

Ibrohim Maxkamov<sup>1</sup>, Rashidov Rahmatullo A'lojonovich<sup>2</sup>

<sup>1,2</sup>Associate professor of the Department of Economics, Namangan Institute of Engineering and Technology, Namangan, Republic of Uzbekistan



---

**ABSTRACT:** This article highlights the role of farms in improving the welfare of the population, in particular, in Namangan region, the specifics of the solution of the problem of poverty through the development of farms in Namangan region.

**KEYWORDS-**Farms, poverty, entrepreneurship, cluster, pandemic, credit.

---

### I. INTRODUCTION

Today, the pandemic, which is leaving a complex mark on the world economy, is having a negative impact on all sectors of the economy, from large enterprises to small businesses and private entrepreneurship. In order to prevent such negative consequences, a new system of business support is being introduced in our country.

Due to the conditions created by our state, the number of people willing to engage in entrepreneurial activities is growing. Especially in rural areas, they are engaged in horticulture, horticulture, horticulture, beekeeping, animal husbandry, poultry, fisheries, handicrafts, services and other industries due to the nature of the region. It is obvious that special attention is paid to the development of family business, especially small farms. This is not only a socio-economic task, but also a political goal aimed at changing the worldview of our people, sharply increasing their interest in earning income through labor. Therefore, in recent years, the state has adopted a number of laws, resolutions and regulations on the effective use of public lands, some laws have been amended. A separate deputy position has been introduced in the mahalla, which deals with gardening.

The Council of Farmers, Dehkan Farms and Landowners of Uzbekistan and its territorial subdivisions have also been established. Separately, 224 enterprises "Tomorqa Xizmati" have been set up to supply seeds and seedlings and provide services. 350 billion soums have been allocated from the state budget for the implementation of new projects on the farm, and a fund has been set up under the Farmers' Council. Based on today's demand, the Ministry of Economic Development and Poverty Reduction was established. It is obvious that a new system has been introduced, which does not exist before, providing assistance to the population, supplying and financing material resources. As long as the state creates all conditions for the development of farms, it is safe to say that today the effective use of these opportunities has become a necessity and an obligation. This is because at a time when the whole world is threatened by the coronavirus pandemic, the development of horticulture is becoming a more serious issue. This issue was highlighted at a video conference chaired by President Sh. Mirziyoyev on April 8, 2020, dedicated to the analysis of the effectiveness of work in the fight against the coronavirus pandemic and the development of horticulture, an important source of food security, employment and income. The issues of supply of cultivated products to domestic and foreign markets were also considered.

### II. THE MAIN PART

In Namangan region, as in all regions of the country, a program of promising measures for the development of horticulture has been created. There are 252.0 thousand hectares of irrigated land in the region, of which 31.9 thousand hectares are residential plots. Given today's requirements, the main focus is on the efficient use of farmland. This is because the majority of the province's population lives in rural areas and a certain stratum of them are poor families.

There are exemplary farms in a number of districts of the region, which are harvested 2-3 times a year from 8-10 acres of land and earn 50-60 million soums, and some families earn more than 100 million soums, which is an example for other families.



## An Important Factor in Solving the Poor Problem

According to the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan dated January 30, 2020 No 53, khokims of Naryn, Uychi, Turakurgan, Namangan districts jointly on the basis of the principles of "Source of income", "One neighborhood one product", "From field to table" practical and demonstration seminars were organized.

Based on the above considerations, it can be said that given the complex situation caused by the coronavirus pandemic, sowing 2-3 times and getting additional yields in all farms is one of the priority tasks today. With this in mind, the construction of compact greenhouses in homes is also important.

Last year, 2,670 modern compact greenhouses were established in Namangan region. This work will continue in 2021, and it is planned to build a total of 4,400 light greenhouses in 300-500 houses in each district, and 527 of them have been built and put into operation.

During his visit to Namangan region in June 2020, President Mirziyoyev during his visit to Namangan region to get acquainted with major projects, to communicate with the population, to provide employment and a stable source of income for unemployed, low-income, poor families. Had given a number of assignments. On the basis of these tasks, the project "Greenhouse for a thousand families in one place" was implemented in the region in cooperation with the Ministry of Employment and Labor Relations. In particular, Golden Nats Namangan Agro Network Service LLC has built 1,000 2-storey greenhouses on 36 hectares of land in Chartak district, which has not been used for many years. The project, worth 13 billion soums, received 6.7 billion soums in subsidies from the Employment Promotion Fund and 6.3 billion soums in soft loans from commercial banks.

According to the study, these greenhouses produce high-quality products that meet the requirements of foreign countries on the basis of the principle of "one neighborhood - one product." Another advantage is that seedlings, water, mineral fertilizers and market supply in the cultivation of the product are guaranteed by the leading entrepreneur. In greenhouses it is possible to grow crops up to 3 times a year. According to experts, 700 tomato seedlings were planted in one greenhouse. Each bush can yield 4-5 kg of seedlings. For example, if the average price of 1 kg of tomatoes (in the relevant months) is 3 thousand soums, the first harvest can earn 7-8 million soums.

As mentioned above, these greenhouses, built on the land of Baland Adir, which has not been used for many years, were given to low-income families on a soft loan for 3 years. Upon repayment of the loan, the 2-storey greenhouse will be fully registered in the name of citizens. Such material interest encourages people to use greenhouse equipment, irrigation systems and land efficiently. That is, it radically changes people's attitudes toward property, labor, and the products they grow. This is the implementation of the program of measures to reduce poverty in our country and the practical result of socio-economic reforms.

The new tactic of the new Uzbekistan, that is, a new economic measure, is to develop the land, to give it to entrepreneurs who want to work by extracting water from vertical wells. Our land is a paradise, we need to use it to set an example for other regions and awaken people. We give the husband, the seedling, the seed, the money, provided that it is used year after year, the rest of the effort should be from the people themselves. If we do not, we will not have results tomorrow (3). In accordance with the relevant resolutions and decrees of the President, 5,361 hectares of land were developed in Namangan region in 2020 and 1,496 hectares of new gardens were established.

"Poverty reduction is the awakening of entrepreneurial spirit in the population, the full realization of human potential and strength, the implementation of a comprehensive socio-economic policy to create new jobs ... Entrepreneurship, initiative, especially youth and women to solve social problems on the ground It is necessary to give priority to the support of entrepreneurship," said President Mirziyoyev in his speech at a meeting with activists of Namangan region in June 2020. (4)

Today's experience shows that it is necessary to provide employment and lift people out of poverty through regular income. Because more than 24,300 poor families and 57,000 more unemployed are registered in the region. With this in mind, a program of measures for 2020-2022 to ensure employment through the organization of various forms of entrepreneurship in the districts has been developed. In this regard, the work carried out in Chartak, Turakurgan, Uchkurgan and Uychi districts can be cited as an example. In particular, at the beginning of 2020, 1920 poor families were registered in Uychi district, and measures were taken to provide them with employment and permanent income on this basis. To date, the deputies of the District Council have studied each family and issued the relevant acts, and 1052 families were removed from the list of poor families by the decision of the session. As a result, 868 families remained on the list of poor families.

Of these poor families, 79 were given cattle, 212 were sheep, 108 were poultry, 2 were bees, and 13 were rented land. Greenhouses were built for 86 families. In addition, 169 people were provided with permanent jobs, 2 with medicines and 47 with cash. It is obvious that the district provides practical assistance to every citizen in the implementation of the tasks set out in the poverty alleviation program.



## An Important Factor in Solving the Poor Problem

Also, under the program "Every family is an entrepreneur" Agrobank and People's Bank of the district allocated a total of 895 citizens (including 46 legal entities) 18 billion 149 million soums for the purchase of livestock, fisheries, greenhouses, horticulture and equipment.

From the above data, it is clear that the conditions are being created for people to work, earn money through entrepreneurship. However, the created opportunities are not being used effectively in all regions of the region. In particular, in Turakurgan, Kosonsoy, Uchkurgan, Chartak, Yangikurgan districts it was found that there is a lack of greenhouses in households and fruit trees and vines are not planted in the gardens. In the words of President Sh. Mirziyoyev, this situation should be considered a betrayal of the country and the land in the current test period, not to plant crops, to leave them unattended. Because the coronavirus pandemic has clearly shown that policies and measures on food security in countries around the world are insufficient.

Therefore, the heads of regional, district khokimiyats, farms councils, the Ministry of Labor, mahalla committees and public receptions, heads of 4 sectors should visit each house in the region to study the establishment of greenhouses for planting various crops, fruit trees and vines and solve existing problems. Should provide practical assistance.

As the President Sh. Mirziyoyev said in his address to the Oliy Majlis and the people of Uzbekistan: Assessment of the real situation in the regions on poverty reduction, control over the implementation of the work should be the focus of the Oliy Majlis chambers and local councils.

In general, each district and city mayor must develop a targeted poverty reduction program in their area within a month and report quarterly to the public on its implementation in local councils and through the media. This issue should become the primary task of all leaders and a key criterion for evaluating performance.

It should be noted that some people think that the assistance provided by the state and the favorable conditions created are permanent. Instead of trying to meet the needs of their families and the local market by borrowing money, raising livestock, and buying a variety of livestock products, this category of people sells their livestock on credit. They use the money to meet their other needs. There are also cases when the given seeds, seedlings of fruit trees are not planted in time, and the planted ones are not cared for enough. Such negative situations lead to untimely repayment of loans issued by banks. Even some families do not even think about repaying the loan at all. It is as if the loan was given to them as "Exson". In fact, a loan is an obligation, a responsibility. It means getting out of poverty by employing family members and earning income on that basis. It is time to radically change the worldview of such fuzzy, dependent people.

As the President Sh. Mirziyoyev noted, "the most important factor in overcoming poverty should be human aspirations, based on their own strength, the movement towards a clear goal." (4)

In the approaching spring months, it is advisable to pay more attention to the care of vegetable crops grown in greenhouses, cultivating the land and planting a variety of crops and fruit seedlings. In this way, the regions will be able to fully meet the demand for food products, increase the income of the population and, on this basis, increase their welfare.

In our opinion, in order to further develop horticulture, which is one of the important factors in solving future socio-economic problems, and on this basis to get out of poverty, it is expedient to pay attention to the following.

First, to ensure the unconditional implementation of laws, forms and decisions issued by the state on the development of farms. Appointment of officials to monitor their implementation and regular analysis of their reports, as well as the identification of appropriate measures.

Second, to systematically study the use of farmland at the crossroads of community gatherings. Regular media coverage of the experiences of exemplary landowners.

Third, to ensure the sustainability of the links between the supply of seeds, seedlings, chemicals, mineral fertilizers to livestock, fodder for livestock, veterinary services.

Fourth, to conclude preliminary contracts with enterprises purchasing, storing and processing agricultural products grown on the farms and to ensure their timely and strict implementation, ie to organize the cultivation of crops in a cluster manner.

Fifth, the targeted and timely use of bank loans, livestock, seeds and seedlings by families engaged in horticulture should be regularly monitored by officials and measures should be taken to eliminate the identified shortcomings.

Sixth, to conduct advocacy and advocacy work at bank meetings and community gatherings to explain the effective use and timely repayment of loans provided by gardeners.

Seventh, to ensure timely repayment of loans provided by banks to families, to impose economic sanctions on citizens who do not use credit resources in a targeted manner and do not repay them on time.

## An Important Factor in Solving the Poor Problem

Eighth, the introduction of a new mechanism based on the principle of "Finance, Skills" to lift every citizen included in the "Iron Book" from poverty in order to take advantage of various benefits.

Ninth, to organize a practical and demonstration seminar on the basis of the principles of "Source of income in the field", "One neighborhood - one product", "From the field to the table" in the regions. Regular media coverage of the activities of exemplary farms and the accumulated experience.

## CONCLUSIONS

In short, today, farms play an important role in solving the problem of poverty through employment and regular income. With this in mind, the necessary conditions are being created for the sustainable development of farms. The purpose of these is to positively address the socio-economic problems of our country.

## REFERENCES

- 1) Proceedings of a video conference chaired by the President of the Republic of Uzbekistan Sh. Mirziyoyev on April 8, 2020 on the analysis of the effectiveness of work in the fight against the coronavirus pandemic and the development of horticulture, which is an important source of employment and income. April.
- 2) Increasing agricultural production - the most important issue today "People's Word", April 29, 2020
- 3) Report of the meeting of the President of the Republic of Uzbekistan Sh. Mirziyoyev with activists of Namangan region - hardworking, active, educated people of Namangan deserve a good life. "The Reality of Namangan", July 1, 2020
- 4) Address of President Shavkat Mirziyoyev to the Oliy Majlis and the people of Uzbekistan Official website of the President of the Republic of Uzbekistan. 29.12.2020.
- 5) Рашидов, Р. (2017). НЕКОТОРЫЕ ВОПРОСЫ ЭФФЕКТИВНОГО ИСПОЛЬЗОВАНИЯ ТЕХНИКИ В ХЛОПКОВОДСТВЕ В УЗБЕКИСТАНЕ. Общество и экономика, (3-4), 138-141.
- 6) Alojnovich, R. R. (2016). Correlation between resource economy factors in cotton growing. Наука и образование сегодня, (6 (7)).
- 7) Rahmatullo, R. (2016). Sectoral specificities by application of resource saving technology in cotton growing. Economics, (8 (17)).
- 8) Rashidov, R. (2016). Correlation between resource economy factors in cotton growing. Наука и образование сегодня, (6), 68-70.
- 9) Alojnovich, R. R. (2019). Economic efficiency of resource-saving technologies in the cotton industry system of indicators. International Journal of Scientific and Technology Research, 8(11), 3861-3863.  
<http://www.ijstr.org/final-print/nov2019/Economic-Efficiency-Of-Resource-saving-Technologies-In-The-Cotton-Industry-System-Of-Indicators-.pdf>
- 10) Zulfikarova Dilfuza Gulomjanovna, Saidboev Shermirza Dotkamirzaevich, Rashidov Rahmatullo Alojnovich "Conceptual Bases of Full Realization of Women's Labour and Entrepreneurial Activity". PSYCHOLOGY AND EDUCATION (2021) 58(2): 237-240 <http://www.psychologyandeducation.net/pae/index.php/pae/article/view/1552>
- 11) Gulomjanovna, Z. D., Dotkamirzaevich, S. S., & Alojnovich, R. R. (2021). Conceptual Bases of Full Realization of Women's Labour and Entrepreneurial Activity. Psychology and Education Journal, 58(2), 237-240.
- 12) Alojnovich, R. R., & Sardorbek, O. (2021). THEORETICAL BASES OF INCREASE OF ECONOMIC EFFICIENCY OF USE OF RESOURCESAVING TECHNOLOGIES IN THE COTTON INDUSTRY. International Engineering Journal For Research & Development, 6(ICDSIL), 5-5.
- 13) Tursunaliyevich, A. Z., & Alojnovich, R. R. (2021). CREATION OF ELECTRONIC TEXTBOOKS IN HIGHER EDUCATION. International Engineering Journal for Research & Development, 6(ICDSIL), 4-4.
- 14) ALOJONOVICH, R. R. (2021). RESOURCE-SAVING TECHNOLOGIES IN COTTON-GROWING ECONOMIC EFFICIENCY INDICATOR SYSTEMS. PLANT CELL BIOTECHNOLOGY AND MOLECULAR BIOLOGY, 134-140.  
<https://ikprress.org/index.php/PCBMB/article/view/5943>

## Effective Communication as a Tool for Achieving Organizational Goals and Objectives



Christine Reidhead

Navajo Technical University

---

**ABSTRACT:** Communication is a critical element of human behavior. In other words, it's an act by which one person gives to or receives information from another person that involves a person's needs, desire, knowledge, opinions, and perceptions. Communication within the workplace can occur under various modes like writing, verbal and nonverbal (body gestures and facial expression). In business and industry, communication helps align workers with figuring out each other and realizing the target of the organization, which suggests objectives, are often within the target, attained, and improved. Without workplace communication, nothing can be done. Keyton's study found that communication can be defined as a procedure of transmitting information from one person to another person and understand it. It is also known as an instrument of social relations. It helps people understand themselves to keep in touch with people and predict their response to a situation. This paper explores the role that communication plays to achieve an organization or business' goals and objectives.

**KEYWORDS:** Effective Communication, Workplace, Business Goals, Barriers to Effective Communication and Verbal and Nonverbal Communication.

---

### I. INTRODUCTION

Researches have shown that any self-sustainable system must secure, enhance and preserve effective communication among its components or agents and their coordination and self-coordination competence. Hence, communication is a crucial tool in any human organization. Be it social, business, religious, political, etc., the sole vital tool employed in conveying helpful information is thru communication. It's a universal truth that man uses a good percentage of his daily activities communicating with his environment.

According to Richter (2000), communication is a method of meaningful interaction among the citizenry. It's the act of passing information and, therefore, how meanings are exchanged to produce understanding. Communication may be a process that needs a sender, a message, a medium, and a recipient. Though the receiver might not be involved or conscious of the sender's intent to speak at the time of communication, it's expedient that the communicating parties share an area of communicative commonality. Thus, communication can take place across vast distances in both time and space. According to Daramola (1997), communication is ubiquitous. It takes place everywhere, every day, and every time. It is all around us. As a result, we all engage in communication with each other at the reception, within the office, school, and industry.

Organizations everywhere around the world are either adjudged to be high, medium, or low flyers, counting on how they relate with their operational environment in terms of social responsibilities, tasks, and service delivery to clients and employees alike.

How successfully a corporation achieves its objectives, satisfies social responsibilities, or both depends on its managers' communication skills. If managers communicate well, the organization will probably reach its goals, and the state will work properly. Today, there's increasing concern and debate, analysis, and confusion around the world over how managers do their jobs – managerial performance – because it is with organizational performance – a measure of how well organizations can do their job. Thus, effective communication is essential for the continued corporate existence of each organization.

Good communication is a significant aspect of effective coordination of its resources (human and non-human) into efficient and desirable teams. The adversity of effective communication to executives or managers of organizations stems, particularly from two reasons. First, communication is the process by which managers accomplish the functions of designing, organizing, leading, and controlling. Second, communication is an activity to which managers devote a remarkable proportion of their time. Very less

## Effective Communication as a Tool for Achieving Organizational Goals and Objectives

often, we see managers aloof at their desks pondering, planning, or thinking about alternatives. A manager's time is spent chiefly in face-to-face, electronic or telephonic communication with subordinates, supervisors, and suppliers. When not conferring with others face to face or on the phone, they'll be writing, dictating memorandums, letters, or reports or reading memos, letters, or information sent to them. Precisely why Lukaszewski (2006) pointed that; "The greatest continuing area of weakness in management practice is the human dimension. In good and bad times, there is a very little understanding of the relationship between managers, among employees, and interactions between both parties. When there are problems, everyone acknowledges that the cause often may be a communication problem. So now what?"

### II. BACKGROUND OF THE STUDY

Communication touches every sphere of human activity. It informs or, better still, disseminates information/message to the target audience. One of the peculiarities of the human race is communication among the members of society. Communication is an essential attribute of human behavior. Indeed, communication is perhaps man's most crucial singular activity because every other human activity revolves around communication.

Animals and trees also communicate, but man can create a symbol, ascribe meanings, and interpret messages that elevate him above the lower animals' status and gives form and character to his existence. All organizations encourage effective communication by establishing channels (formal and informal) for transmitting information to people. An influential organization channel must send company policies, programs, rules, and regulations to all enterprises. It is also necessary for dealing with customers, regulatory agencies, and the general public. Through good communication with business owners, board of directors, management, peers, and subordinates, an organization maintains goodwill, grows, and waxes.

Communication serves as a tool for social interrelation. It helps us understand ourselves, keep in touch with other people, understand them, and predict their response to the situation, its means by which power is acquired, exercised, and sustained. It is the medium through which relationships are built and nurtured for lifetimes. It provides a means by which people in business policies make decisions and management and materials. In business and industry, communication helps to orient workers to work with one another and achieve the organization's reasonable goals. It is how such goals can be pursued, attained, sustained, and improved.

It is the lubricant that keeps the machinery of an organization functioning. It's a means to identify and assign roles and is the lifeblood of an organization. The above brief historical consideration of communication emphasizes its importance in human existence. To organize is to communicate; thus, the survival of an organization is impossible without communication. The effect of marketing communication in an organization can be measured in terms of attitude and performance, for it affects the employees' morale and their attitude towards organizational productivity. Communication is the act of transferring information from one person to another; it could also transmit and convey ideas, attitudes, views, and opinions from person to person, generation to generation, or a vast audience, and vice versa.

Social organizations cannot survive without communication. Imagine what the situation will be like if you gather people together and not communicate with them; the problem will be pretty uncontrollable. No matter how poor or rich an organization is, there exists some spectrum of communication. It is crucial for the success of an organization. Communication is indispensable to human existence because one must communicate with people around him to share ideas, experiences, and feelings. An organization must have working channels of communication and keep working on the ones already existing. Employers should help the employees, customers, and the general public communicate to help streamline action and activities within the organization. The employees, more especially, would like to know the organization's objectives for which they are working. They will affect them are about to be effective. They will also like to know what is expected of them in the organization, to abide by the rules and regulations sent to make known to the organization about their feelings, decisive, aspiration, and efforts. They will also like to be recognized by other members of the organization, especially management. An organization is deemed a good one when its objectives are derived from its members. This can only be achieved by establishing an effective communication strategy. Hence it is well informed of the organizational plans and given at the same time the chance to make its contributions to the advantage of the management and its entity.

Every organization has a goal that it strives to achieve and live up to. For instance, at their various levels, legal institutions aim to turn out good, disciplined, and well-behaved citizens for the country's social, economic, and political development. Police and other law enforcement agencies have the objective of curbing and suspension of deviant behaviors and bringing order to sanity.

#### A. The Society

Business organizations are set up to provide goods and services to the people at minimum cost and minimum profit. At their various levels, educational institutions aim to turn out literate citizens with a high-level workforce for their social, economic, and

## Effective Communication as a Tool for Achieving Organizational Goals and Objectives

political development, voluntary and religious organizations. Examples include; the red – cross boys – scouts, girls guides, boys brigades, and girls brigades. Various churches are set up as mortal instruments for character molding that offer humanitarian services to the needy.

According to Ukeku (1983: 20), human resources are essential tools of every organization since without them, other resources cannot operate.

These personnel, who are the vehicles through which organizational objectives are attained, have to be appropriately managed for effective performance. Aenyar (1970:20) is concerned with the direction and control of an organization; it involves planning and supervision of others' work.

These managerial functions can't be successfully executed in the absence of communication. It is imperative in the role of directing and leading. It is only when people can open up and burst each other with their true selves. Hence, we can call communication as the life wire of an organization.

### **B. Communication Function**

It is how an organizational activity is unified, social inputs are fed into, behavior is modified, information is made productive, and goals are achieved. A personnel officer or a superior officer engages in communication with an individual to change his behavior. He may have the discipline or corrective objective in a counseling situation with emotional content; the superior should listen empathically to the subordinates. Empathy means putting oneself in somebody else's shoes or place and emotions. Therefore, empathetic listening is part of two-way communication. The associate must have the opportunity to express himself, and it is only when he has made himself know that the superior will know where to assist him.

Communication is essential for both the internal and external functioning of enterprises. It's needed internally, including integrating the management function to development plans for their achievement to organize human and material resources for maximum productivity and create a conducive atmosphere for effective and efficient organizational performance. External communication is also vital for every organization to achieve success. Through information exchange, managers know the needs of their numerous customers, both consumers and suppliers, legal and community requirements, conditions in the labor market, new product line expectations, plans, and strengthen programs for business trend innovations.

No organization, be it military, business, religious, and even government, can succeed without external interaction and influence, which is only possible through communication.

Brow (1985:116) stressed that communication is the process of transmitting ideas and thoughts from one person to another to create ideas and thoughts from one person to another to create understanding in the person's thinking.

This emphasis on understanding brings attention to the significance of communication for effective organizational performance.

Anker (1978:102) stated that information is the manager's primary tool since; he does not "handle" people but motivates, guides and directs them to conform to the desired goals. The manager's only means to do this language charts gestures and other movements.

Whatever method is applied, the important thing is understanding by the receiver for the necessary action no matter the manager's job; his effectiveness depends on his ability to speak and to write clear enough to get his thinking across to other people and understand what other people are after. Managers should aim to organize and coordinate their organization's human and material resources into an effective and efficient working unit. To achieve this, he must spend a few hours from his day on learning communication. Only when an organization's human and material elements are harnessed into a united whole can the organization's objective be achieved through effective performance.

Despite the importance of communication for effective organizational performance, many business organizations in Nigeria today pay no attention to it. In the office, most files are labeled confidential, the result being, those who are supposed to utilize the information for adequate performance are denied access to the fact. How can an organization MEMBER PERFORM CREDITABLE WELL WHEN HE IS NOT? When can an organization's member know when he is contravening the rules and regulations in his organization when no one has cared to make such information known to him? How can such an organization expect to succeed or achieve its objective when with whom and through whom it wished to achieve its goals are not aware of "while" indolence, strikes, and sick reports are abound in the public office. Strikes and the likes occur more frequently due to poor and ineffective communication between the management and members of the organization. In no way does this aid the organization in its efforts to achieve its objectives. Given this, the research hopes that this will help direct the readers' minds towards realizing the importance of effective communication in an organization. It is true that effective communication minimizes misunderstanding and increases mutual understanding, trust, and selfless services among organization employees.

## Effective Communication as a Tool for Achieving Organizational Goals and Objectives

### III. STATEMENT OF THE PROBLEM

Today, most business organizations have failed to satisfy their potential customers not in quality or quantity of such goods and services provided but in creating adequate awareness and enlightenment to its customers.

Before a product is made available for its market, organizations should determine how to communicate it to potential customers. The task involves the use of effective communication between the marketing firm and its target audience. Through communication, marketers can inform the target audience about their product, price, and performance, where they may purchase it from, etc.

In communicating a product, marketers are faced with both controllable and uncontrollable problems such as the product, price, promotion, competitors, the economy of the nation, etc. To solve these problems, an organization should put up a communication message that will attract attention, hold interest, arouse desire, and elicit action by choosing the most efficient means of getting their message across to their target audience or potential customers.

One of the problems being faced today is that organizations want to keep talented employees in the organization but don't know how to ensure their stay. We usually hear several reasons why employees leave the organization, including being offered higher pay, getting more benefits, career development, etc. But, according to McConnell's study, these adverse effects include loss of productivity from position vacancy, inefficiency associated with the coworkers of the leaving individual taking responsibility for their duties on top of their own, further inefficiency of the incoming employee during training and orientation to the new position and costs associated with human resource processing.

Effective communication among employees in the organization is related to communication mode to develop an understanding of strategies that foster quality communication, impacting any organization's success. According to employers and employees must be consistent, clear, complete, and accurate when communicating with each other. Some of the barriers may include body gestures, language, culture, emotions, and personalities when communication breakdowns occur.

#### **A. The Need for Effective Communication in an Organization**

Effective communication is a critical tool for organizational success. For an organization's management to perform its essential functions of organizing, directing, coordinating, etc., it must apply a system or means of communication that is very effective. A Management Study Guide states that Effective communication is a building block to a successful organization". In other words, communication acts as organizational blood. Madlock (2008) noted that "if planned strategically, internal communication will significantly enable the organization to achieve its goals more effectively." Effective communication in an organization can help managers perform their jobs and responsibilities very well and in a coordinated manner.

#### **B. Barriers to Communication in Organizations**

There is no doubt that communication is essential for the effective and efficient management of every organization. Yet, managers/chief executives have found communication very problematic and stressful because of specific barriers.

These communication barriers include communication overload, wrong expressed messages, inappropriate medium, poor listening, premature evaluation, grapevine, hostility between the participants, bureaucracy, social distance, communication filtering, and distractions by personal and family problems. Diwan (2000) reasoned that "the problem of effective communication is unfortunately greater than just the recognition of its scale and importance." As it were, effective communication is required for productivity in any organization. To this end, Koontz (2001), while highlighting barriers to effective communication in an organization, opined that communication problems are often symptoms of more deep-rooted challenges, such as poor planning may be the reason behind uncertainty about the goals or direction of the organization.

Succinctly, some barriers to effective communication, as highlighted in Onuoha (1991), include communication overload, poorly expressed message, inappropriate medium/Language, poor listening/decode, and premature evaluation arising from lack of understanding, hostility between the participants, bureaucracy, and grapevine with informal organizations within organizations.

### IV. THE SOLUTION

#### **A. Overcoming Barriers to Communication in Organizations**

To deal with communication barriers in organizations, managers must first recognize that communication is an inherently complex process. Communication is intrinsically difficult because human beings perceive and interpret reality according to their backgrounds, needs, emotions, values, and experiences. A production manager's memorandum to a supervisor asking for a figure on absenteeism will be seen as a legitimate request by one supervisor and as unnecessary meddling by another supervisor. A manager's instruction may seem coldly formal to some subordinates and polite to others. A quarterly report may seem clear to one superior and confusing to another. Some writers believe that most organizational barriers to communication are based on how people interpret the communication they receive. Often, these can be traced to cultural



## Effective Communication as a Tool for Achieving Organizational Goals and Objectives

differences. In a nutshell, an efficient organization depends on the effectiveness of internal communication. And with the presence of communication barriers, how can an organization improve its communication networks. American Management Association suggests some useful steps in this direction. These include:

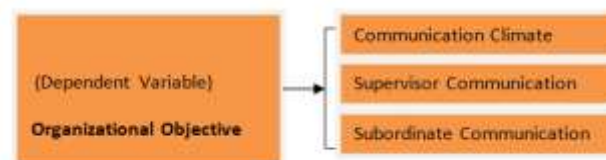
1. Clarity of ideas before attempting to communicate.
2. Examining the purpose of communication.
3. Understanding the physical and human environment when communicating.
4. While planning communication, consult with others to obtain their support as well as the facts.
5. Consider the content and overtone of the message.
6. Try to communicate something that helps or is valued by the receiver.
7. Communication to be effective needs or require follow-up.
8. Communicate messages that are short-run and long-run importance.
9. Actions must be congruent with communication.
10. Be a good listener.

Communication is a crucial component used to meet organizational goals and objectives. Stimulation and motivation of employees via organizational communication is the pillar behind successful achievement of these goals. Communicating may be non-verbal or verbal. Non-verbal communication is important to successful workplace relationships through body movement, including gestures, posture and gait, and facial expression. Nonverbal communication is also associated with social behavior and can be viewed as a conveyor of emotion. 65% to 75% of most communication is nonverbal and includes cues about what we sense, feel and think about others. Breakdown in the communication will occur because of the misinterpretation of information received. Wrong word choice, differing communication styles, and perspectives can all contribute to communication breakdown. In general, communication climate can be defined as the internal environment of information exchange between employees through formal and informal networks. The communication climate is open when information flows freely and closes when information is completed. Thus, a negative communication climate is created when individuals contribute to the organization but are not appreciated. A negative climate makes it difficult for employees to get and give information and to take action. Employees feel uncomfortable and unwilling to interact with each other.

Next, the supervisor is a front-line management person who monitors an employee's performance when assigned. They are usually authorized in hiring, disciplining, promoting, punishing, rewarding, and any employment activities in the departments. Besides, the supervisor can offer rewards or punish employees. Furthermore, the supervisor must be able to communicate effectively in terms of transferring knowledge and motivation. The research shows that supervisor's listening skills were perceived as crucial in assessing the effectiveness of supervisory communications. Moreover, there is a theory that Sullivan's Motivating Language Theory (MLT) hypothesizes that superior's use as motivating language, giving direction or sharing feelings, and explaining cultures will positively impact employee performance and job satisfaction. In the US, it has been proved by Sullivan's MLT that strategic applications of leader oral communication have positive, measurable effects on subordinate performance and job satisfaction.

Moreover, the Contemporary economy is changing rapidly. It is characterized by globalization and deregulation of markets, changing customer demands, and increasing competition. Every organization has a specific objective that they target to achieve to manage all kinds of problems. That's why objective becomes vital towards organizational success.

Figure 2.1 shows the theoretical framework for the dimension of communication satisfaction.



**Figure 2.1:** Framework of dimension of communication satisfaction

## V. COMMUNICATION AND STRATEGIC MANAGEMENT DEFINED

Communication is defined and explained in multiple ways by intellectuals of various interests and disciplines in management, psychology, and sociology. Communication pervades across every aspect of life, including business, domestic, and social interactions. Anugwom (2007) defines communication as using words, signs, and symbols to interchange ideas, emotions, facts, and information by two or more persons. Nwokeneme (2008) defined communication as a process that comprises the

## Effective Communication as a Tool for Achieving Organizational Goals and Objectives

transmission of message or information through a channel from sender to receiver. From a wider perspective, communication is a process by which information is passed between individuals and organizations using previously agreed symbols. Inyang and Esu (2003) define communication as the process of transmitting meaning from sender to receiver. Other scholars such as Dessler (2004:94-110), Adams (2006; 16-24), and Smith (2008:42-51) have agreed that communication is simply a transmission or exchange of meaning.

According to Image (2003:75), strategic management means a mindful approach to organizing, staffing, directing, leading, controlling, and coordinating organizations like a public enterprise to achieve the designed objectives in the minimum possible resources at the quickest possible time. Adams and Ebert define strategic management (1985:536) as a "continuous process of thinking through the organization's current mission, thinking through the environmental conditions, and then combining these elements by setting forth a guide for tomorrow's decisions and results."

### VI. METHODS OF EFFECTIVE COMMUNICATION

#### A. *Different Effective Methods of Communication*

Most of the time, when the word communication come to people's minds, they think about exchanging ideas and information using words. Even then, such verbal communication is just a small part of communication. In the 21st century, businesses have access to several communication methods of communication which can be used internally and with external audiences. The main forms of communication that the companies can use include formal business meetings and print to videoconferencing and social media of the new age. Businesses can utilize several tools for addressing audiences who are in locations that are both near and far. While a lot of attention is received by the new methods of effective communication, the value and relevance of traditional communication methods still exist. Thus, several different forms of communication exist, and the determination of the way that is right for the organization is a vital decision that needs to be taken. The conventional methods of communication are oral or verbal by a sender and reading or listening for the receiver. Most of the communication is oral, with one party speaking and others listening. However, there are a number of ways of communication that do not involve spoken or written language directly.

Nonverbal communication (body language) consists of actions, gestures, and other aspects of physical appearance that, combined with facial expressions (such as smiling or frowning), can be powerful means of exchanging messages. At times, a person's body may be "talking" even as they maintain silence. And sometimes, when people speak, their bodies say different things than what their words convey. A *mixed message* occurs when a person's words communicate one message, their bodies or nonverbal aspect communicates something else. Although technologies such as text messages and e-mail have lessened the importance of nonverbal communication, most organizational communication still occurs face-to-face. Every verbal message comes with a nonverbal component. Receivers interpret messages by assuming meaning from everything available. When nonverbal signs are consistent with verbal messages, they act to reassure the messages. But when these nonverbal and verbal messages display inconsistencies, they add to the confusion for the receiver of the message. Management actions are especially significant because subordinates display more confidence in what managers do than what they say. Unless efforts are consistent with the communication, a feeling of distrust will undermine the effectiveness of any future social exchanges.

**Oral communication skills:** A major part of a manager's day is spent conversing with other managers and employees, the ability to speak and listen become critical to success. For instance, oral communication skills are usually used when a manager makes sales presentations, conducts interviews, performs employee evaluations, and holds press conferences. In general, managers prefer to rely on oral communication because communication tends to be complete and thorough when talking in person. In face-to-face interactions, a person can judge how the other party reacts, get immediate feedback, and answer questions. In general, people tend to assume that talking to someone face-to-face or telephonically are more credible than receiving a written message. Face-to-face communication permits not only the exchange of words but also the opportunity to see nonverbal communication. However, verbal communicating has its drawbacks. It can show inconsistencies unless all parties hear the same message. And although oral communication is helpful in conveying viewpoints of others and providing an openness that encourages people to communicate, it is not considered as a strong tool for implementing a policy or issuing directives in case specifics are involved.

**Written communication skills:** Written communication has several advantages. First, it provides a handful of records for referrals and follow-ups. Second, written communication is a completely inexpensive means of sharing identical messages to a huge audience. A major limitation of written communication is that the sender lacks information about communication being received unless a reply is required. Unfortunately, writing skills are often difficult to master, and many individuals have problems in writing simple, clear, and direct copies. Believe it or not, poorly written documents cost a lot of money. Just imagine, how

## Effective Communication as a Tool for Achieving Organizational Goals and Objectives

much can a bad writing cost a company annually? According to a Canadian consulting and training firm, one employee who writes just one poorly worded memo per week over a year can cost a company \$4,258.60. This is why, managers should be able to write clearly. The ability to prepare notes, letters, sales reports, and other written documents may tell the difference between success and failure.

### VII. CHARACTERISTICS OF EFFECTIVE COMMUNICATION

In *Effective Public Relations* (1952), University of Wisconsin professor Scott M. Cutlip and Allen H. Center defined a set of principles known today as the 7C's of communication. This list has been widely adopted – with or without slight variations – and is now being considered a staple in public relations studies.

**Completeness:** Effective communications are complete, i.e., the receiver understands all the information he needs to process the given message to generate action or response. A complete message minimizes the need for follow-up queries and eases the communication process.

**Conciseness:** Conciseness means keeping your message to the point. This attribute is more about the content of the message rather than the length. Even a short note can include unrequired information. Conciseness helps the receiver to focus on significant part of the message, speeds up information processing, and caters for improved understanding.

**Consideration:** Effective communication has space to understand the receiver's background and perceptions. If your message hits a nerve or doesn't sound respectful, the emotional reaction of the receiver may affect the understanding of your message. Also, tailoring your message to your target audience – e.g., using argumentation and examples relevant to their experience will make it easier for them to process the content and the context.

**Concreteness:** A concrete message is specific, tangible, and vivid. Facts and figures add to its enhanced credibility and act as support. It helps the audience to understand a broader picture. Concreteness reduces the risk of misunderstanding, builds trust, and encourages constructive criticism.

**Courtesy:** Courtesy and consideration complement each other to rule out chances of ineffective communications. Courtesy means respecting the receiver's cultural values, and beliefs while curating a polite and unbiased message.

**Clearness:** The clear your message is, the easier it becomes for the receiver to decode it according to the original intent. While this sounds obvious, most communication gaps germinate out of a lack of clarity. To deliver a compelling message, you must start with a clear communication goal and authentic thoughts. Clear communication built on exact terminology and concrete words reduces ambiguities and confusion.

**Correctness:** Correct grammar and syntax are the essence of an effective and credible message. Formal errors affect the clarity of message, trigger ambiguity, and create doubts. They might also harm the overall understanding of the message, which could be a sign or red flag for negligence.

### VIII. CONCLUSIONS

Communication might be understood as transfer of facts, information, ideas, suggestions, orders, requests, grievances, etc., from one to another person to impart a comprehensive understanding of the subject matter of communication to the received response from the recipient to such communication. Communication plays a critical role in every organization. Growth and development of businesses depends upon factors like hard-working and dedicated employees, teamwork, proper decision making, etc. All these factors come into effect only with implementation of effective communication in an organization. Generating desired outcomes and attracting bigger clients is possible only when the power of communication between the employees working in the company is harnessed to its true potential.

### REFERENCES

- 1) Lunenburg, F.C. (2010). Communication: The process, barriers, and improving effectiveness. *Schooling*, Volume 1, Number 1, pp. 1- 11.
- 2) Avatar Solutions. (2013). Research Report: Reasons for Leaving an Employing Organization. Retrieved from: [http://cdn2.hubspot.net/hub/249362/file-366541269-pdf/Research\\_Report\\_-\\_Workforce\\_Reasons\\_for\\_Leaving.pdf](http://cdn2.hubspot.net/hub/249362/file-366541269-pdf/Research_Report_-_Workforce_Reasons_for_Leaving.pdf)
- 3) Chiang, C-F. Jang, S-C. Canter, D. & Prince, B. (2008). An expectancy model for hotel employee motivation: Examining the Moderating Role of Communication Satisfaction. *International Journal of Hospitality & Tourism Administration*, 9, 4, 327-351.
- 4) Feigenbaum, E. (2012). About barriers to effective communication within the workplace. Retrieved from: <http://smallbusiness.chron.com/barriers-effective-communication-withinworkplace-3185.html>

## Effective Communication as a Tool for Achieving Organizational Goals and Objectives

- 5) Clappitt, P.G. & Downs. C.W. (1993). Employee Perceptions of the Relationship between Communication and Productivity: A Field Study. *The Journal of Business Communication*, 30(1), 5-28.
- 6) Burgoon, J. K, Guerrero, L. K & Manusov, V. (2011). Nonverbal signals. In M. L. Knapp & J. Daly (Eds.) *Handbook of interpersonal communication*: 239-280. Thousand Oaks, CA: Sage.
- 7) Schwartz, L.C. (2012). Nonverbal Communication with Workplace Interactions. Retrieved from: <http://smallbusiness.chron.com/nonverbal-communication-workplace-interactions->
- 8) Hanes, T. (2010). What is verbal communication? Retrieved from: [www.livestrong.com/article/150573-what-is-verbal-communication/](http://www.livestrong.com/article/150573-what-is-verbal-communication/).
- 9) William, J. (2001). Open communication climate. Retrieved from: <https://www.pdx.edu/sites/www.pdx.edu/cae/files/Workplace.pdf>
- 10) Brian. (2011). Creating an Effective Communication Climate. Dr.Brian's Smarta Marketing Blog Number 1. Retrieved from: <https://smartamarketing.wordpress.com/2011/01/22/creating-an-effective-communicationclimate/>
- 11) Richason, O. (2012). What is effective workplace communication? Retrieved from: <http://smallbusiness.chron.com/effective-workplace-communication-822.html>
- 12) Kim, S. (2002). Participative Management and Job Satisfaction: Lesson form Management Leadership. *Public Administration Review*, Vol. 62, No. 2, pp. 231-241.
- 13) Mayfield M., Mayfield J., & Kopf J. (1998). The effects of Leader Motivating Language on Subordinate Performance and Satisfaction. *Human Resource Management*. Vol. 37, No. 3,4, pp. 235-248.
- 14) Mayfield M., & Mayfield, J. (2006). The Benefits of Leader Communication on Parttime Worker Outcomes: A Comparison between Part-time and Full-time Employees Using Motivating Language. *The Journal of Business Strategies*, Vol. 23, No. 2, pp. 131-153.
- 15) Mayfield, M., & Mayfield, J. (2009). The Role of Leader-Follower Relationship in Leader Communication: The Test Using the LMX and Motivating Language Models. *Journal of Business Enquiry*, 8 (1), pp 65- 82.
- 16) Becker, B. and Gerhart, B. (1996). The impact of human resource management on organizational performance: Progress and Prospects. *Academy of Management Journal*, 39, 779-802.
- 17) Downs, C. W. & Hazen, M. D. (1977). A factor analytic study of communication satisfaction. *The Journal of Business Communication*, 14, 64-73
- 18) Daramola I. (1997): *Mass Communication: Theory and Practice*, Alabi Eyo & Co. Ltd, Akure, Ondo State, Nigeria.
- 19) Diwan, P. (2000). *Communication management*. Kuala Lumpur: Godden Books. Pp122
- 20) Eisenberg, E. M., Goodall, H. L., & Trethewey, A. (2007). *Organizational Communication: Balancing Creativity and Constraint*, 5th Ed.Pp22
- 21) Industrial Research Institute (2010). Michigan: Industrial Research Institute Available at: <http://www.howtodo.dissertationhelpservice.com/what-is-research-methodology-and-itsimportance> accessed on the 15th March 2016
- 22) Koontz, H. (2001). *Management: A Global Perspective*. 10th Ed. New York: McGraw-Hill.
- 23) Madlock, P. (2008). The Link between Leadership Style, Communicator Competence and Employee Satisfaction. *Journal of Business of Communication*, pp42
- 24) Lukaszewski, J. (2006). Rethinking Employee Communication: A Strategic Analysis. No. 5. Jimlukaszewski Strategy.
- 25) Onuoha, C.B. (1991). *Fundamentals of Business and Management in Nigeria*. Aba: Unique Press pp76
- 26) Richard, R. (1991). *Research Methods in Political Sciences*, 3rd ed, London, New York
- 27) Richter, C. (2000) & Anthony Giddens: A Communication Perspective. *Communication Theory*, 13 (3), 304-323 <http://www.managementstudyguide.com/>
- 28) <https://www.projecttopics.org/effective-communication-tool-achievement-administration-goals-organization.html>
- 29) Adams, T.G. (2006) "The Art of Common Communication," *Journal of Multidisciplinary Studies* . (4)3
- 30) Desseler, A. C. (2004) "Making Communication Work", *Journal of Social Psychology*, 5(5).
- 31) Diwan, P. (2000). *Communication management*. Kuala Lumpur: GoddenBooks. Pp122
- 32) Eisenberg, E. M., Goodall, H. L., & Trethewey, A. (2007). *Organizational Communication: Balancing Creativity and Constraint*, 5th Ed.Pp22
- 33) Hambagda, O.A. (2000) *Communication for Management*. Lagos: Mathouse Press Ltd.
- 34) Herich, L.B. (2008) *Effective Communication*. New Delhi: Purkus Publishing Company.
- 35) Hybels, S and Weaver, R.L. (1992) *Communicating Effectively*: New York: McGraw Hill.

## **Effective Communication as a Tool for Achieving Organizational Goals and Objectives**

- 36) Nnamseh, M. (2009) "The Role of Communication in Business Success" Nigeria Journal of Management Research, 1(4).
- 37) Nwokeneme, S.L.O. (2008) Effective Communication Skills and HumanInteraction, Enugu: Fidgina Global Books.
- 38) Smith, I.B.(2008) "The Basic Language of Communication" Contemporary Journal of Education 1(1).

## Indian Debt Market: Need for More Reforms

Dr. A. Ruksana Banu<sup>1</sup>, Dr. A. Abdul Raheem<sup>2</sup>

<sup>1</sup>Assistant Professor, Department of Business and Accounting, Muscat College, Sultanate of Oman

<sup>2</sup>Associate Professor, Department of Economics, the New College (Autonomous), [University of Madras]



**ABSTRACT:** The Indian debt market while made out of securities, both Government and Corporate, is really overwhelmed by G-Sec with more than 90 per cent of Indian debt market, leaving little space for corporate securities. The focal government securities are the dominating and most fluid segments of the security market. Nonetheless, regardless of the expanded volumes, the quantity of members is restricted to around two dozen dynamic players. The focal government securities are the dominating and most fluid segments of the security market. Nonetheless, regardless of the expanded volumes, the quantity of members is restricted to around two dozen dynamic players. Since a lion's share of members is AAA – evaluated and 80 per cent of exchange is immediate, there exist settlement hazards. The market would further develop once uniform guidelines on accounting, valuation and so on are in place. Therefore, this paper highlights the need for more reform in Indian debt market.

**KEY WORD:** debt market, securities, market risk, investors, bond, interest rate.

### 1.1 INTRODUCTION

The debt market assumes a vital part in the economy as it helps in activating, dispensing, estimating debt reserves, other than financing the formative exercises of the public authority. In that the Corporate Bond markets are vital components of the financial markets, particularly for a developing economy like India, they can act as effective buffers vis-à-vis bank financing in infrastructure and power projects [1]. The Indian debt market while made out of securities, both Government and Corporate, is really overwhelmed by G-Sec with more than 90 per cent of Indian debt market, leaving little space for corporate securities. The focal government securities are the dominating and most fluid segments of the security market. Nonetheless, regardless of the expanded volumes, the quantity of members is restricted to around two dozen dynamic players. Since a lion's share of members is AAA – evaluated and 80 per cent of exchange is immediate, there exist settlement hazards [2]. The market would further develop once uniform guidelines on accounting, valuation and so on are in place.

### 1.2 THE G-SEC MARKET

The Indian debt market and the government securities specifically, are at a defining moment in India with critical changes occurring in the domestic economic climate alongside different proposed administrative changes. Dr. Rakesh Mohan, Dy. Lead representative says the government securities market before the 1990s was portrayed by regulated interest rates, high SLR necessities that prompted the presence of captive investors and the shortfall of a liquid and transparent secondary market for G-Secs [3]. Moreover, low interest rates were obtainable on Government securities to remain Government borrowing costs downwards, which made real rates of return depressing for a number of years till the mid-1980s.

During the 1980s, the volume of Government debt extended significantly, especially short-term debt, because of programmed convenience to Central Government by the Reserve Bank, through the system of unplanned Treasury Bills. Nonetheless, with a captive investor base and low interest rates, the secondary market for Government securities stayed torpid. Counterfeit yields on Government securities influenced the yield design of financial assets in the framework, and prompted a general high interest rate climate in the rest of the market.

Driven by these impulses, the Reserve Bank's money related administration was portrayed by a system of directed interest rates, and rising Cash Reserve Ratio (CRR) and SLR remedies. High CRR and SLR generally ruled out money related moving. The RBI needed to embrace a long and staged program of changes to make a progress from the present circumstance to one where interest rates would be market decided, Government getting would be market based and would reflect market costs



## Indian Debt Market: Need for More Reforms

[4]. The changes were additionally significant for building up the climate for viable money related approach making and financial transmission instruments.

### 1.3 CURRENT SCENARIO

The G-Sec market is generally prevailing and dynamic part of the debt market. The key instruments that are exchanged this market are fixed rate security, floating rate securities, zero coupon securities and swelling list securities and depository bills. Securities gave by state governments, local bodies and municipal bodies are likewise exchanged here. The market is huge on the grounds that it gives signals regarding where the interest rates are going in the economy. The market participant are institutional investors like banks, financial institutions, mutual funds, provident funds, insurance companies and corporate [5]. Of these, banks are the predominant players because of the legal liquidity proportion necessities. According to the RBI rules, banks need to put 23 per cent of their deposits in G-Sec. When the securities are given, secondary trading G-Sec in dematerialised structure is done on automated request driven arrangement of National Stock Exchange, Bombay Stock Exchange and OTCEI. The everyday turnovers of G-Sec market are around Rs.30, 000 to 50,000 crore.

### 1.4 CORPORATE BOND MARKET

Economists observe the part of corporate security market as a channel that joins countries savings into investment opportunities if of fundamental significance for a few reasons. For the issuer (borrower) it gives low cost funds which authorize them to keep away from intermediary role of a bank. In spite of the fact that corporate require to go through intermediaries like brokers, underwriters in the debt market as well, the severe competition between them push down the cost of fund raiser [6]. Presence of security subsidizes gives the corporate an extra methods for raising long term capital. For the investor (lender) there provide premium possibility in resemblance to traditional deposits at banking institutions. It additionally expands the investment opportunities in various sorts of instruments and tailors hazard reward profile agreeing their inclinations. It is intriguing despite tremendous latent potential the corporate bond has not shown the promised growth for various reasons. The key factors inhibit the growth of corporate security market are:

- The regulatory limits on institutional investors
- Non consistent stamp duty
- mainstream issue being private placement and not public issue
- TDS on corporate security
- deficiency of un-rated or deprived rated/sub-investment rank securities
- extremely low down retail involvement
- deficiency of market maker

The government is previously addressing the key issues describing to instant revitalization of corporate security market. New technique start as the kick-off of 2004 are yet to make principle result despite the fact that it guarantee better action in the corporate security market. The RBI report features a major advancement by the presentation of the Real Time Gross Settlement System which will encourage better liquidity management [7]. The DvP III method of settlement has been empowered which grants net settlement of the both funds and securities legs.

The DvP III method of settlement has additionally allowed the rollover of repos. Another huge advancement was the presentation of the Market Stabilization Scheme which has extended the instruments accessible to the Reserve Bank for dealing with the surplus liquidity in the framework. These changes can be momentarily seen as an efficient exercise for the improvement of the debt market just as reconciliation of the whole financial markets by making it profound, wide and transparent [8]. In glancing back at the succession and speed of these changes that have been set up longer than 10 years, one starts to value the complexity and difficulty that is characteristic for the advancement of a productive debt market we actually have far to go.

These changes were connected to operational self-sufficiency of the RBI, measures for example, the cancellation of planned adjustment throughout ad-hoc Treasury Bills (in 1997) and its replacement by Ways and Means Advances facility, with restrictions, to convene temporary cash flow befuddle for the Central Government were view as basic for the change of monetary policy. We are also aware that these measures have been taken in close collaboration with the market players. RBI report also highlights other measure it had adopted since then:

## **Indian Debt Market: Need for More Reforms**

### **1.5 INTEREST RATE FUTURES (IRFS)**

Consequent upon the decision to introduce IRFs on NSE, guidelines in respect of RBI regulated entities were formulated to enable their participation. NSE introduced three futures instruments on June 3, 2003, futures contracts on notional 91 day Treasury Bill, futures contracts on notional 10 year coupon bearing bond and futures contracts on notional 10 year zero coupon bonds. While banks were permitted to utilize futures just to fence their G-sec investments in Held for Trading (HFT) and Available for Sale (AFS) classes, PDs were permitted to interest rate derivatives (IRDs) for both hedging and trading. Nonetheless, because of the absence of liquidity of the exchange traded futures market, Securities and Exchange Board of India (SEBI) in meeting with FIMMDA improved on futures contracts on a 10-year notional bond, which is evaluated based on the Yield To Maturity' (YTM) of a bushel including three securities with development going from 9 to 11 years [9]. The exchanges are currently dispatching another product.

### **1.6 LEGALITY OF OTC DERIVATIVES – AMENDMENTS TO SCRA**

OTC interest rate derivatives are offered in 1999, banks could embrace essential FRA and IRS contracts for their possess balance sheet management and as well for market making intention, if they assurance acceptable structure, risk management system and internal control system [10]. The quantity in the market has developed detectably with the outstanding notional sum at around Rs. 6, 40,000 crore. In any case, there has been a number of apprehension in hold to authority of OTC derivatives with section 18A of the Securities Contracts (Regulation) Act, 1956 (SCRA), formation just derivatives contracts that are carry out on exchanges legal and suitable [11]. As desires assured adjustment via beneficial actions to the future change are being talk about with the Government of India to guarantee that the projected revision don't put at risk the legal status of OTC derivatives.

In particular, it has been suggested that section 18A be amended so as to make contracts of the group and nature as give notice by RBI legally appropriate, even if they are not traded on any recognized stock exchange. Exchange traded derivatives have their own role to take part in in the debt market but by their immensely nature they have to be standardised products. OTC derivatives, on the other hand can be customized to the requirements of the trading entity [12]. Consequently both OTC and exchange traded derivatives are essential for market development. In particular, it has been recommended that segment 18A be corrected in order to make agreements of the class and nature as informed by RBI lawfully legitimate, regardless of whether they are not exchanged on any perceived stock trade. Trade exchanged subsidiaries have their own task to carry out in the obligation market - however by their very nature they must be normalized items [13]. OTC subsidiaries, then again can be altered to the necessities of the exchanging elements. Hence both OTC and trade exchanged subsidiaries are fundamental for market advancement.

### **1.7 ROLLOVER OF REPOS**

Rollover of Repos: With the choice to move progressively towards an unadulterated between bank call/term currency market, there is a need to eliminate the operational/administrative limitations in the repo market. One of the noticeable obstacles in the development of the repo market is the weakness to rollover contracts [14]. To make powerful constant access to assets from the repo market, it was selected to allow rollover of repos which will be empowered alongside DvP III. DvP III Mode of Settlement: In request to diminish the price risk expected by market participants, sale of securities recently bought is proposed to be allowed with specific shields worked in to forestall short sales [15]. To empower this just as to empower rollover of repos, net settlement in securities is required. In this manner, it has been selected to progress the settlement method to DvP III.

### **1.8 MARKET STABILIZATION SCHEME**

As a reaction to the large-scale capital inflows lately and the subsequent issues looked in overseeing liquidity, the Reserve Bank presented the Market Stabilization Scheme (MSS) in the wake of consulting the Government of India for wiping up liquidity of a really suffering nature in March 2004. Under this plan, the Government would give existing instruments, for example, Treasury Bills as well as dated securities via auctions under the MSS, notwithstanding the normal borrowing prerequisites, for engrossing liquidity from the framework. The expectation of MSS is basically to separate the liquidity assimilation of a seriously suffering nature via sanitization from the everyday normal liquidity management tasks [16]. To provide transparency and constancy to the financial markets, a expressive schedule for issuance of Treasury Bills/ dated securities on a periodical basis is being reported.

### **1.9 CAPITAL CHARGE FOR MARKET RISK**

With a sight to guarantee even modify to the standards under Basel II, banks were positive to stay on up capital charge for market risk more than a two year time period as under: (i) Banks would be essential to stay on up capital charge for market risk in observe of their trading book exposure (including derivatives) by March 31, 2005. (ii) Banks would be essential to remain up

## Indian Debt Market: Need for More Reforms

capital charge for market risk in observe of the securities incorporated below obtainable for sale (AFS) categorization by March 31, 2006.

### 1.10 PRIMARY DEALERS AND THEIR ROLE

As we know, PDs are expected to promote retailing in the G-Sec, active market making in G-Secs and price discovery. While the institution of PDs has led to improved liquidity in the secondary market, retailing of G-Secs and promoting a retail market has not been undertaken by the PDs on the scale and intensity that was expected [17]. With the proposed order driven trading G-Secs on the NDS, PDs are required to assume a huge part in building up the retail market on trades. PDs should also improve their market making in interest rate derivatives, particularly with a larger category of institutions like insurance companies coming into the market.

Thus, in order to fulfil their obligations, Primary Dealers will have to assume a greater role and responsibilities for market making and retailing of G-secs. On the benefits side, the long pending demand of the PDs for exclusivity in the auctions of G-Secs in a limited way has been under the active consideration of RBI. In addition, the Standing Technical Advisory Committee on Money, Government Securities and Forex Markets has formed a Sub Group to look into the issue of broad basing the PDs portfolios by permitting them to invest in the sovereign securities abroad, setting up of overseas joint ventures, wholly owned subsidiaries, and the like. Because of every one of these measures, the Indian G-Sec market has been changed significantly throughout the most recent ten years [18]. A major outcome of this development is that the market is becoming increasingly broad based: with the market now looking well diversified with the participation of banks, financial institutions, provident funds, insurance and pension funds, primary dealers, 100 per cent gilt mutual funds, corporate bodies, provident funds, trusts, individuals, foreign institutional investors (FIIs) and non-resident Indians (NRIs).

The consolidation of securities accomplished throughout the long term, has brought about the improvement of dynamic benchmark securities. Subsequently we presently see that the auctions for Government protections have built up a serious level of refinement. There is an always narrowing hole between the cut-off cost and the weighted normal cut-off price; the bid at the essential closeout is almost completely associated with the secondary market yield bend showing great price revelation [19]. A sensibly smooth and stretched yield bends of as long as 30 years development has arisen, which is likely tantamount with those in created economies. Volumes of trading the secondary market are expanding and offer asks spreads are narrow. The annual turnover in the secondary market for G-Secs now is more than twice the GDP of the country and that, after Japan, India's G-Sec market is probably the largest in Asia.

In fact in the process of reaching where we are today in developing the G-Sec market, several issues had to be addressed and problems were faced in the areas of broadening the primary market with appropriate auction methodology, promoting depth and liquidity in the secondary market, fostering market intermediaries and market making, setting up of reliable trading and settlements systems, ensuring adequate institutional, legal and risk management systems and facilitating data dissemination and transparency [20]. It is gratifying to note that despite these challenges, we could develop a deep and liquid market for government securities in India.

### 1.11 CONCLUSION

It could be concluded from above discussions the several changes have helped strengthen the debt market in India, but, still it remain under-developed relative other developing countries. The prominent economist actually feels that securitisation has a long history in India however the improvement has been moderate and restricted to a couple of resource types. They likewise comment that corporate borrowers keep on relying upon bank credits, equity markets, and private arrangement to meet their extra capital prerequisites. To conclude based on an evaluation of the successful bond market across the world, as well as analysis of pitfalls plaguing Indian debt market, the RBI and other participants need to ensure speedy reforms towards developing the debt market in India.

### REFERENCES

- 1) Chaudhari, K., Raje, M., & Singh, C. (2014). Corporate bond markets in India: a study and policy recommendations. IIM Bangalore Research Paper, (450).
- 2) Jacob, T., & Kattookaran, T. P. (2016). Indian Debt Market: An Analysis of the Post Liberalization Era. *International Journal in Management & Social Science*, 4(4), 1-16.
- 3) Acharya, A. (2011). Corporate bond market in India: Issues and challenges. *RBI Occasional Papers*, 32(3), 67-106.
- 4) Khan, H. R. (2015). Corporate Bond Markets in India: A Framework for Further Action. *RBI Speeches-FICCI CAPAM-2015*, Mumbai, 27.

## Indian Debt Market: Need for More Reforms

- 5) Mitra, A. (2009). Why Corporate bond market in India is in Nelson's low level equilibrium trap for so long?. NSE News, 8-16.
- 6) Barajas, A., & Chami, R. R. and SR Yoesfei. 2013. The Finance and Growth Nexus Re-Examined: Do All Countries Benefit Equally (pp. 1-33). IMF Working Paper 13/130.
- 7) Alin Croitoru, A. (2012). A review to a book that is 100 years old. Journal Of Comparative Research In Anthropology And Sociology, 3(2), 137-148.
- 8) Schou-Zibell, L., & Wells, S. (2008). India's Bond Market-Developments and Challenges Ahead. ADB Regional Economic Integration Working Paper, (22).
- 9) Schou-Zibell, L., & Wells, S. (2008). India's Bond Market-Developments and Challenges Ahead. ADB Regional Economic Integration Working Paper, (22).
- 10) Dan, H. (2013). External factors for the monetary policy transmission mechanism. The Annals of the University of Oradea, (1), 435-444.
- 11) Raghavan, S., Sahoo, A., Hait, A., & Ghosh, S. (2014). A study of corporate bond market in India: theoretical and policy implications. Development of Economic and Policy Research, Reserve Bank of India, available at: [https://rbidocs.rbi.org.in/rdocs/Publication s/PDFs/DR 40040314FS. Pdf](https://rbidocs.rbi.org.in/rdocs/Publication%20s/PDFs/DR%2040040314FS.Pdf) (accessed 15 December 2014).
- 12) Kletzer, K. (2012). Financial frictions and monetary policy transmission in India. In The Oxford Handbook of the Indian Economy.
- 13) Sheikh, S., & Asher, M. G. (2012). A case for developing the municipal bond market in India. ASCI journal of Management, 42(1), 1-19.
- 14) Raghavan, S., & Sarwono, D. (2012). Corporate bond market in India: lessons from abroad and road ahead. International Journal of Trade, Economics and Finance, 3(2), 120.
- 15) Sharma, S. C., Chhabra, B., & Saxena, N. (2020). Empirical study on the factors affecting bond market returns-evidence from Indian markets. International Journal of Bonds and Derivatives, 4(2), 114-125.
- 16) Sony, B., & Bhaduri, S. (2021). Information asymmetry and financing choice between debt, equity and dual issues by Indian firms. International Review of Economics & Finance, 72, 90-101.
- 17) Sulistiani, D. (2018). Accounting Based Covenant Pada Obligasi Perusahaan Finance yang Terdaftar di Bursa Efek Indonesia. Assets: Jurnal Akuntansi dan Pendidikan, 7(2), 120-128.
- 18) Chakrabarti, R. (2016). Financial markets and investment finance in India: implications for monetary transmission. In Monetary Policy in India (pp. 173-193). Springer, New Delhi.
- 19) Liang, K., & Lai, K. K. (2009, July). The compensation model for default-risk of corporate bonds in China under Kalman filter. In 2009 International Conference on Business Intelligence and Financial Engineering (pp. 410-413). IEEE.



## Barriers to Entry for New Entrants into Kandahar Industrial Park

Najibullah Mudasir<sup>1</sup>, Karimullah Ozam<sup>2</sup>, Mohammad Islam Ahmadzai<sup>3</sup>, Shafiullah Ghouse<sup>4</sup>

<sup>1</sup>Department of Entrepreneurship, Faculty of Economics-Kandahar University, Afghanistan

<sup>2</sup>Department of Business Administration, Faculty of Economics-Kandahar University, Afghanistan

<sup>3,4</sup>Department of Business Administration, Faculty of Economics-Paktia University, Afghanistan

**ABSTRACT:** Entry barriers are one of the dangerous powers that helps with incumbent firms in terms of competitive advantage over new participants and helps to promote the oligopoly market structure. The objective of this study is to consider barriers to entry of new entrants into Kandahar industrial park and to recognize some remedial business strategies where it's application make the entry easy into Kandahar industrial park.

To conduct this study a mixed method research design is used. The qualitative technique is completed over semi-organized interviews where prepared questions are used (Saunders and Lewis, 2012). To obtain quantitative data a 5-point Likert scale questionnaire is utilized, which was sent out to senior and middle workers, managers and owners.

Results shows that there are entry barriers into Kandahar industrial park which influence new entrants negatively. And the importance level of the entry barriers to new entrants is significantly different. Yet, there are economics strategies that helps entrepreneurs to enter Kandahar industrial park.

**KEYWORDS:** Entry Barriers, SMEs, Entrepreneurship, Kandahar industrial park.

### INTRODUCTION

SMEs and especially new firms are the agents of progress. Entrance of new innovative companies encourages flow in economy (Audretch 2006; Acs and Storey 2004). However, when companies enter the market, if the benefit is over the long run focused level, newcomers may have an equilibrating capacity. The outcome is that the entrance of a new company adds to allocative and additional powerful productivity in the market (Audretch and Thurik 2001). Yet, barriers to entry can keep companies from entering the industrial park and hinder the procedure which relates to dynamic & allocative effectiveness. In accordance to this viewpoint, it can be clearly realized that entry barriers are the main issue in competition policy and entrepreneurship. So, this research studies entry barriers into Kandahar industrial park.

Kandahar Industrial Park, located 10 kilometres east of Kandahar province of Afghanistan, which consists of 86 factories, and provided all construction-management and quality-control services during its development. The park, which encompasses 15 hectares, is a professionally managed facility. Factories operating in Kandahar's industrial park produce soaps, salt, plastic sandals, plastic water pipes, non-alcoholic beverages, ice, plastic water storages and dishes, etc.

The research focuses on the following research questions. What are the entrance barriers for a small, or specifically new firm entering into Kandahar industrial park? How these new firms can handle those barriers to entry with the limited resources available to them?

A detailed literature review is done in order to identify the various barriers which have been studied till date. (Shepherd 1997; Karakaya and Stahl 1989). Based on the existing literature, 37 barriers to entry were identified, where a portion of these barriers appear to cover two inquiries emerged. First, one may address whether each entry barrier is essential to be considered by new entrants. Secondly, "it is fascinating to check whether entry strategies exist to handle the entry barriers. In this regard some research has been done (Karakaya 2002; Karakaya and Stahl 1989)".

A pilot survey was done on a sample size of 10 respondents who were employees /managers/owners of 3 SMEs in the Kandahar industrial park. It was found that out of the 37 barriers that had been identified through the literature review, only 19 could be identified by the respondents. So, we could safely assume that these barriers did not exist in the region. It seemed

## Barriers to Entry for New Entrants into Kandahar Industrial Park

appropriate to find the most challenging barriers to entry from the left 19 barriers. Hence, a questionnaire was designed to test it.

The limitation of the study is that it has been conducted on the manufacturing firms only (MSE). Besides, structural barriers to entry are addressed by Karakaya (2002) and are centred on a moderately lesser sum of observation. Some authors stretch the requirement for empirical observation on existing entry barriers (Karakaya 2002; Bunch and Smiley 1992; Geroski 1995; Geroski et al. 1990; Scherer 1988). With respect to entry barriers, this article talks about companies' perceptions. Thinking about the troubles of completing experimental research on strategic barriers to entry (Bunch and Smiley 1992), we chose to talk with firms and measure their perception in regards to the significance of particular barriers to entry.

As this research is mostly intrigued by those barriers that keep potential participants from entering Kandahar industrial park, perceptions of the practitioners with respect to entry barriers are crucial. Subjective views of entrepreneurs' effect both development inspiration and direct performance (Davidsson 1991). The same line of thought was taken by numerous researchers (Aidis 2005; Karakaya 2002; Bunch and Smiley 1992). However, every one of these studies concentrated on a restricted subset of entry barriers or a particular set of organizations or firms. A few researchers emphasize the significance of strategic barriers (Bunch and Smiley 1992; Scherer 1988), while others underline the role of structural barriers (Bain 1956; Karakaya 2002). In accordance with this, a restricted group of prearranged structured and/or strategic barriers were studied. For this research, it was significant to meet a huge sum of industries in Kandahar industrial park, and to contain every single potential barrier recognized in the literature study (Blees et al. 2003). This research is based on manufacturing sector MSMEs.

For barriers to entry in literature, two traditions can be recognized: first the industrial organization point of view (e.g. McAfee et al. 2004; Von Weizsacker 1980; Stigler 1968; Bain 1956) second the strategic management point of view (e.g. Robinson and McDougall 2001; Singh et al. 1998; Porter 1980, 1985).

The primary tradition stresses on the firm like the element of investigation, tries for effectiveness and distinguishes hurtful barriers for the purpose of economic growth. Different models indicate how barriers to entry influence the conduct of industries and the execution of the business. Fundamentally, structural and strategic entry barriers are recognized. The first type of barriers originates from the features of market structure and are broadly talked in the custom of industrial organization. The idea of "barriers to new competition" is presented by Bain (1956). Competition is significance to the task and process of businesses and that any manufactured barrier to rivalry may decrease the effective allocation of resources in the business, are assumptions on which this idea is based on. Bain focused on the significance of structure features which hamper marker entry of potential competitors: absolute cost advantages, technological advantages, economies of scale and so on.

7 key sources of entry barriers were specified by Porter (1980, pp. 9–13:

"economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent of scale and government policy".

Indirectly he utilizes an expansive definition of barriers to entry so as to include "structural and strategic barriers". He gives a sort of typology of entry barriers that organizations "firms" should consider when they have well developed competitive policy. Porter's descriptions also indicate that structural and strategic barriers are connected. The barriers might be established in the market structure, yet this will urge firms to respond deliberately .

The purpose of this study isn't to distinguish the correct tradition. Both methodologies might be significant and the correct decision relies upon the issue under study. We review that the goal of this study is to distinguish significant barriers to entry as saw by firms (Smiley 1988; Singh et al. 1998; Yip 1982). It goes for perceiving the significant limitations that hamper "firms" in settling on their entrance choice.

So, a comprehensive definition for barriers to entry, covering every single pertinent affiliation made by firms, is received for this study. A helpful definition is stated in Besanko et al. (2007, p. 289): "Barriers to entry are those factors that allow incumbent firms to earn positive economic profits, while making it unprofitable for newcomers to enter the industry". "Two types of barriers are distinguished. Structural barriers concern natural cost or marketing advantages resulting from market characteristics that are exogenous to the firm in the short and medium term. Strategic barriers result from a firm's behaviour and concern entry-detering strategies".

In light of this definition existing literature is checked on. Table 1 gives an outline of the categories of barriers watched and gives some key references. A few barriers are gathered together as various names are utilized for alike issues to feature a particular concentration under study; for instance, "control over strategic resources", "location" and "vertical integration" all relate to general barriers of "securing inputs". Likewise, "strategic behaviour differentiation", and "packing the product space" are gathered together .

Table 1: Entry barriers got from the literature review and talked in the survey



## Barriers to Entry for New Entrants into Kandahar Industrial Park

Type of barrier	Barrier to entry	Source
Financial Requirement or cost of Market Entry	Capital requirements to enter the markets	Porter ( <a href="#">1980</a> ), Yip ( <a href="#">1982</a> ), Karakaya and Stahl ( <a href="#">1989</a> )
	Capital intensity of the market	Yip ( <a href="#">1982</a> ), Karakaya and Stahl ( <a href="#">1989</a> ), Shepherd ( <a href="#">1997</a> )
	Access to funds	Yip ( <a href="#">1982</a> ), Karakaya and Stahl ( <a href="#">1989</a> )
	Amount of sunk costs involved in entering the market	Bain ( <a href="#">1956</a> ), Porter ( <a href="#">1980</a> ), Shepherd ( <a href="#">1997</a> )
	R&D Expense involved in entering a market	Yip ( <a href="#">1982</a> )
Type of barrier	Barrier to entry	Source
Competitive advantage of incumbent firms	Incumbent firms with proprietary product technology	Yip ( <a href="#">1982</a> )
	Trade secrets by incumbent firms or competitors in the market	Porter ( <a href="#">1980</a> ), Karakaya and Stahl ( <a href="#">1989</a> ), Shepherd ( <a href="#">1997</a> )
	Incumbent firms cost advantages due to economies of scale	Bain ( <a href="#">1956</a> ), Yip ( <a href="#">1982</a> ), Geroski et al. ( <a href="#">1990</a> ),
	Absolute cost advantages held by incumbents	Porter ( <a href="#">1980</a> ), Karakaya and Stahl ( <a href="#">1989</a> ), Shepherd ( <a href="#">1997</a> )
	Incumbent firms with cost advantages due to learning curves	Porter ( <a href="#">1980</a> ), Karakaya and Stahl ( <a href="#">1989</a> ), Shepherd ( <a href="#">1997</a> )
	Trade secrets held by incumbent firms or competitors in the market	Bain ( <a href="#">1956</a> ), Yip ( <a href="#">1982</a> ), Geroski et al. ( <a href="#">1990</a> ),
	Incumbent firms with superior production processes	Porter ( <a href="#">1980</a> ), Karakaya and Stahl ( <a href="#">1989</a> ), Shepherd ( <a href="#">1997</a> )
	Relatively easy access to raw materials/products	Porter ( <a href="#">1980</a> ), Yip ( <a href="#">1982</a> ), Karakaya and Stahl ( <a href="#">1989</a> )
	Incumbent firms possessing strategic raw materials/products	Yip ( <a href="#">1982</a> ), Karakaya and Stahl ( <a href="#">1989</a> ), Shepherd ( <a href="#">1997</a> )
Unfavourable business environment barrier for market entrants	<b>Competitive advantage of incumbent firms</b>	Bain ( <a href="#">1956</a> ), Geroski et al. ( <a href="#">1990</a> ), Bunch and Smiley ( <a href="#">1992</a> ), Singh et al. ( <a href="#">1998</a> )
	Brand name/identification advantage held by incumbent firms	Geroski et al. ( <a href="#">1990</a> ), Bunch and Smiley ( <a href="#">1992</a> )
	Access to distribution channels	Yip ( <a href="#">1982</a> ), Karakaya and Stahl ( <a href="#">1989</a> ), Bunch and Smiley ( <a href="#">1992</a> )

## Barriers to Entry for New Entrants into Kandahar Industrial Park

Profit Expectations from entering the market	Customer loyalty advantage held by incumbent firms	Bunch and Smiley ( <a href="#">1992</a> ), Shepherd ( <a href="#">1997</a> ), Singh et al. ( <a href="#">1998</a> )
	Expected post-entry reaction / retaliation from firms already in the market	Porter ( <a href="#">1980</a> ), Yip ( <a href="#">1982</a> ), Karakaya and Stahl ( <a href="#">1989</a> )
	Magnitude of market share held by incumbent firms	Yip ( <a href="#">1982</a> ), Karakaya and Stahl ( <a href="#">1989</a> ), Shepherd ( <a href="#">1997</a> )
	Number of firms in the market	Yip ( <a href="#">1982</a> )

## METHODS

A mixed approach of descriptive and exploratory research was adopted for performing of the research. Quantitative data was collected for conducting the research to decide the degree of the entry barriers and qualitative data was studied to achieve knowledge and understandings into the entry barriers and how these barriers can be handled to permit entry into Kandahar Industrial park. The quantitative investigation was utilized to test target hypotheses and evaluating connections among factors.

The qualitative technique was completed over semi-organized interviews, where prepared questions were asked (Saunders and Lewis, 2012) and from a meeting had with manager of PVC pipe companies which was discussing barriers. Around 70 percent of “interviews” was done in person and 30 percent telephonically where directly meeting the respondent was impossible because of distance and time limitations.

Questionnaires were used for obtaining quantitative data. 67 organizations were contacted for the research, out of which 62 agreed to participate. As interviews had to be conducted along with the quantitative data collection, high efforts were made to gain as many viewpoints as possible from the owners, managers, and even senior workers. In total 188 responses were obtained. Senior executives were picked because of their comprehensive learning of the business from all zones of the business. They had the skill and information about how to enter into the Kandahar industrial park and how to prevail in the long and short run.

The study based on the economic theories of barriers and does not imply to propose its outcomes are suitable to different enterprises and nations. Indeed, not every person responded to the interview and questionnaire. The sum of respondents to the study survey is typically from the existing incumbents, which could skew the outcomes for these members. In addition, the sample size for the research was smaller too.

## RESEARCH PROPOSITIONS AND HYPOTHESIS

A group of hypothesis was suggested by Karakaya & Parayitam (2013) in their research of “the relationship among barriers to market entry”. Their research concentrated on market entry into e-commerce. The commitment of this study is to test this hypothesis in the Kandahar industrial park and to think about the distinctions in the extent of significance of barriers.

## RESEARCH HYPOTHESIS

To consider whether entry barriers are seen similarly important by existing firms or there is a significant difference in the importance amongst the barriers to entry.

H0: There is no significant difference in the importance level of barriers to entry for new entrants into Kandahar industrial park.

H1: There is significant difference in the importance level of barriers to entry for new entrants into Kandahar industrial park.

### Research proposition 1:

Proposition one states that there are entry barriers into Kandahar industrial park and make entry conditions tough for new entrants.

### Research proposition 2:

Entry strategies exist to enter Kandahar industrial park which will handle the entry barriers.

## ANALYSIS AND FINDINGS

This chapter is all about to discuss the results of research in detail based on one hypothesis and two propositions of the research that are outlined in chapter 2. Research survey and semi-structured interviews were utilized to explore all two research

## Barriers to Entry for New Entrants into Kandahar Industrial Park

proposition and research hypotheses respectively. Outcomes gotten were commonly in accordance with literature and this will be talked over in depth under each proposition and hypothesis.

Though entry barriers are studied broadly in literature review, there is very restricted or limited “study” and information which specifically concentrates on barriers to entry into Kandahar industrial park.

The respondents were requested to answer the questions of interview as recorded in Appendix 1. The interview consisted of a 5-point Likert scale which extended from "Not a Barrier" to "Extreme Barrier". Results appeared in Table 2 are from singular questions utilized in the study with the calculated mean and standard deviation.

**Table 2: Descriptive statistics per statement**

Descriptive statistics			
Barriers	Analysis N	Mean	Std. Deviation
Incumbent firms with cost advantages due to learning curves	188	3.72	.804
Access to funds	188	3.47	1.081
Capital intensity of the market	188	1.85	.732
R&D Expense involved in entering a market	188	2.83	.847
Licensing requirements to enter and/or expand current operations	188	1.37	.486
Trade secrets by incumbent firms or competitors in the market	188	3.87	.791
Infrastructure (Security, Electricity, road, environment, etc.)	188	3.92	.809
Incumbent firms with superior production processes	188	3.60	1.061
Relatively easy access to raw materials/products	188	3.05	.769
Incumbent firms possessing strategic raw materials/products	188	1.35	.481
Brand name/identification advantage held by incumbent firms	188	3.70	.788
Access to distribution channels	188	3.42	1.094
Number of firms in the market	188	2.72	.739
High profit rates earned by incumbent firms	188	3.47	.700
Low prices charged by incumbent firms	188	1.58	.696
Cost advantages and profitability uncertainty of the industry	188	3.80	.755
Capital requirements to enter the market	188	3.95	.872
Heavy advertising by firms already in the market	188	2.95	1.016

Results appeared above were acquired from a poll in view of the 5 point Likert.

Mean values beneath 3 show disagreement with the explanations contained in the construct/factor whereas mean values over 3 show agreement with the statement contained the construct. statements contained in the factor are appeared in Table 3 above.

The first factor/construct which is Financial Requirements has mean value over 3, which shows agreement with the statement. And last factor/construct which is institutions has mean value less than 3, which shows disagreement with the statement.

## Barriers to Entry for New Entrants into Kandahar Industrial Park

### FACTOR ANALYSIS

In order to achieve the objective of common factors leading to a barrier of new entrants into Kandahar Industrial Park. Factor analysis was employed as a data reduction technique. To test the validity of the instrument, KMO test was conducted. The KMO value for the instrument is 0.517, which is acceptable.

Similarly, Bartlett's test of sphericity tests the hypothesis that the correlation matrix is an identity matrix, which would indicate that the variables are unrelated and therefore unsuitable for structure detection. Small values (less than 0.05) of the significance level indicate that a factor analysis may be useful with the data. The Bartlett's test showed a significant level and hence the instrument was accepted for further study.

**Table 3: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.517
Bartlett's Test of Sphericity	Approx. Chi-Square	211.753
df		153
Sig.		.001

Since the entry barriers are large in number and are inter-related, factor analysis is done to extract the factors affecting the entry of new entrants into Kandahar Industrial park. Principal Component Analysis is the method of extraction. Varimax is the rotation method. As per the Kaiser criterion, only factors with eigenvalues greater than 1 is retained. Five factors in the initial solution have eigenvalues greater than 1.3 and together, they account for almost 52% of the variability in the original variables. The items falling under each of these factors are then dealt with quite prudently. Table 4. shows that the component and factors were identified

Component 1: Unfavourable Business Environment

Component 2: Fund flow and cost of the market

Component 3: Identification/Brand Image

Component 4: Competitive advantage

Component 5: Profit expectation

**Table 4: Factor loading and name**

Factors	Variable	Factor Loading	Factors derived name
1.	Access to distribution channel	0.821	Unfavourable business environment
2.	Heavy advertisement	0.701	
3.	Capital requirements to enter the market	0.80	Fund flow and cost of the market
4.	Capital intensity of the market	0.70	
5.	Incumbent firms possessing strategic raw materials/products	0.83	Identification/brand image
6.	Brand name/identification advantage held by incumbent firms	0.65	
7.	Expenses involved in entering in a market	0.716	Competitive advantage
8.	Incumbent firm with superior production process	0.664	
9.	Trade secrets by incumbent firms or completion in market	0.508	
10.	Number of firms in the market	0.686	Profit Expectations from entering the market
11.	High profit rates earned by incumbent	0.683	

## Barriers to Entry for New Entrants into Kandahar Industrial Park

### Research Hypothesis:

Is to consider whether entry barriers are seen similarly important by existing firms. “Is there a significant difference in the importance amongst the barriers to entry?”

### null hypothesis:

*H0: The null hypothesis states that there is no difference in the level of importance amongst barriers to entry for new entrants into Kandahar industrial park.*

### Alternative hypothesis:

*H1: The Alternative hypothesis states that there is difference in the level of importance amongst barriers to entry for new entrants into Kandahar industrial park.*

The research hypothesis aims to evaluate whether entry barriers are similarly important to firms. Understanding the order of significance of barriers profoundly affects manager as they get ready to enter new markets and to policymakers who are in charge of progressing small venture development.

According to Karakaya and Parayitam (2013) high capital requirements for “firms” make the market unreachable for new participants, letting existing companies “firms” to control market share and procure higher benefits. On the other hand, capital requirements are not a barrier if the firm is bestowed with a huge financial resources (Karakaya and Parayitam, 2013).

If we arrange the entry barriers in table 2 from highest barrier to lowest barriers, so the top 5 entry barriers which has higher mean value would be Capital requirements to enter the markets (mean = 3.95); Infrastructure (Security, Electricity, road, environment, etc. (mean = 3.92); Trade secrets by incumbent firms or competitors in the market (mean = 3.87); Cost advantages and profitability uncertainty of the industry (mean = 3.8) and

Incumbent firms with cost advantages due to learning curves (mean = 3.72). And the last 5 entry barriers which have lower mean score would be [Number of firms in the market (2.72), Capital intensity of the market (1.85), Low prices charged by incumbent firms (1.58), Licensing requirements to enter and/or expand current operations (1.37), and Incumbent firms possessing strategic raw materials/products (1.35)].

Results indicated capital requirements influence firms very negatively. The differentiation is statistically important; yet, the interview respondents and means test affirmed this reality obviously. The outcomes also show that regulations/institutions are the smallest entry barriers in Kandahar industrial park. It is presumed that industrial park put fluctuating significance to the diverse entry barriers and this will assist chiefs with planning on the most proficient method to relieve against the barriers that are more basic to them.

### Proposition 1:

Proposition one states that there are entry barriers into Kandahar industrial park and make entry conditions tough for new entrants.

The first proposition of the research intended to reveal entry barriers into Kandahar industrial park and their effect to new participants. The study comes about uncovered outcomes that are mentioned in the literature and these are examined in detail under the accompanying sub-headings. The entry barriers that were revealed during the “interviews” were assembled into two sets; competitive advantage and capital requirements. Barriers to entry that fall under capital requirements are access to capital; capital intensive, access to infrastructure. And under competitive advantage, the entry barriers that were distinguished were access to product/molecules; access to market and pricing model. As per Shepherd (1979), entry barriers are “structural (exogenous) and strategic (endogenous)”. The recognized entry barriers during interviews were either structural or strategic which is in accordance with the literature.

## CAPITAL REQUIREMENTS OR FINANCIAL REQUIREMENTS

The findings of the research for capital requirement show that the highest 5 matters that were featured by respondents as key concerns for their achievement in Kandahar industrial park are Funding/access to capital, access to infrastructure, Trade secrets by incumbent firms, and Incumbent firms with cost advantages. Capital requirements construct/factor is indicated in Table 2 as the only entry barrier that got the top score of 3.95 from the results of the survey. This specifies entry cost which is required for participating in the industrial park and money-related necessities that are required for everyday activities or operations. The capital requirement barrier to enter the market statement which is a piece of the capital requirement construct/factor/class had a score of 3.02; which is the second most elevated score accomplished and the most minimal score of 1.85 in this class was Capital intensity of the market required to enter the market.

## Barriers to Entry for New Entrants into Kandahar Industrial Park

### COMPETITIVE ADVANTAGE

The competitive advantage of incumbent firms over new entrants were recognized by respondents. Mostly respondents stated that access to distribution channels; long-term agreements/contracts; access to market; access to products/supply are the concerns which put new entrants into competitive disadvantage.

According to Table 5, competitive advantage is featured as an entry barrier with average score of 3.11. There were 2 important differences in the definite outcomes that need to be stated. The very first difference that incumbent firms believe on is that joint effort or facilitating agreements between existing firms is not an entry barrier. The average score of this statement is (2.9). As indicated by Johansson and Elg (2002), they expressed that connections between occupant firms can go about as a barrier whether it was planned or not, the result is the same.

The second statement that incumbent firm is not agreeing with is that existing firms have a cost advantage because of their experience as they gave an average score of 2.9.

Here is a difference with the “resource-based view theory”, according to Karakaya and Parayitam (2013) argued that “resources are fundamental in developing competence and sustaining competitive advantage to prevent market entry of new firms”.

Established firms have competitive advantage due to entry barriers. The huge capital requirements and competitive advantages are also interlinked. The findings of the research recognized three key concerns that put new participants at a disadvantage like pricing model, access to market, and access to products/molecules. To sum up, there is difference in the importance level of barriers to entry for new entrants into Kandahar industrial park

### Proposition 2:

Entry strategies exist to enter Kandahar industrial park which will handle the entry barriers Proposition two of the study tried to know whether new participants regardless of the difficulties and barriers to entry can enter effectively and gain success. Findings of research indicates that there are open doors for entry into Kandahar industrial park.

### Regulation:

The regulation is identified as a key opportunity for providing an open door for entry respondents believe that government rules and regulation need to be change regarding Kandahar industrial park. Respondents from those firms which are new into industrial park believe that the given price model by government isn't inspiring or helping entry, instead it negatively effects small entrants who have already entered Kandahar industrial park. In a few examples, it was recognized that licensing requirements a hindrance for new entrants because of its time consume and complexity. So, amendments in regulation regarding above issues will provide an opportunity for entry into new entrants, as respondents have faith in that a key role in change or “transformation” can be played by government and it's seen in their answers.

### Partnerships / Joint Ventures:

Significance of having a decent strategy and executing that technique well will contribute towards the achievement of that firm. Respondents believe that to gain success and have efficiency, partnership has to be formed like how existing occupants did.

For instance, a respondent says that *“We've been telling the new entrants that they should come together and you get 50 customers, he gets 50 and you get 20 and collectively you pull together the money. So, I think it all comes to cost because you must bring in a complete ship for economies of scale. So, I think economies of scale is another barrier. It's the cost, which is linked to economies of scale.”*

### Funding Opportunities:

Funding is almost key barrier for new entrants in Kandahar industrial park as its already discussed, respondents claim that government financial institutions are having a key role to facilitate new entrants with essential funding. Some respondents mentioned the lack of financing by private banks and if settled can display open doors for entry.

### CONCLUSION

Results regarding hypothesis indicated that there is significant difference in the importance level of barriers to entry. The differentiation is statistically important; yet, this fact is obviously being affirmed by interview respondents and mean analysis. The outcomes also show that regulations/institutions are the smallest entry barriers in Kandahar industrial park. It is presumed that industrial park put fluctuating significance to the diverse entry barriers and this will assist chiefs with planning on the most proficient method to relieve against the barriers that are more basic to them.

The purpose of proposition 1 was to recognize entry barriers for new entrants.



## Barriers to Entry for New Entrants into Kandahar Industrial Park

According to the findings of the study “large capital requirements and competitive advantage of incumbent firms” are main entry barriers. The extensive capital requirements support existing firms due to their already present infrastructure and their easy approach to funding to meet the capital-escalated nature of the business. New entrants can’t approach capital from financial institutions because of their deficit balance sheet to help it. So, due to their failure to access capital, they can't form the required infrastructure to be competitive.

The outcomes of research proposition 2 indicated that there is the possibility of entry into Kandahar industrial park, however the pricing model needs to be revised to certify that new entrants could recover its expenses and make a reasonable return on investment. It was identified as well that if new entrants want to gain success, they need to make joint ventures between themselves to bring down operational costs, share skill and offer benefits as an entry model. In addition, funding opportunity needs to be provided by state banks.

### Declarations:

### Availability of data and materials

The datasets used and/or analyzed during the current study are available from the corresponding author on reasonable request.

### Acknowledgements

We acknowledge the support from Economics faculty of Kandahar University and Department of commerce & industries of Kandahar Afghanistan. We would also like to show our warm thanks to USWDP and FHI360.

## REFERENCES

- 1) Audretch, D. B. (2006). Entrepreneurship, innovation and economic growth. Cheltenham:
- 2) Edward Elgar.
- 3) Audretch, D. B., &Thurik, R. (2001). What’s new about the new economy? Sources of growth in the managed and entrepreneurial economies. *Industrial and Corporate Change*, 10, 267–315.
- 4) Shepherd, W. G. (1997). The economics of industrial organization. Upper Saddle River, NJ: Prentice-Hall International.
- 5) Karakaya, F., & Stahl, M. J. (1989). Barriers to entry and market entry decisions in consumer and industrial goods markets. *Journal of Marketing*, 53, 80–91.
- 6) Blees, J., Kemp, R. G. M., Maas, J., & Mosselman, M. (2003). Barriers to entry.
- 7) Differences in barriers to entry for SME’s and large enterprises. EIM Research Report H200301, The Netherlands.
- 8) Karakaya, F. (2002). Barriers to entry in industrial markets. *Journal of Business and Industrial Marketing*, 17(5), 379–388.
- 9) Scherer, F. M. (1988). Review of the economics of market dominance. *International Journal of Industrial Organization*, 6, 517–519.
- 10) Geroski, P. A. (1995). What do we know about entry? *International Journal of Industrial Organization*, 13, 421–440.
- 11) Geroski, P. A., Gilbert, R. J., & Jacquemin, A. (1990). Barriers to entry and strategic competition, fundamentals of pure and applied economics 41. Chur: Harwood Academic.
- 12) Bunch, D. S., & Smiley, R. (1992). Who deters entry? Evidence on the use of strategic entry deterrents. *Review of Economics and Statistics*, 74(3), 509–521.
- 13) Aidis, R. (2005). Institutional barriers to small- and medium-sized enterprise operations in transition countries. *Small Business Economics*, 25, 305–318.
- 14) Davidsson, P. (1991). Continued entrepreneurship: Ability, need, and opportunity as determinants of small firm growth. *Journal of Business Venturing*, 6, 405–429.
- 15) Bain, J. S. (1956). Barriers to new competition. Cambridge, MA: Harvard University Press.
- 16) Von Weizsacker, C. C. (1980). A welfare analysis of barriers to entry. *Bell Journal of Economics*, 11(2), 399–420.
- 17) Stigler, G. (1968). The organization of industry. Chicago, IL: University of Chicago Press.
- 18) McAfee, R. P., Mialon, H. M., & Williams, M. A. (2004). What is a barrier to entry?
- 19) *American Economic Review*, 94(2), 461–465.
- 20) Robinson, K. C., & McDougall, P. P. (2001). Entry barriers and new venture performance: A comparison of universal and contingency approaches. *Strategic Management Journal*, 22, 659–685.
- 21) Singh, S., Utton, M., & Waterson, M. (1998). Strategic behaviour of incumbent firms in the UK. *International Journal of Industrial Organization*, 16, 229–251.
- 22) Porter, M. E. (1980). *Competitive strategy*. NY: Free.
- 23) Porter, M. E. (1985). *Competitive advantage: Creating and sustaining superior performance*. NY: Free.
- 24) Barney, J. B. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, March, 99–120.

## Barriers to Entry for New Entrants into Kandahar Industrial Park

- 25) Besanko, D., Dranove, D., Shanley, M., & Schaefer, S. (2007). *Economics of strategy*.
- 26) UK: Wiley.
- 27) Yip, G. S. (1982). *Barriers to entry: A corporate perspective*. Lexicon, MA: Lexicon Books.
- 28) Lutz, C., Kemp, R., & Dijkstra, S. G. (2007). SME's perceptions regarding strategic and structural entry barriers. s.n.
- 29) Saunders, M., & Lewis, P. (2012). *Doing research in business & management*. Edinburgh Gate: Pearson.
- 30) Johansson, U., & Elg, U. (2002). Relationships as entry barriers: a network perspective. *Scandinavian Journal of Management*, 18(3), 393–419. doi:10.1016/S09565221(01)00014-8.
- 31) Karakaya, F., & Parayitam, S. (2013). Barriers to entry and firm performance: a proposed model and curvilinear relationships. *Journal of Strategic Marketing*, 21(1), 25–47. doi:10.1080/0965254x.2012.734689.

DOI : 10.47191/jefms

Impact Factor: 6.228

Explore your Research to the world.....

**"Journal of Economics, Finance And Management Studies is a leading international journal for publication of new ideas."**

*Why Publish with JEFMS ?*

- 1) We provide full open access.*
- 2) DOI of each published article.*
- 3) The article will be uploaded after publication in the following indexing services: Google Scholar, Index Copernicus, DRJI, Cite Factor, ISI, Euro pub, Academia, Zenodo, Scribd etc. (Many more)*
- 4) Fast response, peer review, and fast publication.*
- 5) Global International knowledge sharing.*
- 6) A digitally signed e-certificate will be provided to the author for a published article.*
- 7) Yearly Subscription.*



---

Publisher:

Journal of Economics, Finance And Management Studies

Editor & Chief

International Category Code (ICC): ICC-0502

International Journal Address (IJA):

IJA.ZONE/26447065

IJA.ZONE/264470650504

