The International Journal of Business and Management Research

A refereed journal published by the International Journal of Business and Management Research

2013 Issue

*The International Journal of Business and Management Research* (IJBMR) is published annually on December of every year via digital media and available for viewing and/or download from the journal’s web site at www.ijbmr.org

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Volume, 1 Number 1
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The Eurasian Economic Community: A Preliminary New Institutional Economics Assessment

John Philip Christie, PhD
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Abstract

The objective of this study is to examine the evolving political and economic structural changes occurring in Central Asia of former Soviet Union member states. The primary consideration is to analyze the institutional structure established by economic agreements between various former Union of Soviet Socialist Republic states, the agreement of focus being the formation of the Eurasian Economic Community. The research is based on theories of international trade in terms of the effects of economic integration. This study will also largely incorporate the practical approach dictated by the new institutional economics school of thought.

Keywords: Eurasian Economic Community, New Institutional Economics, Intellectual Property

Introduction

Preferential trade agreements have long been a catalyst for cross-border trade liberalization (Tinbergen, 1962 and Linnemann, 1966). In their various forms, trade arrangements have been shown to generate beneficial outcomes (Baier & Bergstrand, 2007) for various member nations that partake in creating or joining such measures (Krueger, 1997). Trading relationships between sovereign states requires establishing the various rules of the relationship by the respective governments involved. These governmental bodies are considered institutions with authority to enter into and manage trade relationships that they deem worthy. However, depending on the degree of the relationship established, such as an economic union, the agreement itself will result in a formation of an external institutional environment greater than but inclusive of the individual member states which comprise it.

The new institutional economics approach has shown to be valuable in providing a framework for analyzing a wide range of individual institutional structures in an empirical manner (Furubotn & Richter, 1991). It is with this analytical approach that this study seeks to provide an exploratory assessment of the comparatively recent economic union in Central Asia known as the Eurasian Economic Community (EAEC). This initiative has garnered little attention to date in the international business and economic literature while possessing the likely potential of impacting global trade in a significant manner. By taking a slightly interdisciplinary route to assess this particular institutional environment’s effectiveness this study contributes to several well established related research areas.

Objectives of the Research
The objective of this study is to examine the evolving political and economic structural changes occurring in Central Asia and its implications on international trade and multinational enterprises (MNEs) of former Soviet Union member states and the foreign MNEs that do business with them or within their territory. The primary consideration is to analyze the institutional structure established by economic agreements between various former Union of Soviet Socialist Republic states, the agreement of focus being the formation of the Eurasian Economic Community.

The Members of the Eurasian Economic Community

The Eurasian Economic Community (EAEC) consists of six member states; Belarus, Kazakhstan, Kyrgyzstan, Russia, Tajikistan, and Uzbekistan. Uzbekistan has voluntarily suspended its membership on a temporary basis since late 2008. This is significant enough to exclude Uzbekistan from the intended research since Uzbekistan joined the community in 2006 and with such a short term of activity any effects of group membership on the domestic economy and firms of that state is likely to be only transient in nature and therefore inappropriate for inclusion. The member states are entirely contiguous, all member states at minimum share a border with at least one other member state providing a continuous land route from any one point of one nation to any other point in another member state. How this particular group materialized is a dynamic account of collective economic groupings forming, dissolving, or otherwise changing memberships and depth of relationships over the past few decades.

Research Significance

There has been little to no focus in the academic literature on the Eurasian Economic Community. Being comprised of former soviet states headed by Russia, and with the potential to include all the former soviet economies alone warrants a closer look at this institution. Due to the fact that there has been limited prior work on this group; this study will start with the basics as reflected by the research question. By incorporating the methods of the new institutional economics field of study, this study can quantify an answer to the essential starting point inquiry of whether or not this institution, of about a decade in existence in one form or another, is actually having an effect in areas often measured in the new institutional economics school (i.e. property rights protections); and consequently exhibiting legitimacy as an institution.

Literature Review

General Theory of Economic Integration

The notion behind the motivations of a country’s decision to integrate with another or more countries economically can find roots as far back as the theory of a “Laissez-faire” trading environment. While not stated outright, originally published in 1759, the eminent Adam Smith relates to laissez-faire with his notorious metaphor of the “invisible hand” to account for the ability of societal advancement by having governments allow people to behave according to their own self-interest as this will naturally, though unintentionally lead to a proper and equitable distribution of goods (Smith, 1976).

General characteristics of a laissez-faire environment would include a freedom from state intrusion on trade in terms of tariffs, taxes, regulations, and imposed monopolies. Modern integration of economies is typically focused on a reduction or elimination of taxes, tariffs, and overly burdensome regulations. Even with these reductions and eliminations of trade barriers, integrating economies involves establishing an overarching institutional
framework to establish and enforce the rules of trade and therefore is fundamentally not a pure example of a lasses-faire environment, yet still is gravitating towards it. This notion is supported by (Rivera-Batiz & Romer, 1991) in stating that by a country moving from being more isolated to becoming more integrated, increases occur in both the trade of goods and the movement of ideas which can create long term growth and increasing returns to scale.

There is an underlying assumption that an independent nation would not freely enter into an economic union if they were not following some form of self-interest. There are inherent benefits that often result from joining such a union. It has been suggested by (Rivera-Batiz & Romer, 1991) that in addition to the permanent change in growth rate, free flow of goods and ideas; there can also be beneficial tax policies for foreign employees, immigration and visa changes, telecommunication network unification, and acquiring of technical and commercial information.

While economic integration can be seen as a consolidation of taking several diverse structural environments and deregulating into a single institution, (Tinbergen J. , 1965) presents integration to be a systematic regulating of the several members states to have uniform policies that are re-created into a new and more desirable structure of part of an international economy which can be seen as a form of re-regulation as opposed to pure deregulation. To accomplish this, artificial limits to the optimal operation of commerce are removed and all the desirable elements of co-ordination or unification are purposefully introduced.

This view is supported in a perspective piece by (Rodrik, 2000); here the author states that the world is far from being completely integrated economically despite the progress of globalization. It can be seen that when integrating, the economy grows but political options become reduced; but when making the case for global federalism, the political choices would not be reduced but rather relocated to a broader (global) level.

In regional agreements, while not global, they appear to be both limiting policies by agreeing among numerous nations to have identical policies and also broadening in terms of reach of the policy to encompass the larger political boundaries of the economically combined nations. This is an important factor as identified by (Alesina, Spolaore, & Wacziarg, 2000) that political boundaries determine market size, and in some instances exponentially.

Theoretical Development

Theoretical Base for the Research

The basic statement of the theory behind this research is that there is an assumption from economic integration theory that the countries involved with forming the Eurasian Economic Community are doing so to align their trade policies and reduce barriers to trade between and among themselves, as well as the outside world. In order to accomplish this, the new institutional structure they create must be seen as legitimate and effective, which in this case is to counter the reputation of corruption garnered in the decade immediately following the fall of Soviet rule. To determine this, this study will use a cross-disciplinary approach by borrowing from the field of economics, specifically with the quantitative approach that has been established for several decades by the new institutional economics school.

If it can be determined by using that approach that there are real and substantial developments of property rights protections then the institution will be considered to be legitimate and effective in its purpose for use in this study. Coincidentally in the same year
the EAEC became official, (Ellwood, 2001) argued in a chapter of his book on redesigning the global economy in reaction to globalization that the sentiment is toward correcting for gaps of inequality and poverty that are a result of runaway globalization, and Ellwood proposes that to bring about meaningful employment and improve human rights; economic policy changes, specifically in terms of structural reforms that increase local control and decision making must be made.

In a historical perspective on privatization in Russia (Black, Reinier, & Tarassova, 2000) the case is made that corruption ran rampant in the speedy privatizing program to Russian oligarchs which could have been prevented if the proper institutional and legal structures were in place. Additionally, (Megginson, 2005) states that the early privatization schemes failed to entice any new investment or knowledge into the former state owned enterprises being sold off. Finally, several studies focusing on individual former Soviet states (Andreyeva, 2001), (Jones & Mygind, 2000), (Pivovarsky, 2001), have concluded generally that in post-denationalization; foreign controlled or foreign owned companies are correlated with higher performance. Given this conclusion it is proposed here that the later implementation of these structures could be used in an attempt to reduce the corruption perception that developed early on in the post-Soviet era as well as attract the new outside investment and knowledge.

When writing on what a successful region has to do (Ohmae, 2005) claims that motivation is a key factor for success as a region. That without a collective drive to take on the identity of the region, the involvement in the world economy will only be symbolic. Further, Ohmae states that globalization helps regions shed the legacy of the nation-states in which they belong. This embodies the general theory that in order to shake free from the perception of the past, and in order to claim institutional legitimacy for the purpose of drawing in new investment, the EAEC is making substantial steps in the realm of the institutional factors of property rights protection and corruption perception reduction.

**Classical Institutional Economics**

Institutionalism is a school of economic thought that is more focused on application than theory. According to (Stretton, 2000), institutional economists acknowledge economic behavior has some consistencies that are often seen classically as theoretical models but with the caveat that there are many exceptions to the rules, which make the rules invalid at times. There is a recognition that conditions can vary depending on factors of time, location, and industry. This admitted lack of attempting generalized theory is further described by (Hodgson, 1998) in that, “institutionalism does not attempt to build an all-embracing, general theory”, and is applied more on a case by case basis.

Institutionalism has been applied as a descriptive term for certain economists. Over a century ago Thorstein Veblen contributed to the formation of what is seen as the institutional movement while examining society and economics (Veblen, 1899). Veblen began to focus on societal class structures in regard to the working class laborers, engineering innovators, and the nobility ("leisure class") and the resulting effects on employment, division of labor, and wealth.

Wesley Mitchell, who is known for founding the National Bureau of Economic Research, also is considered a founding father of the institutionalists. He was influenced by Veblen early in his academic career. His approach of analyzing data and extrapolating evidence to support his theory of business cycles (Mitchell, 1913) from the data as opposed to
theorizing first and hunting for supporting evidence later is a practical example of institutional economics in action.

The last man considered a founder of institutionalism is John Commons who ends up being the most important for the ‘new’ institutional economics school because the direction he was headed in was to focus on the transaction, illustrated by the “collective control” of individual transactions instead of institutions, Commons wanted to give collective action a place in economic theory (Commons, 1931).

New Institutional Economics

In looking back through economic history, (North D. C., 1984) states that neoclassical economic theories are largely arranged to examine the allocation of resources with the underlying assumption of zero transaction costs. The criticism is that this assumption of a perfectly operating market is not in line with reality and the occurrence of changing economies requires the aspect of transaction costs to be included in any general model of analysis, particularly in relation to institutions. This is one of the extensions of the new institutional framework that adds to the neo-classical foundations.

The comments of North are supported by those of (Williamson, 1975) in his assessment that neo-classical models possessed “too high a level of abstraction” suggesting the theorizing of the past was too theoretical and not practical. Aside from a few important critiques of the initial school of thought, the modern approach of institutional economics is well described by (Searle, 2005) as the ‘revival’ of the research stream as opposed to a fully new and independent focus area.

While comparing and contrasting the old and new schools of thought on institutional economics, (Hutchinson, 1984) claims the move has been from primarily deductive methods in the neoclassical approach to an increasingly empirical method in the modern approach. As a result of this development, Hutchinson indicates that by using less abstraction in the approach any results should have a reduced range of applicability. This feature of the modern approach lends itself to a case specific application of analyzing individual institutions with results valid only to the institution in question.

The general study of institutions is often separated in terms of informal institutions (conventions, moral rules, and social norms) or formal institutions where the state acts as an enforcer of rules in a protective capacity of individuals as well as for property rights. The new institutional economics approach focuses on the formal institutions as subject matter for analysis while the related field of behavioral economics focuses on the informal.

Property Rights

In a survey piece on the patent system by (Kaufer, 1986), a conclusion reached is that the patent is not simply a tool that functions in seclusion but is rather a “nucleus” for the entire system of property rights. In order to enhance the innovation that results from the protection that patents provide, there needs to not only be a strong patent component at the core of a property rights structure but the surrounding legal framework of private property protections should not constrain any other part of the system. The extensive property rights literature that has been produced in the last four decades deals with the issue of how the structure of property rights laws can affect economic outcomes.

In commenting on the property rights models, (Furubotn & Richter, 1991) note that although they are somewhat limited by their continuing attachment to a number of
neoclassical assumptions the new institutional application of property rights models are much more flexible. This is due to them being able to consider the role of incentives not only under normal behavior but in conditions where asymmetrical information allows hidden actions and opportunistic behavior to emerge as well.

**Research Methodology**

**Description**

The methodology portion of this study is structured in a way to answer the research questions developed in the previous section. Hypothesis testing is the primary form of answering the research question with statistical methods in the form of standard deviation and trend analysis to address the hypothesis statements.

In the initial stages of establishing the EAEC the institutional purposes were said to be to, “work towards the creation of common policies” by officials involved (BBC, 2000).

To address this assumption, an aspect of the analysis will look for any indications that all members have been changing policies as they should in a way of “policy synchronization”. In all cases the focus will be to compare and contrast the variables in terms of Pre-EAEC membership years data to Post-EAEC membership years data to conclude generally whether the union is tightening or is tight and therefore ‘good’ or not, from an economical and institutional standpoint

**Research Questions and Related Hypothesis Statements**

A preliminary literature review indicated that there are opportunities for research focused on this relatively recent trade community. To begin, this study has produced the following research question, with related hypothesis statements to be tested.

“**How has the creation and participation in the Eurasian Economic Community affected the policy factors of property rights in the participating states?**”

This study will attempt to answer this research question centered on the tangible methods focused on by the new institutional economics school of thought. Inherent in the question wording is the issue of property rights, which will be further deconstructed in order to analyze in depth the degree to which the policy implementation from the EAEC have resulted in practice.

Based on the research question, the first hypothesis will be as follows:

**Hypothesis 1:**

$H_1$: Membership in the Eurasian Economic Community leads to an increase of total patent applications at a significantly higher degree than pre-membership.

With a resulting alternative hypothesis of:

**Null-Hypothesis 1:**

$H_0$: Membership in the Eurasian Economic Community does not lead to an increase of total patent applications at a significantly higher degree than pre-membership.

The outcome of hypothesis 1 will serve to partially answer the research question. This will suggest that, based on the data of patent applications; either there has been a statistically significant increase in applications in post-membership years when compared to pre-membership years, or not. Patent applications relate to the
business operation area of research and development, and a higher or lower amount of applications relates to an increase or decrease in technological advancements and innovation. If the hypothesis is valid then this will contribute to the evidence that the theory of the institutional environment providing the structural integrity to ensure property rights protections in the intellectual property area of patents. If the alternative hypothesis prevails then the evidence would suggest that the institutional environment has not provided the structural integrity required to encourage patent seekers to apply for the protections assumed to be provided by the EAEC.

Based on the research question, the second hypothesis will be as follows:

**Hypothesis 2:**

\[ H_2: \text{Membership in the Eurasian Economic Community leads to an increase in total trademark protection applications at a significantly higher degree than pre-membership.} \]

With a resulting alternative hypothesis of:

**Null-Hypothesis 2:**

\[ \bar{H}_2: \text{Membership in the Eurasian Economic Community does not lead to an increase in total trademark protection applications at a significantly higher degree than pre-membership.} \]

The outcome of hypothesis 2 will also serve to partially answer the research question in a slightly different way than hypothesis 1. This will suggest that, based on the data of trademark applications of both residents and non-residents, either there has been significant increase in applications in post-membership years when compared to pre-membership years or not. Trademark applications relate to businesses in terms of enforcement protection for items such as logos, symbols, or other designations that indicate to customers a product originates from a certain company. A higher or lower amount of applications relates to an increase or decrease in a need for protection of various marketing tools. If the hypothesis is valid then this will contribute to the evidence that the theory of the institutional environment providing the structural integrity to ensure property right protections in the intellectual property area of trademarks. If the alternative hypothesis prevails then the evidence would suggest that the institutional environment has not provided the structural integrity required to encourage trademark seekers to apply for the protections assumed to be provided by the EAEC.

**Research Approach**

The essential goal in the approach is to see if all member countries are changing policies as they should. Are they synchronizing individual country policies based on the agreement of the EAEC? By looking at patent and trademark applications pre and post-membership it can be determined if, using membership start year, whether patents and trademark applications have changed significantly or not after joining the community.

By looking at each member nation individually as opposed to as a summative bloc approach, it can be fleshed out specifically if some countries are performing significantly better, or worse, or inconsequentially as well as if the “policy synchronization” is applied or not among all or some of the countries.

**Testing Institutional Effectiveness**
In regards to property rights issues each country will be measured in terms of patent applications and trademark application over a time period of 1993 to 2010. The ideal way to statistically find the answer for this portion of the study is to perform testing of variance and central tendency. Generally the most effective way of summarizing the center of metric data is to average the values on the variable. This statistic is known technically as the mean. It is a measure of central tendency for variables that are fully numeric. (Weisberg, 1992)

**Formula for mean:**

By finding the mean of the data set for each country the standard deviation can then be determined. This indicates what is considered ‘normal’ within the distribution of the values.

**Formula for standard deviation:**

\[
\sigma = \sqrt{\frac{\sum (x_i - \mu)^2}{N - 1}}
\]

This is necessary to know as it can then be applied to each year and if the application amount for that year is higher or lower than the standard deviation then it is significantly different comparatively. If it is seen that the years post-membership are all or mostly outside the standard (positively) then it will be considered supporting the conclusion of the effectiveness of the institution in terms of property rights protection.

The following section will focus on data analysis relating to patents before moving on to trademark data. The data is filtered into three separate screenings, in order to clarify the differences in total patent applications, applications specifically made by residents, and lastly by foreigners only. This variation in the data analysis should provide insight into the application patterns in terms of general effects (total applications).

### Total Patent Applications

<table>
<thead>
<tr>
<th>Member State</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belarus</td>
<td>1404</td>
<td>293</td>
<td>1697</td>
<td>1111</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>1649</td>
<td>924</td>
<td>2573</td>
<td>725</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>163</td>
<td>87</td>
<td>250</td>
<td>77</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>32310</td>
<td>6104</td>
<td>38414</td>
<td>26206</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>58</td>
<td>53</td>
<td>111</td>
<td>4</td>
</tr>
</tbody>
</table>

Mean and standard deviation statistics for full data panel.

The above chart shows computed statistics from the full data panel of total patent applications which can be found in the Appendix. This is in essence a required first step in the full data analysis that can then be extrapolated from. Here we are presented with, on a country specific basis, the mean or average number of total patent applications for the eighteen year spread of data. This chart next shows the standard deviation from the mean, labeled as “Std. Dev.”. This shows the spectrum of what is ‘normal’ or ‘expected’ in terms of distance from the mean. In other words any year that the patent applications fall within one standard deviation from the mean is not statistically significant, it is normal or as expected. The following column shows what the limit is of a standard deviation on the high end (positive) or in other words the mean and the standard deviation summed. The last column shows the opposite; what the low end of the standard deviation is, or the standard deviation subtracted...
from the mean. Based on these preliminary calculations it has been determined what number of yearly total patent applications is considered to be within the normal range, and more importantly for this study; which are abnormal, or statistically significant.

Based on these standard deviation results, the next step compares the results above chronologically using 2001 as the strike point because that was the year the EAEC came about. There are nine years (1993-2001) that are Pre-EAEC and nine years (2002-2010) that make up the Post-EAEC time frames used for comparison.

<table>
<thead>
<tr>
<th>Pre-EAEC percentage of observations:</th>
<th>Post-EAEC percentage of observations:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within the standard deviation:</td>
<td>Within the standard deviation:</td>
</tr>
<tr>
<td>68.18%</td>
<td>61.76%</td>
</tr>
<tr>
<td>Significantly Low:</td>
<td>Significantly Low:</td>
</tr>
<tr>
<td>20.45%</td>
<td>2.94%</td>
</tr>
<tr>
<td>Significantly High:</td>
<td>Significantly High:</td>
</tr>
<tr>
<td>11.36%</td>
<td>20.58%</td>
</tr>
</tbody>
</table>

This basic output of pre and post membership indicates that for total applications across all five countries, since the creation of the EAEC the number of years of significantly low applications has decreased (from 20.45% down to 2.94%) and that the number of years of significantly high applications has increased (from 11.36% up to 20.58%). At this point in the analysis the data is supporting the hypothesis in that it is providing evidence in line with the theory of the institution encouraging an increase in patent applications. However, to be accurate and more precise a country specific analysis must be included.

<table>
<thead>
<tr>
<th>Member State</th>
<th>Pre-EAEC</th>
<th>Post-EAEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belarus</td>
<td>1235</td>
<td>1573</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>1809</td>
<td>1289</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>173</td>
<td>149</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>27879</td>
<td>36740</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>81</td>
<td>27</td>
</tr>
<tr>
<td>Total Yearly Average</td>
<td>31177</td>
<td>39778</td>
</tr>
</tbody>
</table>

Comparison of means for Pre-EAEC (1993-2001) to Post-EAEC (2002-2010)

By comparing the means of each member state before and after establishment of the EAEC it can be seen if that general conclusion of, “providing evidence in line with the theory of the institution encouraging an increase in patent applications” actually holds true for each specific country or whether some are skewing the total data into a certain direction. From the chart above the ‘Total Yearly Average’ line indicates that on whole there have been more applications on average since the community was founded. Though it does hold for the group as a whole, upon further inspection it can be seen by analyzing the change for each country that most of the five countries actually experienced a decrease in the average number of patent applications per year since the establishment of the EAEC. The evidence to the contrary was skewed to show otherwise by the degree of increase in applications by Belarus and more heavily by the Russian Federation. This is clearly an important distinction to make as it reverses the conclusion gleaned from the data.

Yearly Average Patent Applications by Country
<table>
<thead>
<tr>
<th>Member State</th>
<th>Pre-EAEC</th>
<th>Post-EAEC</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belarus</td>
<td>1235</td>
<td>1573</td>
<td>Increase</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>1809</td>
<td>1289</td>
<td>Decrease</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td>173</td>
<td>149</td>
<td>Decrease</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>27879</td>
<td>36740</td>
<td>Increase</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>81</td>
<td>27</td>
<td>Decrease</td>
</tr>
<tr>
<td><strong>Total Yearly Average</strong></td>
<td>31177</td>
<td>39778</td>
<td>Increase</td>
</tr>
</tbody>
</table>

The support or lack thereof for the hypothesis statements can now be determined from the above chart. With this data it can now be stated on a country by country basis whether or not Hypothesis 1 is supported by the above evidence.

<table>
<thead>
<tr>
<th>Hypothesis 1</th>
<th>Supported</th>
<th>Not Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belarus</td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>Kazakhstan</td>
<td></td>
<td>•</td>
</tr>
<tr>
<td>Kyrgyz Republic</td>
<td></td>
<td>•</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>•</td>
<td></td>
</tr>
<tr>
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**Total Trademark Applications**

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Mean and standard deviation statistics for full data panel.

This section uses the same procedure as the previous but focuses on total trademark applications. The above chart shows computed statistics from the full data panel of total trademark applications, which can be found in the Appendix. Here we are presented with, on a country specific basis, the mean or average number of trademark applications for the eighteen year spread of data. This chart next shows the standard deviation from the mean, labeled as “Std. Dev.”. The following column shows what the limit is of a standard deviation on the high end (positive) or in other words the mean and the standard deviation summed. The last column shows the opposite; what the low end of the standard deviation is, or the standard deviation subtracted from the mean.

Based on these standard deviation results, the next step compares the results above chronologically using 2001 as the strike point because that was the year the EAEC came about. There are nine years (1993-2001) that are Pre-EAEC and nine years (2002-2010) that make up the Post-EAEC time frames used for comparison.

**Pre-EAEC percentage of observations:**
Within the standard deviation: 65.90%
Significantly Low: 18.18%

**Post-EAEC percentage of observations:**
Within the standard deviation: 60.52%
Significantly Low: 2.63%
Significantly High: 15.90%  
Significantly High: 36.84%

This basic output of pre and post membership indicates that for resident applications across all five countries, since the creation of the EAEC the number of years of significantly low applications has decreased (from 18.18% down to 2.63%) and that the number of years of significantly high applications has increased (from 15.90% up to 36.84%). At this point in the analysis the data is supporting the hypothesis in that it is providing evidence in line with the theory of the institution encouraging an increase in trademark applications. However, to be accurate and more precise a country specific analysis must be included.

<table>
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<tr>
<td><strong>Total Yearly Average</strong></td>
<td><strong>28973</strong></td>
<td><strong>44807</strong></td>
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</table>

Comparison of means for Pre-EAEC (1993-2001) to Post-EAEC (2002-2010)

By comparing the means of each member state before and after establishment of the EAEC it can be seen if that general conclusion of, “providing evidence in line with the theory of the institution encouraging an increase in trademark applications” actually holds true for each specific country or whether some are skewing the total data into a certain direction. From the chart above the ‘Total Yearly Average’ line indicates that on whole there have been more applications on average since the community was founded. Though it does hold for the group as a whole, upon further inspection it can be seen by analyzing the change for each country that one of the five countries actually experienced a decrease in the average number of patent applications per year since the establishment of the EAEC. The evidence to the contrary was skewed to show otherwise by the degree of increase in applications by the other member states. This is clearly an important distinction to make as it stratifies the conclusion gleaned from the data.

<table>
<thead>
<tr>
<th>Member State</th>
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The support or lack thereof for the hypothesis statements can now be determined from the above chart. With this data it can now be stated on a country by country basis whether or not Hypothesis 2 is supported by the above evidence.
## Hypothesis 2

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<tr>
<td>Tajikistan</td>
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</tr>
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### Conclusion

Generally, the hypotheses cannot be supported by any of the evidence produced by the research conducted in this study. Based on the assessment of this study the basic answer to the research question is that the Eurasian Economic Community has not shown to have made a significant change in the factors of property rights (patents and trademarks).

Based on the statistical results, the evidence could not support hypothesis 1 and therefore the alternative hypothesis is maintained.

\[ \square: \text{Membership in the Eurasian Economic Community does not lead to an increase of total patent application at a significantly higher degree than pre-membership.}\]

The outcome of hypothesis 1 helps to partially answer the research question. The results suggest that, based on the data of patent applications of both residents and non-residents there has not been a statistically significant increase in applications in post-membership years when compared to pre-membership years. Patent applications relate to the business operation area of research and development, and a higher or lower amount of applications relates to an increase or decrease in technological advancements and innovation. Since the alternative hypothesis has been maintained then the evidence would suggest that the institutional environment has not provided the structural integrity required to encourage patent seekers to apply for the protections assumed to be provided by the EAEC.

Based on the next statistical result, the evidence could not support hypothesis 2 and therefore the alternative hypothesis is maintained. The hypothesis could not be supported across the board in terms of “trademark applications” generally for the group. Again, the alternative hypothesis is maintained.

\[ \square: \text{Membership in the Eurasian Economic Community does not lead to an increase in total trademark protection applications at a significantly higher degree than pre-membership.}\]

The outcome of hypothesis 2 has also served to partially answer the research question in a slightly different way than hypothesis 1. These results suggest that, based on the data of trademark applications of both residents and non-residents, either there has not been a significant increase in applications in post-membership years when compared to pre-membership years other than the correlated event of application by direct residents. Trademark applications relate to businesses in terms of enforcement protection for items such as logos, symbols, or other designations that indicate to customers a product originates from a certain company. A higher or lower amount of applications relates to an increase or decrease in a need for protection of
various marketing tools. Since the alternative hypothesis prevails, the evidence suggests that the institutional environment has not provided the structural integrity required to encourage trademark seekers to apply for the protections assumed to be provided by the EAEC.

References


Appendix

Total Patent Applications (World Bank, World Development Indicators)
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Total Trademark Applications (World Bank, World Development Indicators)

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The Effect of Brand Personality on Brand Equity in the Service Section

Amir Khosropour,
amir_khosropoor@yahoo.com

Abstract

Due to the significance of brand, understanding the different dimensions of brand equity and the factors affecting its formation can significantly help organizations formulate their business strategies. Since brand equity results in the profitability of organizations in the long run, the effect of brand personality on brand equity is of great importance. Each brand has a specific personality from customers’ point of view. They compare brand personality and their favorite personality in order to choose a brand. This research investigates the dimensions of Irancell’s brand personality and also their effect on each brand equity dimension from customers’ point of view. In this regard, the opinions of the users of the above carrier are gathered using a questionnaire and the hypotheses are studied using factor analysis and structural equation modeling. The results of the research indicate that brand personality affects customer loyalty to brand, brand trust, association (awareness) of brand and consumers’ perceived quality. Therefore, in the formulation of their strategy, service institutions should seriously consider creating a good brand personality and brand equity in their customers’ mind using marketing tools.

Keywords: Brand, brand personality, brand equity, service sector.

Introduction

Many companies are trying to attract the attention of their potential customers (Kim and Park, 2001). One of the methods for achieving this goal is differentiation. While competitive advantage is achieved with difficulty by fraud, differentiation has become a critical priority in organizations. Generally, organizations can differentiate their products and services from those of their rivals by focusing on physical features (such as taste and design) and non-physical features (such as brand and price). Pappu et al (2005) identified commercial naming as the most powerful differentiation method.

According to Kaplan and Norton (2009), brand is an important component of the intangible assets of a company. Hence, Motmaenii and Shahrokhki (1998) identified brand as the main asset of many businesses. Generally speaking, brand names are a part of strategies formulated for the purpose of differentiation. A fundamental element of any product strategy is the role of brand (Xue, F, 2008). In the conventional approach, the value of companies was
assessed according to their properties, tangible assets, factories and equipment. However, today the results of investigations show that the real value of a company lies outside it in the minds of potential customers (Kapferer, Jean-Noël, 2006). Brand names help companies adopt an identity in the market, decrease their vulnerability during competitive activities, increase their profit margin and support their name expansion opportunities (Yasin Nasser Noor, 2007). The creation and management of brand names is not a goal but a strategy (Miller, John; Moore, David, 2006). Keller (1998) claims that creating brand equity is one of the most important components in the creation of brands (Pappu; Quester, 2005).

Brand equity is defined as the ultimate profit or the value added to a product of service by brand name. It is believed that brand equity contributes to institutions’ long term profitability (Chen, Chang, 2008). Atilgan et al (2005) introduce the reason for the concentration of researches on brand equity as its strategic role and importance in achieving competitive advantage and also helping strategic management decision-making. If measured accurately, brand equity can be an appropriate scale for the evaluation of the long term effects of marketing decision-making (Atilgan, Aksoy, 2005). The results of a research by Brady et al (2008) on four different industries showed that higher brand equity results in more behavioral tendencies from customers and their satisfaction. Hyun (2009) stated that brand equity affects customers’ perceived value of products and services. Brand equity is a general advantage which can be used for improving efforts and overcoming organizational failures (Brady, Cronin, 2008).

Brand equity would not be thoroughly perceived in customers’ mind without careful examination of its resources (factors contributing to the formation of brand equity). Most brand equity researches are focused on marketing mix variables such as price, sales promotions and advertising which have a short term effect on brand equity. However, managers can make use of variables with long term effect on brand equity (such as mental image of the manufacturing country and brand personality) along with these variables. Florence et al (2009) have recently investigated the effect of brand personality on brand equity from the perspective of French customers in the product section. The present research will investigate the effect of brand personality on the dimensions of brand equity in the service section.

**Previous Research**

**Brand personality**

Customers compare brand personality and their favorite personality in order to choose between brand names which are constantly competing with each other. Each brand has a personality. Brand obtains a character. As it usually happens, if we compare a brand to an individual, an image of that individual is gradually created which gives information products or services (Kapferer, Jean-Noël, 2006). Personality and value are two interrelated concepts in which personality is value’s subset. Plummer (1985) stated that brand personality is the result of the company’s relations while image is the way in which consumers conceive a brand name. Consumers use the dimensions of brand personality as the determinant of that brand’s added value (Valette-Florence, 2009).
Bruke (1994) listed 5 advantages of efficiently using brand personality as follows: 1) Creating brand equity by accepting the situation of institute’s brand. 2) Creating a recognizable image to establish efficient communications with customers. 3) Creating and expanding a strong mental image for brand names. 4) Differentiating brand from rivals. 5) Providing conditions for the institute so that higher prices can be asked from customers.

Randall (1997) listed the 4 following roles for brand name: 1) Providing the consumers with an identity. 2) Providing the consumers with some information about the brand name. 3) Guaranteeing the advantages expected by consumers. 4) Adding information about the advantages of a product or service.

Several advertising agencies have made personality a prerequisite in all communication competitions. Today, body and character are the axes of all brand communications (Kapferer, Jean-Noël, 2006). Aaker (1996) defined brand personality as a strategic tool and a metaphor which can help brand strategies in understanding the individuals’ perceptions of brand name, differentiation between the identity of brand names and finally creating brand equity. In 2002, Aaker listed the strategic goals of brand personality as follows: Creating of a strong and significant link with consumers, Becoming a part of individuals’ life and mind, Communicating with individuals’ social networks. A factor revealing the significance of personality in brand structure is Aaker’s 10 recommendations in 1997 for making strong brand names. He claims that one of the 10 steps in creating a successful brand is establishing an identity for it. “Each brand must have an identity.” Customers evaluate the proportionality between brand personality and their own personality. Using brand personality in brand management strategies can help companies achieve satisfaction, loyalty and profit and provides them with economic advantages.

**Brand equity**

Farquhar (1989) defined brand equity as brand name’s added value to the product. Similar definitions have been presented by Aaker (1991), Keller (1993) and Yoo and Donthum (2001). The idea of added value is related to the company’s success; because when value is added, the company gains more profit and its cost decreases compared to when it didn’t benefit from its brand equity (Agarwal, 1997) (Marshall, 1999).

The advantages of brand equity include: higher loyalty, completely flexible responses by customers to price variation, increased support and business cooperation, high efficiency in marketing communications, potential licensing opportunities, more opportunities for expanding the brand name, increasingly attracting investors and gaining more support from stakeholders (Aaker, 1991), more profit margin (Kim, 2005), the ability to attract better employees (Denin and Del Vecchio, 2007), protection of the company from the entry of potential competitors when outsourcing resource provision (Lim and Tin, 2009).

Brand equity is a key concept in brand management which is investigated from different perspectives (Boo & Busser 2009). Three approaches have been suggested for the evaluation of brand equity. The first one is brand name’s monetary value in the market. The second one is a multi-dimensional concept which includes the value added to the product or service by customer association and perception of brand which is often conceptualized as
consumer-based brand equity (Aaker, 1991) and (Keller, 1993). The third approach is a combination of financial and consumer-based approaches.

Many researches are focused on consumer-based approach because unlike financial approach, it provides a tool for understanding requirements and the requirements of the consumers which can be used to formulate brand strategies for fulfilling the requirements of consumers (Keller, 2003). Two consumer-based frameworks presented by Aaker (1991) and Keller (1993) are used more often. Although they have conceptualized brand equity separately, they both rely on customer association of brand name. Ultimately, the four sources of brand equity by Aaker (1993) are widely accepted and used in many researches (such as Na & Marshall, 2005; Mohammadian & Shafiha, 2008 and Tong & Hawley, 2009). Therefore, the present research will make use of consumer-based approach and the framework presented by Aaker (1991). With regard to the work by Kim et al (2008) in the service sector in South Korea, the present research considers and investigates brand trust as the fifth dimension of brand equity.

**Hypotheses**

With respect to the aforementioned information, the main goal of the present research is to identify the effect of brand personality on the dimensions of brand equity. Based on this goal, research hypotheses are as follows:

1) Brand personality has a direct positive effect on brand loyalty.
2) Brand personality has a direct positive effect on customer brand trust.
3) Brand personality has a direct positive effect on association (awareness) of brand.
4) Brand personality has a direct positive effect on the perceived quality by customers.

Service sector was investigated to study the above hypotheses because there is little knowledge about brand personality and equity in this sector compared to product sector. With regard to the fact that there are two major commercial rivals in the mobile communication services market (MTN Irancell and MCI), Irancell users in Tehran are chosen as the statistical population of the present research. Stratified random sampling is used. Due to the research’s implementation restrictions, the analyzed data are obtained from a 212-participant sample (with a return rate of 0.848).

**Research Method**

Since the goal of this research is to determine the dimensions forming brand personality and their effect on the dimensions of brand equity, this is an applied research and the method of data collection is descriptive – survey. The data collection tool is questionnaire. The variables investigated within the framework of the research’s conceptual model are presented as follows: 16 questions for assessing brand personality and 14 questions for assessing the dimensions of brand equity based on Likert 5-point scale from 1 (strongly disagree) to 5 (strongly agree). The reliability of the questionnaire used in this research was evaluated using Cronbach's alpha coefficient and its validity was evaluated using confirmatory factor analysis. Cronbach's alpha coefficient for the questionnaire was calculated at 0.876 which is an indicative of its appropriate reliability. Four factors for brand personality and four for brand equity were identified using exploratory factor analysis. The
results of the factor analysis in table 1 confirm the dimensions of brand equity and personality obtained using exploratory factor analysis which is an indicative of appropriate validity of data collection tools.

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<td>Smooth</td>
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<tr>
<td></td>
<td>Beautiful</td>
</tr>
<tr>
<td></td>
<td>Attractive</td>
</tr>
<tr>
<td></td>
<td>classy</td>
</tr>
</tbody>
</table>

| X² = 174.65 , df= 84, p-value= 0.000, RMSEA= 0.072, GFI= 0.90, CFI= 0.93 | X² = 141.00 , df= 71, p-value= 0.000, RMSEA= 0.068, GFI= 0.91, CFI= 0.96 |

Table 1: standard coefficients and significant values obtained using confirmatory factor analysis
The Results of Hypotheses Testing

Correlation analysis was done to recognize the direct relations between model variables; that is why the mean scores of items have been used. The result of correlation analysis can be observed in table 2.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Standard deviation</th>
<th>Brand personality</th>
<th>Loyalty</th>
<th>Perceived quality</th>
<th>Trust</th>
<th>Brand association/ awareness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand personality</td>
<td>3.155</td>
<td>0.621</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loyalty</td>
<td>2.97</td>
<td>1.09</td>
<td><strong>0.495</strong></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Perceived quality</td>
<td>2.70</td>
<td>0.657</td>
<td><strong>0.224</strong></td>
<td><strong>0.357</strong></td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust</td>
<td>2.84</td>
<td>0.945</td>
<td>0.450</td>
<td><strong>0.627</strong></td>
<td><strong>0.410</strong></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Brand association/ awareness</td>
<td>3.74</td>
<td>0.758</td>
<td><strong>0.283</strong></td>
<td><strong>0.228</strong></td>
<td>0.071</td>
<td><strong>0.232</strong></td>
<td>1</td>
</tr>
</tbody>
</table>

*Correlation coefficient is significant at 0.01 level.

Table 2: the correlation matrix of research variables

Structural equation modeling has been used in LISREL software version 8.54 to investigate the raised hypotheses. The results of the fitting of the presented model and the validity of hypotheses are presented in table 3 and figure 1.

<table>
<thead>
<tr>
<th>Relation in the model</th>
<th>Standard coefficient</th>
<th>Significance number (t-value)</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brand personality – brand loyalty</td>
<td>0.89</td>
<td>10.67</td>
<td>confirmed</td>
</tr>
<tr>
<td>Brand personality – trust</td>
<td>0.83</td>
<td>10.70</td>
<td>confirmed</td>
</tr>
</tbody>
</table>
After the model is determined, there are several methods for estimating the goodness of its fitness with the observed data. Generally, several indicators are used to assess the fitness of the model but 3 to 5 indicators are usually enough for model confirmation. In this model, RMSEA, CFI and IFI criteria are used for assessing the goodness of the model’s fitness. The value corresponding to each variable is presented in table 3. RMSEA stands for root mean square error of approximation. This criterion is defined as different sizes for each degree of freedom. This value is less than 0.05 for models with a good fitness. Values up to 0.08 indicate typical error of approximation in the population. If this value is 0.1 or higher, the fitness is weak. Since the value of this indicator in the model is 0.079, the fitness of the model is medium. If the CFI indicator is 0.90 or higher, it indicates that the model is fit. This
indicator also examines the value of improvement by comparing a so-called independent model in which there is no relationship between variables and the proposed model. The value of CFI in this model is 0.94 which indicates that it has a good fit. If the value of IFI indicator is higher than 0.90, the fitness of the model is good and since this value is higher than 0.90, its fitness is good. Also as it is observed in table 1, RMSEA indicator for brand personality and equity variables are higher than 0.05 and lower than 0.08, respectively which indicates that the fitness of the model is medium. Also CFI and IFI indicators are higher than 0.09 which is an indicative of the model’s good fitness [1]. The results presented in table 3 and figure 1 indicate that brand personality has a direct significant effect on all dimensions of brand equity introduced in this research because all significant values are higher than 1.96. The results also indicate that brand personality primarily has its highest effect on customer royalty to brand and then on customers’ perceived quality.

Discussion and conclusion

This research aims to investigate the effect of one of the factors affecting brand equity in the long term. For this purpose, brand personality was selected as a factor with long term effects. After having studied the personality dimensions of the name of the company, the effect of personality on the dimensions of brand equity is investigated. The results of the research introduced excitement, deluxe, flexible and competitive as four dimensions of brand personality, respectively. This result is consistent with the results of the previous researches. After having identified the dimensions of personality, the dimensions of brand equity were investigated in the service sector and then trust was added to the dimensions based on the work by Kim et al (2008). The result of exploratory factor analysis classified this dimension as a separate factor. With respect to the results of exploratory analysis and certainty of the appropriate validity and reliability of the questionnaire, the effect of brand personality on every dimension of brand equity was investigated. The results of using structural equation modeling confirm the effect of brand personality on the dimensions of brand equity. This investigation showed that brand personality has the highest effect on customer loyalty to brand and their perceived quality. The result of the present research is consistent with that of Valette-Florence et al (2009) who had conducted a research on electronic products.

Individuals who have a good attitude towards brands are more likely to choose a brand proportional to their personality. This fact agrees with the concept of brand personality.

The main point is that we must make sure every activity of our brand in every situation somehow expresses its character and purpose. In other words, everything the brand does is a reason for its survival. The presentation of brand personality is an important point in our world which is full of different marketing stimuli. Although many brands are attractive to some of their consumers, they somehow repulse some others. Not only this contradiction in perspectives is inevitable, but it also indicates that brand strategy is integrated and properly consistent.

Since functional benefits of brands can be duplicated by rivals, a unique way of keeping brand is using psychological sciences in advertising and packaging. Brand equity has also a major effect on profitability. Therefore, organizations and companies should focus their concentration on creating brand equity. For this purpose, companies should use branding strategies to create competitive advantage for themselves. As it was indicated in the result of the present research, brand personality is a factor affecting the formation of brand equity in
the long term. Therefore, organizations should take these factors into consideration when formulating their business strategies so that they can create an appropriate personality of their brand in the mind of their consumers. This personality can be created using interactive services, product packing, decoration and arrangement, presentation of the product, culture, etc.

It is recommended that the future researches study the simultaneous effects of brand mental image and brand personality on brand equity. Also the effect of consumers’ consumption values on brand equity can be investigated using the theory of consumption values.

References


Motivational Factors and Coping Mechanisms of Overseas Filipino Workers in Selected Countries in Asia: Its Implication to Job Satisfaction

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Abstract
To study aims to find out the motivational factors and coping mechanisms of Overseas Filipino Workers (OFWs) in selected countries in Asia and its implication to job satisfaction. This study used a descriptive, correlational-survey method. One hundred twenty-four overseas employees in Thailand, Vietnam and Cambodia working for at least (5) five years were the respondents of this study. The researchers utilized a 34-item self made questionnaire composed of several open and closed-ended questions. The first part is a 13-item test which measured the respondents’ motivational factors. The subsequent part of the questionnaire is an 8-item checklist which measures coping mechanisms. The last part is a 13-item scale on job satisfaction. Relationships among variables were analyzed through the Pearson Product Moment Correlational Coefficient. Major research findings divulge that majority of the respondents’ motivational factors are high and concerned on high unemployment rate, and they utilize positive reappraisal as their primary coping mechanism; while the most common determinant of job satisfaction of the respondents was promotion or career advancement. Moreover, there is also a significant relationship between motivational factors and job satisfaction.

Keywords: Motivational factors, coping mechanisms, Overseas Filipino Workers, job satisfaction.

Introduction

Overseas Filipino Workers (OFW) is a term for a Filipino who is employed in work outside the Philippines. It was initially during the time of the Ramos administration when the term Overseas Filipino Workers was adopted. Filipinos working abroad were formerly called as Overseas Contract Workers (OCW). The word “Filipino” replaced “Contract” to give honor to our countrymen whom were called “Heroes of the New Millennium”. The change
also manifested the Philippine government’s commitment to secure their welfare through Philippine Consulates in their respective countries. This was concretized by the Republic Act 8042 or the “Migrant Workers and Overseas Filipino Act of 1995”. Aside from protecting OFWs, the law also includes creation of programs to support workers abroad in their difficulties.

Recent studies showed that among 80 million populations in the Philippines, there are at least 8 million Filipinos that seek jobs abroad to get salaries way higher than what is offered locally. They serve as housekeepers, caregivers, nurses, physicians and other health professionals, speech pathologists, occupational and physical therapists, website managers and designers, management, maintenance and staff, administrative and clerical staff, translators, teachers, security personnel, engineers, seafarers, entertainers, nuns, priests, and missionaries (Tan, 2004)

It has been noted that in 2005, remittances of OFWs have reached $10 billion and has significantly contributed to Philippine economy. This makes the country, the fifth largest recipient of remittances behind India, China, Mexico and France. This amount represents almost 13.5% of the country’s Gross Domestic Product (GDP). In the beginning of 2006, the World Bank has declared that the Philippines have already reached $12 billion worth of remittances sent through authorized financial institutions and other private money transfer agencies.

In the latest study conducted by the Philippine Overseas Employment Administration (POEA) in 2004-2005, there are a total of 8,083,815 Overseas Filipino Workers deployed in various parts of the globe. POEA has further detailed the following according to migration status as: 3,187,586 permanent, 3,599,257 contract workers and 1,296,972 irregular workers without proper documents. Another survey conducted by the National Statistics Office (NSO) on 1.06 million OFWs showed that 33.4% of them are unskilled workers, 15.4% are trade and other trade related workers and 15% are plant and machine operators and assemblers. These surveys have noted drastic impacts in the number of OFWs reaching 26.6% increase since 2004.

The researchers chose this area of study due to the increasing number of overseas deployment. This applies not only to unskilled workers but to professionals as well. Furthermore, it created drastic impacts in the country such as brain drain and underemployment. The researchers want to discover what makes these individuals leave the country. In addition, it aims to reveal difficulties of Overseas Filipino workers so that complaints may be addressed to proper agencies concerned and be given adequate solution. Finally, the researchers also pay tribute to OFW parents that have been enduring physical and psychological distance from the family to provide them economic stability.

Review of Related Literature

This section discusses major concepts of the study such as motivational factors, coping mechanisms and Overseas Filipino Workers per se. It will also deal on researches on Filipino situations on cross cultural countries.

On Motivation
Motivation is derived from the Latin word ‘movere’ (to move) which refers to the moving force that directs behavior. It can also be regarded as an increasing force on progress that energizes and guides behavior (Velasco, 1997). Barnhart et al (1998) added that motivation is an act or process of furnishing incentives for inducement of action. Morris and Maistro (1993) further stated that it is an inferred process within a person that causes the organism to move toward a goal or away from the unpleasant. However, the strength of motivation to perform a particular task is a product of three variables: (1) motives, (2) Skills and (3) values.

A study conducted by Leonard (1995), cited by Bernales, et al. (2004) presented six sources or determinants of motivational needs. These are: (1) behavioral or external, (2) social, (3) biological, (4) cognitive, (5) affective and (6) spiritual. Behavioral or external sources are brought about by stimulus associated to innately connected stimulus. The desired reward of the undesired consequence influences it. A social need is manifested through imitation of positive models and the desire to belong in a group. Biological source, on the other hand, refers to the physiological maintenance of balance or homeostasis. Cognitive sources are those that are influenced by maintaining attention to variables that are interesting or threatening and the need to find solutions to problems. Finally, the spiritual sources are factors geared in finding or understanding the purpose of one’s existence and their connections to the ultimate unknown.

Motivations are based on emotions specifically on the search for positive emotional experiences and the avoidance of negative ones. It can also be inferred that that motivation is involved in the performance of all learned experiences and responses (Wikipedia). Motivation is a process that brought us to and come up with certain decisions and actions (cited by Canog, et al. 2005). People are motivated because of the goal they want to achieve. Thus, motivation focuses on the forces that direct future behavior (Feldman, 1997)

According to Wrightman (Sevilla, 1999; Bernaldo, et al. 2005) motivated behavior could be instigated, directional and selective. It is instigated because the sequence of behavior can be set off by any deficit from within the organism and an external object or incentive. Motives set the conditions under which a behavior is stimulated. Motivated behavior is considered directional because it gears an organism towards or away from something. This means that behavior can be directed towards minimizing or eliminating situations that generates pain or aversion. It is also selective because it is grounded on one’s past encounters and knowledge that a person chooses and perceives to be necessary for the completion of a goal, need or want.

Motivation, (cited by Canog, et al. 2005) has two components: (1) what people want to do and (2) how strongly they want to do it. The first refers to the direction where the activity is motivated. The second part refers to the strength and variations of motives. Thus, people act only to those that currently move them. Corsini (1994) also added that motivation is active only in a given moment or situation when the organism is aroused (cited by Flora, et al. 2005)

Classifications of Motivation

There are two major classifications of motivation – the intrinsic and extrinsic motivation. Intrinsic motivation refers to rewards provided by an activity itself. This reflects that people act on things that will make them more satisfied and has the tendency to improve who they are (Feldman, 1997). It can also be considered as a factor that causes individuals to
participate in an activity for own employment of than for any tangible rewards. In addition, Deci and Ryan (1985) stated that people experience interest, enjoyment, competence and determination when they are intrinsically motivated. Extrinsic motivation, as cited further by Canog et al., is rewards that are obtained not from the activity but as a consequence of the activity. Mayers (1995) also said that extrinsic motivation is focused on external or tangible rewards an avoid punishments.

Castañeda (2005) studied work motivation which refers to the individual’s degree of willingness to exert and maintain an effort towards organizational goals. Accordingly, Baron and Greenberg mentioned two theories in the organizational setting and can also be summarized into two possible view of management to work motivation: (1) Theory X and (2) Theory Y.

Theory X refers to the conventional perspective of direction and control. This means that laborers dislike work and tries to avoid it. The main motivator, therefore, is money. Theory Y, on the other hand, pertains to the humanistic or self-actualization approach to human motivation and is often termed as “human resource model”. This manifests that work is natural and can be a source of satisfaction and that the worker can be highly committed and motivated. Caballero, et al. (2000) cited that human motivation is the interaction of needs and stress which are considered as the external forces that direct human perception, thought and aspiration.

On Coping

Coping is defined as the efforts to reduce impacts of stress on an individual’s well-being (Velasco, 1997). Coping can also be considered as a process of fighting some degree of pressure presented at a given time. It can be viewed as an ongoing dynamic process that changes in response to the demands of a stressful encounter or event (Agustin, et al. 2004). Edwards (1991), cited by Velasco (1997) pointed that these efforts are specifically addressed to different stress determinants such as conflicts between experiences and desires. Coping is the process individuals use to minimize effects of stress. Therefore, a discussion on stress is pertinent in understanding the basic concept of coping.

Stress is any physical and psychological reaction to events, people and environment that causes unwanted feelings or emotions. It has been used to describe a variety of negative response that accompanies threatening or challenging circumstances (Selebio, et al. 2005). It has also been noted that stress reactions maximize the expenditure of energy which helps the body prepare to meet unexpected causes of situations.

According to Bernard, et al. (1994), there are three major sources of stress: (1) survival stress, (2) internally generated stress, and (3) environmental or job stress. Survival stresses are emotions that are triggered by threats to physical well-being or simply facing risk against surviving. Internally generated stress are caused or brought about by occurrences beyond the individual’s control. Environmental and job stress includes occupational concerns, familial responsibilities and other elements that surrounds the individual and contribute to negative demands.

As stated in the research conducted by Selebio, et al., the current perspectives of stress response have noted that different people experiencing similar life conditions are not necessarily affected in the same manner. The same research also showed that defined stress as an internal response are caused by the application of stressor or anything that requires
coping behavior such as pressures on the workplace, financial support for the family or getting an education.

According to Rhodes (1993), every individual has an inherent coping mechanism, that body’s natural reaction or response to stress. It can therefore be considered innate among human beings. Skinner and Wellborne (1998) added that coping mechanism can be defined as a process on how people regulated their behavior, emotion and orientation under conditions of psychological stress.

There are two major forms of coping (Lefton, 1997): (1) problem focused coping and (2) emotion focused coping. Problem focused coping happens when a person is centered on a specific problem or situation that has risen and tries to device a way to alter or avoid it in the future. Meanwhile, emotion focused coping manifests when a person is centered on alleviating emotions associated with a stressful situation even if the situation itself cannot be changed.

Aeuerbach and Gramling (1997), however, have dissected the major forms of coping into eight categories. Two of these categories are types of problem focused coping (confrontive coping and planful problem solving). The remaining six categories are included on the emotion focused coping namely, distancing, self-control, accepting responsibility, escape-avoidance, positive reappraisal and social support.

Confrontive coping describes types of efforts to alter situations including attempts of risk taking. Planful problem solving are efforts exerted to change events and occurrences by inducing stress with an analytic approach to finding solution. Distancing is exerting efforts to detach oneself from the stressor or to create a positive outlook. Self-control describes efforts to control one’s feelings or actions, limiting or hindering immediate responses and behaviors. Accepting responsibility recognizes an individual’s role in a specific problem and includes efforts of trying to put things in proper places. Escape-avoidance involves wishful thinking and attempts to avoid or escape aversive situations by engaging in other activities. And finally, positive reappraisal involves efforts to create significance by focusing on personal growth and also includes item or actions pertaining to prayer and religion.

One of the most commonly used approaches in alleviating or coping with stress is social support which can be used on its own or may be combined with other coping strategies (Selebio, et al. 2005). Cobb (1976) indicated that social support should be perceived as the receipt of information that one cared for, valued and belong to a mutually supportive social environment. Magill (1996) stated five major outcomes constituting to social support, namely:

1. The perception of a positive emotion towards oneself from others;
2. Having another person agree with one’s beliefs and feelings;
3. The encouragement by another person to express one’s feeling in a non-threatening environment;
4. The receipt of needed goods and services; and
5. The assurance that one does not have to face events alone and that others will be there in times of turbulence.

Magill furthermore stated that social support consist of comfort, recognition, approval and encouragement available from other people including friends, family, members of the community and other sources.
Coping is believed to be a significant predictor of adaptation. Effective behavioral and cognitive responses to stress are believed to lead or increase feelings of efficacy and reduced levels of stress and anxieties (Selebio, et al. 2005). Although the use of some coping methods appears to be influenced by personality factors, the utilization of various coping mechanisms appear to be strongly influenced by the situation context (Lazarus and Folkman, 1993). It can be concluded that people change coping strategies from one situation to another and may resort to different mechanisms as a single stressful event unfolds (Arenas et al, 2005). Velasco added that the effectiveness of using coping varies upon factors such as magnitude and nature of demands and individual resources including skills, characteristics, traits, attitudes and abilities which may reduce one’s desire or perception.

Therefore, coping is directed at behavior regulation and maintenance of an optimistic outlook and orientation (Skinner and Wellborne, 1998).

**On Job Satisfaction**

Blum and Taylor (1968) defined job satisfaction as a general attitude of the worker constituted by their approach towards wage, working conditions, promotions related to the job, social relations at work, recognition of talents and some similar variables, personal characteristics and group relations apart from work life. According to Locke (cited by Luthans, 1995) job satisfaction is a pleasure or positive emotional state resulting from the appraisal of one’s job or job experience. Thus, it is a result of an employee’s perception of how well their jobs provide the thing which they consider important. It is generally recognized in the organizational behavior field that job satisfaction is the most important and frequently studied attitude.

Job Satisfaction is very important for a person’s motivation and contribution to production. Individuals want to maintain statute, high rank and authority by giving their capabilities such as knowledge, ability, health, etc, to their jobs for which they spend most of their time (Kahn, 1973; Luthans, 1995). In the perspective of job satisfaction, Newstorm and Davi (1993)m, cited by Luthans, noted that people’s need vary from one another depending on time circumstances. It is said that what can satisfy one person may not necessarily satisfy the other because it depends on the needs and priorities of the person concerned (Bana, et al. 1999)

Lehner and Kube (1984) mentioned at least (3) three factors that contribute to work satisfaction. The first factor is the physical condition. It includes salaries, working hours, benefits, loads and working conditions. Second factor is social relations which includes congenial relationship with co-workers and employers as well as with the family and people in the community. The third factor is the psychological factor which has something to do with recognitions for good work, feelings of security, career advancement, belongingness and the like.

According to Luthans (1995) there are (3) important and generally accepted dimensions of job satisfaction. First, job satisfaction is an emotional response to job situation. Second, job satisfaction is often determined by how well outcomes meet or exceed expectations. Third, job satisfaction represents several related attitudes.
Before defining the concept of cross culture, it is better to know the definition of culture per se. Culture, as defined by Barnhart, 1988, was a term used by social scientists for a group of people’s way of life. It consists of belief, customs, inventions, language, technologies and traditions. The meaning of culture can be defined simply as a complex way of life. Cross-culture is the overlapping or crossing of one culture by another or having one or more culture penetrating at a given area.

Motivational Factors of Overseas Filipino Workers

Velasco (1997) has pointed out a few motivating factors why Filipinos opted to work abroad. He classified it into two major categories: (1) push factors and (2) pull factors. The push factors are motivators, situations or occurrences that drive a person to engage in a specific circumstance due to tangible rewards or benefits one may acquire. These may be array of options where one may personally choose. The pull factors, on the other hand, are motivators that persuade an individual to commit an action. As in the case of Overseas Filipino Workers, the push factors are elements or options coming from the self which they consider in arriving at a decision while the pull factors are the elements used by employers to attract laborers to provide service offshore.

The Push Factors

High Unemployment Rate

The government has been continuously in plight for decreasing unemployment rate in the Philippines. At present, it has been lowered by about 1.2% annually beginning the first quarter of 1998. But the odds of having millions of graduates every year constitutes to the bearing of the Republic. However, the decrease in unemployment rate resulted to a 20-22% increase in underemployment rate. This means that due to job shortage, professionals and other skilled workers settle for occupations where their specific field of specialization may not be utilized.

Low Family Income

Filipinos, nowadays, earn a minimum wage of Php 350.00 daily. This is composed of Php 300.00 basic wage and Php 50.00 cost of living allowance for workers in the National Capital Region. That is about Php 9,100.00 gross salaries per month excluding deductions from taxes, contributions, loans, etc. As compared to the prices of commodities at present, this amount, most likely, is not enough for families to live a comfortable life. However, this amount does not apply to all laborers in the Philippines. It varies depending on the location of the worker.

High Cost of Living

The cost of living at present is about Php 8,500.00 – 9,000.00 for a family of five. This includes basic commodities such as food, shelter, clothing and education on public institutions. It should be noted that inflation rate in the Philippines increases at about 4% per annum without regular wage increase.
Familial Concern

The family is the center of Filipino life (Samonte, 1991). As Senator Leticia Shahani stated, “Filipinos possess a genuine and deep love for the Filipino family which include not only spouse and children, parents on siblings but also grandparents, uncles, aunts, cousins and other relatives.” Therefore, each one has always aspired to give the best life one could offer to their families.

Sense of Adventure

The ‘bahala na’ attitude of Filipinos has become one of the major factors why many of our countrymen venture into foreign lands (Velasco, 1997). It can be inferred that aside from the financial rewards that might be granted to OFWs, they may also treat it as a test of their physical and psychological endurance while working far away from home.

The Pull Factors

Appreciation of Foreign Currency

Most of the Filipinos abroad receive salaries in US dollars, equivalent to an average amount of Php 51.00 – 52.00 per dollar in the first quarter of 2006. As from US dollars, Filipinos have already been overwhelmed with foreign currency and the amount they would have in exchange to peso. Euro, for example, is better spent in the Philippines due to its high conversion rate. Therefore, OFWs are attracted to work abroad to obtain financial stability.

Strong Demand for Filipino Workers

Employers abroad have been very vocal in expressing their admiration for Filipino workmanship. Therefore, whether having efficient production of goods or provision of quality services, vacancies are most likely reserved for Filipino workers across the globe.

Geographical Proximity

Most Filipinos, nowadays, opted to go to Asian countries where traveling across are just a matter of hours. Furthermore, Asian countries are more accessible than western countries in terms of proximity and finances.

H1: There is a significant relationship between motivational factors and Job satisfaction of Overseas Filipino Workers.

The Coping Mechanisms of Overseas Filipino Workers

Coping is defined by Edwards (1991) as an effort to reduce impacts of stress on an individual. Being in a completely different country Overseas Filipino Workers may have
difficulties in adjusting to new environments. Individual coping mechanism plays an important part in dealing with concerns of OFWs in their day to day living.

The same study presented a term called “Economic Coping Activity”. These activities are usually utilized by OFWs to alleviate outcomes of stress at the same time provides them additional benefits in terms of finances. In his research on Filipino women in Japan, workers, particularly entertainers, have cited a few of their economic coping activities such as engaging in relationship to provide not only social support but additional rewards such as expensive or even money, going to places where Filipinos and sell goods on a scheduled rest day and like.

He also stated some causes for resulting to ECA. These includes: (1) low or delayed salaries for workers abroad, (2) payment of lent funds in the Philippines and (3) quick deliverance of economic and other financial needs of the family.

**Difficulties of Filipinos in Cross-Cultural Countries of Asia**

Much of the Filipinos today seek greener pasture and decide to work in other countries. They venture on a total different atmosphere, different people with different cultures. With this, we can therefore infer that dealing with cross-cultural environments away from home could be a factor of an Overseas Filipino Workers’ success or failure.

Sasake (2000) have mentioned a few advantages of having cross-cultural contacts such as: (1) increased self-reliance, (2) ability to accept viewpoint of others, (3) ability to develop a workable rather than idealistic policies, (4) broadening of one’s intellectual and social horizons and (5) gaining better understanding of other cultures. However, the same research also cited disadvantages in obtaining jobs on cross-cultural countries. They are: (1) physical separation from home, (2) deterioration of family ties as well as discipline and values, (3) no freedom exercising religion and (4) racial discrimination and prejudice.

Aside from the aforementioned points, another research conducted by Alunan (1994) have reported additional difficulties and concerns that are commonly experienced by Filipinos. These include: (1) feminization of migration, (2) trafficking of women, (3) violence against women, (4) racism, (5) undocumented Overseas Filipino Workers and (6) illegal recruitment.

Meanwhile, a study by Vasquez (1992) focused on two issues wherein social problems are generated as a result of contract migration. First is the lack of legal status of Filipino immigrant workers, particularly in new and rising countries in Asia. These countries allow illegal import of workers only for filling in labor shortage and would not want to formalize manpower import or regularizing the undocumented. They want to avoid deportation problems in times of economic struggles and unemployment. This process therefore, weakens the power OFWs to fight for their rights. Second, recruitment and deployment of OFWs remains completely in the discretion of private sectors that are geared only towards profit.

**Methodology**

**Research Design**
This study used descriptive, correlational-survey research design. This method is useful for the study since the researchers aim at identifying the motivational factors, coping mechanisms and job satisfaction among Overseas Filipino Workers as well as establishing significant relationship between variables.

The survey questionnaires were distributed to the respondents after which an interview followed. This procedure was conducted to Overseas Filipino Workers who acquired careers in different countries in Asia, specifically Thailand, Vietnam and Cambodia. These countries were selected because only few studies were conducted in such countries. They are regarded at present as emerging countries in terms of manufacturing and production because of low cost of labor.

The survey contains items on motivational factors, coping mechanisms and job satisfaction of OFWs living and working in foreign countries. It aims to identify the common reasons for employee migration as well as the strategies they use in dealing with stressors abroad. It also contains items regarding their degree of satisfaction towards their work and how it is relation to motivation and coping.

Research Instrument

This research utilized the thirty-four item, self-made questionnaire comprised of several close ended questions. Different scales shall be used to obtain degrees of responses and a few inquiries that may require specific but brief explanations, which will be done due the interview. It primarily contains questions on the respondents’ demographic profile, as well as their nature of job. Then, some specific questions were posted to determine their motivational factors, coping mechanisms and job satisfaction. The instrument was content validated by experts to check its reliability and validity.

Results and Discussion

On Demographic Profile

The respondents’ civil status comprised mainly of married individuals (62 respondents) or a total of 50 percent of the sample population. Single, widowed and/or separated individuals shared the remaining half or 31.45 percent and 18.55 percent, respectively.

Most of the occupations acquired by the Filipino workers in these countries were white collar jobs. They were either highly technical or may require a specific degree of specialization, still there were jobs that required skills and were not very particular on theoretical knowledge. Based on the survey conducted by the researchers, it appeared that most of the respondents obtained a baccalaureate or bachelor’s degree which has 54.84 percent. There were also some who obtained post graduate degree such as doctoral (0.81 percent) and masteral (5.54 percent). These are common to those who are in the educational field or academe. The rest of the respondents were either college undergraduates or vocational diploma holders which covered 38.70 percent.
One of the most important motivational factors of the respondents is to provide a better living condition for their families. Hence, it is also important to take note of each respondent’s number of dependents. Most of them have (4-6) four to six dependents back home. They comprise 41.12 percent of the total number of sample population. Subsequent to this were those with (0-3) zero to three dependents which obtained 34.60 percent. Most of the respondents in this bracket were unmarried individuals supporting only themselves or their parents. There were also some who have (7-9) seven to nine dependents (21.77 percent) and even above (10) ten which covers 2.41 percent. They were individuals who support extended families (distant relatives) other than their primary family (spouse, children and/or parents), as also mentioned by Samonte (1991) in her study on overseas workers in Japan.

Another common factor of the respondents’ demographic profile is their work tenure. This study specifically qualified Overseas Filipino Workers who have acquired careers in the aforementioned countries for not less than (5) five years. Those who have been employed from (5-7) five to seven years consist 50.00 percent of the sample population. Following this were those who worked in those countries from (8-10) eight to ten years which obtained 37.10 percent. Finally, 12.90 percent of the respondents have been working there for (10) ten years or more. Most of these workers were employed in managerial positions.

Contrary to what is commonly known in the Philippines, Overseas Filipino Workers in the countries where this study was conducted acquired executive positions. Most of them acquired careers on manufacturing companies, usually foreign-owned, that covered almost half of the total number of respondents or 43.55 percent. The Filipinos’ innate inclination to aesthetics and music also led them to professions in art schools, entertainment lounges, bars and hotels which obtained 18.55 percent. Ensuing this bracket were those working in highly technical industries covering 16.93 percent of the respondents. They worked as industrial engineers, computer technicians, programmers and web specialists. There were also those who were hired in the marketing field as sales strategists, promotion specialists, marketing consultants, etc., which obtained 11.29 percent. The remaining 9.68 percent belonged to those who work as educators in most privately owned educational institutions. Filipinos’ excellence in written and spoken English as well as in other subject areas such as Mathematics and Science have made them one of the best, highly demanded and highest paid instructors.

Low family income is also one of the major factors for increased Filipino deployment off-shore. The respondents in this study had been objective and cooperative enough to disclose their monthly compensation. Their salaries range from ($400) four hundred to ($5500) five thousand five hundred US dollars. These amounts vary depending on the nature of work and deduction imposed by the employing enterprise. A combined percentage of 65.31 percent received ($1000-2500) one to two thousand five hundred US Dollars. Most of these respondents were those working on technical, marketing and manufacturing industries. Almost all of the Overseas Filipino Workers in the above mentioned countries were hired at supervisory levels. OFWs at managerial levels usually receive ($2500-3000) two thousand five hundred to three thousand US dollars covering 14.51 percent of the sample population. There were also respondents that receive ($400-1000) four hundred to one thousand US dollars. They cover 10.48 percent of the sample population. Those who receive salaries below ($1000) one thousand US dollars worked as volunteers and/or social workers in the Philippine Consulate. They receive a basic salary of ($480) four hundred eighty US dollars. Additional allowances were also provided for transportation, food and accommodation expenses. The remaining combines percentage of 9.67 belonged to those receiving ($3000-5500) three thousand to five thousand five hundred US dollars. Most of the respondents included in this margin were those working in the educational field.
The motivational factors of the respondents

The table presents the distribution of the motivational factors affecting Filipino migration to specific countries of Asia. Among the (7) seven indicators of motivational factors of Overseas Filipino Workers, high unemployment rate (Velasco, 1999) was considered the primary cause of employee migration. Unemployment rate grew annually by 10.2 – 20 percent beginning 1998 and continues to increase at present. Though the Philippine government constantly thrives to attract investors, it only increased underemployment rate by over 20 percent. High cost of living is the subsequent motivational factor of Filipinos to work abroad. The substantial difference of an estimated amount of at least Php 23,040.00 ($480 US dollars converted to peso) monthly salary abroad as to Php 9,000.00 gross salary here in the Philippines (based on minimum daily wage in National Capital Region) which most likely attracted Filipinos to work overseas. Furthermore, the inflation rate in the economy continues to grow by at least 4 percent every year (Colayo, 2005). The third most important factor that Filipino employees consider is the family income (Samonte, 1991). Since family income had been a consideration on most of the respondents, we can therefore say that salary is the most frequent form of extrinsic motivation (Feldman, 1997). It had been stated that the current minimum daily wage amounts to Php 350.00 comprised of Php 300.00 basic pay and Php 50.00 cost of living allowance. This amount depends on the nature of work and the location. Minimum daily wage varies between regions and cities.

Table 1. Distribution of Motivational Factors of the Respondents

<table>
<thead>
<tr>
<th>MOTIVATIONAL FACTORS</th>
<th>MEAN</th>
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</thead>
<tbody>
<tr>
<td>High Unemployment Rate</td>
<td>7.28</td>
<td>1</td>
</tr>
<tr>
<td>Low Family Income</td>
<td>6.87</td>
<td>3</td>
</tr>
<tr>
<td>High Cost of Living</td>
<td>7.15</td>
<td>2</td>
</tr>
<tr>
<td>Sense of Adventure</td>
<td>6.61</td>
<td>7</td>
</tr>
<tr>
<td>Appreciation of Foreign Currency</td>
<td>6.15</td>
<td>4</td>
</tr>
<tr>
<td>Strong Demand for Filipino Workers</td>
<td>6.31</td>
<td>5</td>
</tr>
<tr>
<td>Geographical Proximity</td>
<td>6.29</td>
<td>6</td>
</tr>
</tbody>
</table>

The fourth motivational factor of OFWs is appreciation of foreign currency. Almost all (foreign) employees in the aforementioned countries are compensated in US dollars. This is equivalent to Php 51.00-52.00 in the first quarter of 2006 (beginning of the study) but has gone down to as low as Php 48.00 at present. However, the unstable foreign exchange rates have not been an impediment for Filipinos to seek jobs abroad even if it had slightly affected their family income (Corsini, 1994; cited by Flora et al. 2005).
Another factor of Filipino employee migration is the strong demand for Filipino workers. Another misconception about Filipino workers is that they settle for manual jobs and were usually perceived as inferior by foreign nationals. Although Filipino workers encounter difficulties with the locals of the said countries, foreign employers prefer Filipinos for occupations that necessitates proper management, monitoring and critical thinking, and have counted on the Filipino’s hard work, dedication and efficiency.

Geographical Proximity is also considered as motivational factor of the Overseas Filipino Workers. Asian countries such as Cambodia, Thailand and Vietnam are the emerging manufacturing capitals at present due to its low labor cost. Availability of jobs in these countries as well as their accessibility made most Filipino workers encouraged to seek employment on these destinations, documentation and financial wise. Finally, a few of the respondents considered overseas employment as an adventure. These individuals took the risk of working on foreign lands either for experience, independence or change of atmosphere environment.

**Coping mechanisms of the respondents**

Table 2 shows a tabular presentation of the mean distribution of the coping mechanisms of Filipinos overseas. These are the processes or techniques they use in order to muddle through difficulties (Sasake, 2000) and adhere themselves with their personal objectives. Since being in a foreign country had been a common intricacy of the respondents (Alunan, 1994), they primarily resort to positive reappraisal (Aeuerbach and Gramling, 1997). It can also be viewed as the most practical adaptive strategy in alleviating anxiety brought about by the stressful encounters or events (Agustin et al. 2004). This includes displacing apprehensions to common religious activities such as praying, bible reading, attending mass and self-reflection. Based on the study, the respondents manifest strong attachment to their religion in times of separation from home. Filipinos usually gather around cathedrals on weekends or conduct private prayer vigils once a week.

<table>
<thead>
<tr>
<th>COPING MECHANISMS</th>
<th>MEAN</th>
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</table>

Table 2. Distribution of Coping Mechanisms of the Respondents
Another common coping mechanism among OFWs in other countries was social support (Selebio et al. 2005). Friends play a vital role in the process of social support (Magill, 1996). Respondents of this study agreed that they find comfort and security when being surrounded by other Filipinos. This is probably why Filipinos were all over town during weeknights and weekends. They are either enjoying Original Filipino Music on karaoke bars and lounges, playing at bowling alleys and billiard halls, strolling at different parks and historical landmarks, shopping for a good bargain or trying a lucky hand at casinos.

Subsequent to this was distancing or escape-avoidance. This approach was common especially to those who have just set foot on unfamiliar countries. It is also utilized by others who became burned out from their usual routines. Sleeping and watching cable television programs (the Filipino channel) were the most frequent activities of OFWs in terms of distancing.

Confrontive Coping or self control was very much utilized in the work place. Dealing with locals and other foreign authorities (Vasquez, 1992) had also been a major difficulty of Filipinos abroad. This circumstance may most likely be attributed to communication barriers since most of the locals experience complexity expressing in the English language. Moreover, their culture suggests increased level of aggression. They are used in settling arguments in scuffle, even against women.

Finally, accepting responsibility or planful problem solving is also utilized not only in the workplace but in the totality of their stay abroad. This include allotting considerable amount of time to strategize the best possible (and favorable) approach to specific problems which would eventually lead to lessening degrees of apprehension.

### Determinants job satisfaction of the respondents

Table 3 shows the frequency distribution on the determinants of job satisfaction among the respondents of this study. The OFW’s have been very particular with the career advancement opportunities of a company. This factor constitutes mainly on satisfying an individual’s psychological need. The respondents may have considered this because of their need to acquire or maintain the statute, rank or authority (Kahn, 1973; Luthans, 1995). Secondary to promotion or career advancement is the compensation or benefit factor. Since Filipinos have been motivated by their low family income and continued increase on prices of commodities (Velasco,1997). They are forced to find high paying occupations that would satisfy the very needs of their dependents. Compensation or salary is one of the tangible or measurable determinants of one’s pleasurable or positive emotional state due to appraisal of one’s job performance or experience (cited by Luthans, 1995). The third most important

| Confrontive Coping or Self-control | 6.69 | 4 |
| Planful Problem Solving            | 6.56 | 5 |
| Distancing or Escape-Avoidance     | 7.06 | 3 |
| Positive Reappraisal               | 9.63 | 1 |
| Social Support                     | 8.25 | 2 |

Table 3: Frequency distribution on the determinants of job satisfaction among the respondents of this study.
determinant of job satisfaction is the recognition. Another psychological factor in job satisfaction, recognition reflects the emotional response of an individual after exerting all efforts in a job satisfaction (Luthans, 1995). In addition, this determinant also measures or evaluates how well personal outcomes met or exceeds expectations. This aspect also varies depending on time circumstances (Newstorm and Davi, 1993) and (Bana, et al, 1999). Furthermore, employee’s contribution to production and motivation may also increase using recognition or recognition process (Kahn, 1973; Luthans, 1995).

Table 3. Distribution of Job Satisfaction of the Respondents

<table>
<thead>
<tr>
<th>JOB SATISFACTION</th>
<th>MEAN</th>
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</thead>
<tbody>
<tr>
<td>Compensation and Benefits</td>
<td>38.19</td>
<td>2</td>
</tr>
<tr>
<td>Work Condition</td>
<td>37.44</td>
<td>4</td>
</tr>
<tr>
<td>Communication</td>
<td>37.38</td>
<td>5</td>
</tr>
<tr>
<td>Co-workers</td>
<td>37.23</td>
<td>6</td>
</tr>
<tr>
<td>Recognition</td>
<td>38.27</td>
<td>1</td>
</tr>
<tr>
<td>Promotion or Career Advancement</td>
<td>38.92</td>
<td>3</td>
</tr>
</tbody>
</table>

Respondents have also taken into consideration the physical setting of the workplace. Workers general attitude constitutes not only salary, benefits and the like but also their actual working environment (Blum and Taylor, 1968). Finally communication and co-workers have also been focused in determining the job satisfaction of the respondents. This area includes variables such as social work relations, personal characteristics, group relations (Blum and Taylor, 1968) and other congenial relationship between co-workers and employers (Lehner and Kube,1984). Maintaining personal social relationships in countries with different cultures have been one of the OFW’s difficulties. Therefore, they see to it that the job they have acquired has the potential of forming groups (friends) and may maintain considerable balance and tolerance regardless of up brought values and cultural differences.

**Relationship between motivational factors and job satisfaction**

Using the Pearson Product Moment Correlational Coefficient the researchers obtained the value of $r$ as 0.15. Thus means that there is a significant relationship between motivational factors and job satisfaction among selected Overseas Filipino Workers. This is in congruence with studies conducted by Mausner et al.(1984) which proposed that job satisfaction is determined by intrinsic factors. These factors are also known as motivators, because they are essential for improving the performance of workers. In another article written by Cross et al (2006) published on the Journal of Primary Prevention (Springer, Netherlands) stated that motivators are the key to Job satisfaction. Moreover, Yap et al.
(1998) mentioned that included in a person's job satisfaction are the rewards for doing the job and performing it well. If a person is rewarded for high performance or stands to gain a reward for doing the work, he or she may find the job more satisfying. These rewards range from improved work environment (a corner office, a nicer chair), to higher security and more responsibility. In another study from Lunjew et al. (1989) hypothesized and proved that the higher the level of employee participation in decision-making or initiative due to varying strategies of motivation, the higher would be their (a) job satisfaction and (b) job performance.

Table 4. Relationship between Motivational Factors and Job Satisfaction

<table>
<thead>
<tr>
<th>Correlational Coefficient (r)</th>
<th>t comp.</th>
<th>t crit.</th>
<th>Significant level</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.15</td>
<td>1.675</td>
<td>1.645</td>
<td>0.05</td>
<td>With Significant Relationship</td>
</tr>
</tbody>
</table>

In article written by Dr. Alvin Chan published at www.articlecity.com discussed the importance of work motivation in relation to job satisfaction in personal and organizational levels. He mentioned that workplace motivation can be defined as the influence that makes us do things to achieve organizational goals: this is a result of our individual needs being satisfied (or met) so that we are motivated to complete organizational tasks effectively. As these needs vary from person to person, an organization must be able to utilize different motivational tools to encourage their employees to put in the required effort and increase productivity for the company. He further explained that in a constantly changing workplace and competitive market environments, motivated employees and their contributions are the necessary currency for an organization's survival and success. The development of an appropriate organizational reward system is probably one of the strongest motivational factors. This can influence both job satisfaction and employee motivation. The reward system affects job satisfaction by making the employee more comfortable and contented as a result of the rewards received. The reward system influences motivation primarily through the perceived value of the rewards and their contingency on performance (Hickins, 1998).

Based on the short interview conducted by the researchers on the relationship of motivational factors in relation to their job satisfaction, most of the respondents mentioned that their motivation to acquire higher paying jobs and provide better living status either for their families or for themselves became the foundation towards their satisfaction in the workplace. The intrinsic and extrinsic rewards they acquire respond very well on their physical and psychological necessities.

Conclusions

In terms of demographics profile, majority of the respondents were under the ages of 22-33 which is the peak of career that is why the respondents assert to find jobs with higher salary and compensation. Furthermore, this is the age where people get married and start to build a family. In addition, majority of the respondents were working in the manufacturing
companies since these countries were the emerging destinations of foreign investments due to low labor cost.

Majority of the respondents’ motivational factor fell under the high unemployment rate which continues to grow annually. Although the Philippine government continued its effort to invite investors in the country, this only increases underemployment rate by over 20 percent. Furthermore, high cost of living is next among the respondent’s motivational factors in considering jobs overseas. The inflation rate in the economy continues to grow by four percent or more every year. In addition, low family income depends on the minimum wage which varies between regions and cities.

Majority of the respondents registered positive reappraisal as their primary coping mechanism where the respondents manifest strong attachment to their religion. The second factor was social support where the respondents agreed that they find comfort and security being surrounded by other Filipinos. The third factor was the distancing/escape-avoidance which was manifested in sleeping and watching television. This is the common especially to those who has just set foot on foreign land or to some who had been drained from their usual routines.

The most common determinants of job satisfaction of the respondents were career advancement where they considered their needs such as maintaining statute, rank or authority. Secondary to it is the compensation/benefits factor where the respondents were forced to find high paying occupations that would satisfy the very needs of their dependents. The third most important determinant was recognition where the contribution to production and motivation.

There is a significant relationship between motivational factors and job satisfaction which proved that If a person is rewarded for high performance or stands to gain a reward for doing the work, he or she may find the job more satisfying.

References


**Internet Sources**


   http://www.poea.gov.ph/statistics

Abstract

The role of private sector in designing and executing effective HR strategies has been a role model for organization’s success. However, the public sector organizations in developing world are following a bureaucratic approach along with political pressures resulting in high corruption, dissatisfied workforce and low productivity gains. Therefore, research objective was to study the impact of HR transformation in the existing work culture of a public sector organization in Pakistan. It was evaluated through a climate survey in ten major parameters. The results revealed that the organization was making considerable efforts for maintaining a constructive work culture having a planned and satisfied workforce. However, a diverse workforce presented crucial challenges in performance management, succession planning and career development, but the leadership was committed to design and implement new employee policies, which would positively impact the employee relations and performance level.

Keywords: Work culture, HR transformation, organizational development, leadership.

Introduction

In the dynamic corporate environment of new millennium, need for efficient human resource management has gained pace. The organization has to adopt new ways of employee engagement for maintaining high satisfaction levels and efficient workforce. Thus, the role of Human Resource department has gone beyond the support and functional aspect to becoming the business partner at all levels of strategic management process. This growing involvement of HR department in the long-term sustainability of any business demands an intensive planning and an effective implementation of HR policies and practices, which majorly influences the work culture of any organization. The existing work culture and HR practices of a typical public sector organization in Pakistan have not yet evolved to compete with the HR transformation models in the developed world. Moreover, limited academic research is another reason, for which the importance of an effective work culture and efficient HR practices in a public sector organization has largely been ignored. Recently, it has been observed that majority of the public sector organizations in almost all the sectors have been performing extremely poorly as compared to their potential capacities. The major reasons for the decline of public sector organizations in Pakistan include state interference at operational level, political influences, high corruption levels, poor HR practices, and an inappropriate work culture. It’s high time that public sector in Pakistan should understand their economic significance and revamp their HR practices and work culture for productivity and profitability gains.
Literature Review

As business challenges become more complex with economic, global, technological, competitive, customer and demographic changes and pressures, business leaders seek innovative solutions to managing long-term growth and sustainability, both locally and globally. For HR professionals to contribute to these demands, they must transform their way of work. This fundamental transformation must occur in the way the HR department is organized and how HR practices are designed, integrated, and aligned to business requirements. The urgency to transform HR is heightened by an increasingly uncertain economic environment. At this point, it is important to understand the definition of HR Transformation in modern times. Ulrich, D., Allen, J., Brockbank, W., Younger, J. & Nyman, M. (2009) defined “HR Transformation as an integrated aligned, innovative, and business focused approach to redesign how HR work is done within an organization so that it helps the organization deliver on promises made to customers, investors and other stakeholders” (pp. 8-9). The authors further proposed a four-phase model for HR transformation to ensure that HR drives business success and avoids the common pitfalls of such efforts. It includes building the business case (why), defining the outcomes (what), redesign HR (how), engaging line managers and other employees for HR accountability (who). The model has been applied by many leading companies worldwide including Pfizer, Intel, Flextronics etc.

Organizational change can vary in complexity from relatively simple processes into a small work group to transforming the strategies and organization design features of the whole organization. (Waddell, D. M., Cummings, T. G., & Worley, C. G., 2000a, p.150) The organizations need not only to design the change process but also to align the employee expectations, engage employees for its successful implementation and achieving desired results in the new scenario. Ulrich (1997) challenged the HR professionals to create value for the stakeholders. He discussed that HR managers and line managers should collaborate to create an organization that can change, learn, move, and act faster than the competition. The framework of relationship between organizational types and human values (shaping up the work culture) for an effective organization has been well-established and researched (Quinn, R. E., and Mc Grath, M. R., 1986). Hughes (2010) gave a new face to the paradigm of human resource development by suggesting an advanced theoretical model based on the idea of realizing “people as technology” and highlighted that the relationship between human resource development and technology development can effectively be used for improving the relationship between employees and leaders.

Boonstra, J., J. (2004) deals with processes, problems and successes of organizational change. It relates current knowledge of organizational change and learning and new perspectives from social construct and postmodern insights to the understanding of the change dynamics and progression in organizations and their networks. It mainly deals with the dynamics of change, which means that complementary and competing insights are presented in overviews of theory and research. Pettigrew, A., Woodman, R. W., & Cameron, K. S. (2001) argued that the studies on change management still need to address the dynamism and complexities of an internationally conscious world across time and space. The authors proposed various interrelated analytical issues, which they felt to be underdeveloped in the literature on change management.

Besides studies on change management for improving HR processes and its organizational impact, Sotkiewicz, M., & Jensen, E. W. (2007) recommended a new road map for HR transformation, which involves creating business value through HR. It
highlighted the business requirements and aligning HR to meeting those needs. It was concluded that HR transformation can proceed with an external focus rather than an internal one comprising creation of new HR roles, governance and jobs. Moreover, an extensive research work has been undertaken to evaluate the impact of HR systems and practices on employee attitudes and performance levels (Patterson, M. G. et al., 1997). It can be inferred that human resource development initiatives enable the organizations to transform individual capital into organizational output and reinvest the stock of human potential into the organization for a maintaining and improving the performance levels (Storberg-Walker, J., 2004). Innumerable case studies have been published to show that HR transformation lowers cost and accelerates efficiency levels in organizations (Human Resource Management International Digest, 2005).

The business process reengineering of a public sector organization was derived from the modern management techniques in the private sector organizations. In this respect, Ferlie, E. et al. (1996) (as cited in Ferlie, E. et al, 2003) gave the concept of New Public Management (NPM). Ferlie, E., Hartley, J., & Martin, S. (2003) questioned their own work on ‘New public management’ phenomenon in 1996 by arguing that the question of what public service organizations were for or what they added for the benefit of a variety of stakeholders was largely ignored. The authors argued that public organizations could be made more efficient by the application of private-sector management techniques and processes. They further concluded that public management cannot be isolated from the policy and political contexts in which it is located. Public management must be connected with the aspirations, pressures and contingencies of the political world. Public managers are constrained by the fact that they work within a set of legal, regulatory and policy rules and demands, and are required to be accountable for their and their organization’s actions. This accountability is in the full glare of the public eye, not only in the media but also through an apparently expanding set of regulatory, inspection and scrutiny regimes. Public managers need to be alert to the opportunities and constraints of the policy setting in which they are located, to the changes in needs and aspirations of users and citizens, and to other changes which may be taking place in the external environment.

Moreover, an extensive research work has been undertaken to evaluate the impact of HR systems and practices on employee attitudes and performance levels (Patterson, M. G. et al., 1997). It can be inferred that human resource development initiatives enable the organizations to transform individual capital into organizational output and reinvest the stock of human potential into the organization for a maintaining and improving the performance levels (Storberg-Walker, J., 2004).

Newman (2001) (as cited in Ferlie, E. et al., 2003) has outlined a possible NPM (New Public Management) ‘governance’ paradigm, which places far more emphasis on partnership, networking and lateral modes of organizing than the vertical ‘command and control’ forms typical of the NPM paradigm. Ashworth, R., Boyne, G., & Delbridge, R. (2009) extended previous research on institutional theory by distinguishing between two definitions of conformity (compliance and convergence) and by taking a comprehensive view of the organizational characteristics that might be subject to isomorphic pressures. It was found that the impact of isomorphic pressures was stronger on organizational strategies and culture than on structures and processes. Similarly, Gould-Williams, J. (2003) developed a conceptual model to evaluate the impact of HR practices on workplace trust, job satisfaction, commitment, effort and organizational performance on local government employees in UK. The research work on modern organizations have proved that even in public sector
organizations, the human resource and practices that manage them have a key role in the growth and survival of public sector enterprises (Mc Gregor, Jr., E. B., 1998).

Public sector organizations have experienced radical changes in their business processes in wake of modern management tools and practices. In Pakistan, public sector organizations are under strong political and government influence, which gives it a bureaucratic outlook. A lot of efforts need to be placed across the vertical and horizontal command of public sector organizations, so that efficiency level may be increased and corruption levels may be controlled. However, recent emergence and reengineering developments in the private sector in last ten years has amounted the challenges faced by public sector organizations. The operations of private sector organizations have necessitated the public sector organizations to improve their business processes for customer retention and growth. Many public sector organizations have either privatized or underwent a massive business process reengineering to improve their performance levels.

Methodology

The research was performed on a public sector organization in Pakistan. The organization has experienced major structural changes in the year 2000 by developing a strategic vision for the next ten years and still, is progressing as a role model for other public institutions. Despite of being a public sector organization, it has become a role model in its management practices and business processes. The organization experienced a major transformation in the years 2000-2007. Since then, it is continuously updating its processes to incorporate the latest and competing management techniques. The quantitative research approach was adopted to undertake the research using climate survey to evaluate the impact of HR transformation on organizational work climate and culture.

The climate survey involved the evaluation of organizational culture prevailing in the organization through a customized close-ended questionnaire. The questionnaire included 49 questions in 10 major areas relevant to an organization’s culture. These areas include employee perception, leadership, work and responsibility, culture and communication, organization alignment, immediate supervisor, achievement and advancement, organizational policy and administration, systems and individual needs/values. The survey participants included 6 employees from 5 departments making a total of 30 respondents respectively. The sample size was drawn from the head office of organization, where policies are designed and evaluated. All the respondents were serving the senior, middle and junior management of the organization. The respondents rated their judgments on a Likert rating scale from 1 (strongly disagree) to 5 (strongly agree). The responses from each respondent were tabulated through MS-Excel for analysis purposes. The results were tabulated and analyzed to evaluate the organizational climate of the organization.

Analysis

The cultural survey delved into ten dimensions of an organization’s climate. Each dimension in the survey was comprehensively elaborated through various questions. In-depth analyses of all 49 questions in the ten dimensions are categorically discussed below:
Employee Perception

The first section of the survey related to study the employee perception and feelings about their organization. The results revealed that a vast majority of 84% employees were generally satisfied with their jobs and are motivated to work for the organization. The results show that a considerably high majority prefer to work for the organization, even if other options are available to them. It proved a highly positive employee perception about the organization and also reflected the high motivation and retention level of employees towards their job and organization. Majority of the respondents would recommend their organization to other potential employees, which proved the credibility and caring attitude of the organization towards employees. However, 10% of the employees were motivated to work for the organization, and would not even recommend the same to potential employees, showing dissatisfaction towards their job. However, a small fraction of 6% of respondents was found to be confused on their perception towards their organization, showing an indifferent attitude towards their motivation and satisfaction in their respective jobs.

Leadership

It involved the evaluation of the employees’ perspective towards their leadership commitment, inspiration, support and level of employee trust. The analysis revealed that 58% of the employees trust senior management of the organization, which shows their effective leadership capabilities. The senior management seemed to promote ethics and integrity within the organization, which reflected the embedment of value systems and code of ethics across the board. The respondents believed that senior management strongly supports company mission and objectives. It reflected the level of interest of senior management towards achievement of company goals. Employees were inspired by the senior management to achieve the company’s mission. It means that employees visualize senior managers as their role models in the organization. However, 33% of the total respondents believed that senior management should make considerable efforts to enhance its interaction with employees at every level. Such efforts would help in minimizing the communication gap between senior, middle and junior management levels.

Although, a simple majority of the respondents believes that senior management is committed to employee development through training, cross functional team building and providing challenging tasks. But the leadership should focus more on employee development programs. It was also observed that 9% of the total population was ignorant towards the leadership style in their organizations, which may again point towards an indifferent attitude towards organizational leadership. In this view, it can be inferred that the leadership should continue its efforts to equip the employees with necessary skills to perform their jobs more efficiently. Also, the leadership should encourage cross-functional interaction and infusing challenging tasks to the job for maintaining a more efficient workforce.

Work and Responsibility

This section of the survey dealt with amount and nature of employees work and responsibilities, which contribute to the overall culture and climate of the organization. It was observed that 68% of the employees have ample opportunities for job enrichment in the organization. They were well-aware about their job expectations. They believe that their job descriptions and responsibilities are clearly defined, which help them to perform better. Employees were found to be highly motivated towards their job. It depicted that employees were highly involved and focused intrinsically to fulfill the assigned responsibilities and achieve the organizational mission. Employees feel that their department follows a systematic and standardized approach towards problem solving. Each department is provided with
customized manuals and Standard operating procedures (SOPs), which help them in problem solving and decision making. Although, the overall analysis prove that majority of total population in the sample size seems to be motivated and involved in their jobs, but 25% of the respondents were of the view that the leadership should try to improve the motivation level of the remaining employees by introducing more creativity, diversity and challenges in the job to attract and maintain the interest level of employees. Whereas; 7% of the employees were not clear about the amount and nature of work and responsibility allocated within their respective departments.

**Culture and Communication**

It covered the cultural aspects and communication strategies being followed in the organization. Employees believed that their ideas were accepted and appreciated by their managers. It depicted that 64% of the employees were encouraged by their supervisors towards creative thinking and idea generation. Employees feel that the information was widely shared and readily available in times of need. It was clear from these responses that organization shares relevant information, which adds to the trust and confidence level of employees in their jobs. They believe that the organization was interested in employee welfare and attitudes of their jobs. It would lead to high motivation, high satisfaction, better performance and high retention levels. Senior management developed a fine communication strategy in terms of policies and processes, which helped them in delivering better results and relating their job to the overall organizational goals. Employees believed that communication was free and honest in their department, which created a congenial work environment within the department. It shows the freedom of expression and honesty in communication prevailing in the respective departments. However, 25% of employees believed that the communication levels were not very strong within the organization. Also, 11% of the respondents were uncertain on whether their ideas were accepted by their managers or not. Therefore, the supervisors should make extensive efforts to encourage idea generation amongst their team members for improving employee participation in decision making.

**Organizational Alignment**

It evaluated the relationship between job responsibilities and goals with the overall departmental/organizational goals. A vast majority of 74% respondents perceived their business goals as realistic and achievable, proving a high motivation level to deliver results. A large number of employees felt responsible that their work had an impact on the customer, which indicated their level of importance at their jobs. Such a response proves their seriousness towards their responsibilities. They felt that their objectives were aligned with the business objectives of the department/organization, which enhanced their confidence and level of importance in the organization. Nevertheless, 23% of the respondents could not easily develop a significant relationship between job responsibilities and organizational goals, reflecting a low level of employee satisfaction level. A negligible population of 3% was not clear about the linkage of their job responsibilities with the organizational goals.

**Immediate Supervisor**

This section related to the employee relationship with their immediate supervisor. It involved aspects such as feedback, decision making, training opportunities, counseling and employee empowerment. It was found that 56% of the employees received formal feedback on their performance from immediate supervisor regularly. As they got an instant feedback, it became easier for them to improve simultaneously and enhance their job proficiency. There was concentration of employee training in few departments/designations and ignorance towards the same in others. The company should develop a uniform training policy for all
departments and at all levels to maintain its managerial standards. Majority of respondents were involved in the decision making at the departmental level, whereas, 35% of the respondents were not involved in the decision making in their departments. This analysis also depicts a difference in the attitude of supervisors towards their employees in various departments, which needs to be reviewed by the top leadership. However, 9% of the employees could not decide the level of relationship with their supervisors, which may be due to lack of understanding between the two parties. An overall analysis revealed that respondents are empowered to take operational decisions and their supervisors effectively delegate the responsibilities on to them. Such employees feel more satisfied and contented with their jobs. The respondents receive counseling and advices on improvement areas by their supervisors. It means that the subordinates perceive their supervisors as advisors or mentors proving a strong coordination between the two parties. Employees believe that their supervisors openly listen to subordinates’ criticisms and suggestions, indicating freedom of expression and a liberal working environment of mutual respect and understanding.

**Achievement and Advancement**

This part of the survey dealt with the employee achievement and advancement in their job and careers. It included employee morale, creativity, growth and development opportunities, training plans and systems and procedures. 60% of the employees took pride in their jobs, which meant a high self-esteem to work for the organization. Since the organization enjoys a monopolistic situation in its respective sector, therefore, its employees also felt privileged to work for an elite institution of the country. Respondents have a very high morale to work in their organization. It depicted that they perceive advancement opportunities in the organization and also have a strong sense of achievement in their jobs. The analysis revealed that employees were appreciated and encouraged by their supervisors for their creative skills and innovative ideas in the workplace. It reflected a strong leadership approach to involve employees in the decision making and problem solving. They found opportunities for growth and development in the organization, which depicted their attachment and motivation towards their job. Systems and procedures were in place at the organization, which enabled them to perform their jobs effectively. Such procedures help the employees to excel in their professions and advance their careers towards upgraded managerial positions. It was found that 30% of the employees did not have a high morale to work for the organization, which may be caused due to lack of development opportunities within the organization. In this case, 10% of the employees were unclear as to whether their jobs provide advancement opportunities in the long run.

**Organizational Policy and Administration**

It evaluated the employees’ understanding and satisfaction with the organizational policy and administration. The results show that 65% of the total population believed that the organization should review its policies and engage employees in revising the existing ones to maintain a progressive organizational climate. Otherwise, employee dissatisfaction with respect to organizational policy and administration may further increase and create adverse effects on organizational efficiency. A significant majority of the respondents were not satisfied with the performance appraisal process. The organization’s performance management system was already suspended and the new system would be launched soon. Hopefully, the new system would infuse more vigor and enthusiasm amongst employees. At the same time, 35% of the employees felt that the organization has a clearly defined policy and criteria, but 5% of the sample size believed that either it’s not in place or not implemented in true sense, so they seek the leadership to revisit its policies and administration to retain employees in the long run. Interestingly, it was found that a majority...
of 51% of the respondents was satisfied with the grades structure and their compensation package as per their job responsibilities (one of the major dimensions in this section), which indicate their constructive attitude towards maintaining a positive and professional work culture in the organization.

**Systems**

This section evaluated the systems that are in place in the organization. It measured the quality of work and appropriate tools to perform the job efficiently. It was revealed that 85% of the employees were able to quantify the quality of work through the established systems within the organization and supervisor’s feedback. They were well-equipped with tools, technology, and equipment to the job well. It shows an adequate workplace environment sufficiently equipped with necessary work facilities for employees. However, 15% of the employees believed that lack of appropriate systems was severely affecting the productivity levels in the organization.

**Individual Needs/values**

It focused on employee needs and values, which affected its relationship with the organization. A vast majority of 88% felt that their work was meaningful and important to the achievement of departmental and organizational goals, which showed proper placement of employees. They felt valued in the organization. It showed that the organization had a caring attitude towards its employees, which may vary in some cases, that is 12%, due to the leadership attitude in few departments. The respondents felt that the organization was a good organization to work with. They felt that their organization was committed to employee safety and was taking appropriate measures to ensure the same.

**Conclusion and Recommendations**

An overall analysis of the climate survey revealed the following:

- The respondents perceived their organization as a high-status and caring organization. They not only recommended the organization to potential employees, but also preferred to work for the organization even if got an opportunity to switch. Such efforts indicated their high level of satisfaction to work for the organization and a healthy climate in the organization. However, the organization may initiate activities, which may engage the employees in its efforts towards a progressive organization.

- The respondents had a positive perspective towards their leadership commitment, inspiration, support and level of employee trust. It proved the effective leadership qualities and integrity of the senior management towards the achievement of organizational mission and objectives. It was also observed that against this simple majority perspective, few respondents seem to be dissatisfied with the leadership qualities of its senior management. They believed that top leadership should entrust and support their employees in fulfillment of job responsibilities by imparting training and bridging the communication gap.

- Generally, respondents seemed to be satisfied with the work and responsibility assigned to them in the organization. They were provided with job enrichment opportunities indicating growth and career advancement and had clear expectations from their job. Moreover, they seemed to be motivated with their jobs and are following a systematic and standardized approach in accomplishing their goals. Whereas, few respondents feel that systems and standards should be upgraded for career advancement and enrichment opportunities.
While evaluating the culture and communication in the organization, a majority of the respondents appreciated the culture and communication strategies, but a significant minority believed that the leadership should review its communication strategy, which would promote a healthy corporate culture. Employees should be empowered by encouraging them to generate ideas and involving them in the decision making process. They also believed that the performance management system should be reviewed and should be linked to promotion and career advancement, not only compensation. Moreover, supervisors should guide and provide feedback to employees more frequently, which may enable them to enhance their performance and satisfaction level.

In case of achievement and advancement level of respondents, they took pride in their work and in their organization, which reflects their high morale and creative thinking. They believed that generally, systems and procedures were followed in the organization. On the other hand, a considerable minority was of the opinion that the management needed to introduce career development programs and review its promotion policy as well. Since the performance is not related to career growth, therefore, employees may not be placing their best efforts to achieve organizational mission. As per the organization, the HR department and policies were in the process of reengineering, focusing on the performance management and developing its linkage with career advancement and succession planning. The organization has well placed policies for each department, but needed to improve the administration of employees.

A broad picture of the climate survey concluded that the organization was making considerable efforts to promote healthy corporate culture and a satisfied workforce committed to achieve organizational objectives. Undoubtedly, the efficiency of the organization had a direct positive impact on the economic progress of Pakistan. Thus, it should continue its efforts in promoting effective HR policies and strategies for ensuring a sound corporate culture with a motivated and satisfied workforce. The organization should also maintain and upheld its image as a role model organization in the public sector following modern management practices for the sustainability and development of its employees as well as the organization. It’s high time that the public sector organizations should in Pakistan should play a key role in improving the economical conditions by realigning their inter-organizational procedures and goals for a prosperous Pakistan.

References


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This article was written as part of a course work in M. Phil. program at Institute of Business Management, Karachi, Pakistan
Institutional Quality and Financial Stress: Experience from Emerging Country

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Abstract
The purpose of this study is to assess the institutional determinants of financial stress. In particular, we focus on the link between institutional quality and financial instability as measured by the financial stress index. The sample under-study covers the period 1996-2011 for a panel of 21 Emerging countries. The retreat in MCG showed that the quality of institutions shows that the freedom of expression and accountability, political stability and anti-violence, government effectiveness, regulatory quality and the rule of the law, appeared statistically in significance with the index of financial stress. Then, a better institutional quality will help bring down the financial tensions and stabilize financial markets. A set of institutional reforms will be urgently requested.

Keywords: Institutional Quality, Finacial Stress, Good Governance.

Introduction
Recent financial crises have been a major trait in most developing countries. The Empirical literature had previously emphasized the role of economic determinants, financial and monetary explanation of the financial instability, Goodhart et al (2009), and Borrio Drehmann (2009), Mishkin (2009), Rose and Spiegel (2010), Blanchard et al 2010, etc... Nevertheless, repeated financial crises do not only exert an influence on economic and financial agents, rather they affect a wide array of a more complex system involving the laws, rules and institutions that govern economic, financial, legal and political systems. That has increased the concern in exploring the interactions between institutional quality and financial stress, Demirguç-Kunt and Detragiache (1998), (2000); Savings et al (1997) & other. Rodrik (2002, 2003, 2004) Beji and Youssef (2010); Junghee Park (2012), kaufman (2012).

This paper attempts to analyze the way the quality of institutions can minimize financial stress on a par with the development of a new institutional theory in response to the instability of financial markets in recent decades. To tackle the complexity of the interconnectedness between institutional quality and financial stress, this document uses the estimate of governance indicators recently developed by kaufman (2012). The application of a new measure of financial instability namely financial stress will not only test the reaction of regulators facing financial pressures, but also quantify the magnitude of future crises as well as detect the most volatile periods.
The review of the literature states that there is an agreement on the role of institutional quality in maintaining the balance in the financial sector. Indeed, our empirical estimates of institutional variables along time (political stability and absence of violence, regulatory quality, Rule of Law, voice and accountability, government effectiveness) show that increasing the quality of institutions and the establishment of good governance can reduce financial stress.

The paper is organized as follows: the first section discusses the literature review related to the concepts of institutional quality and financial stress. The second section presents the research methodology and empirical validation and a discussion of the results. The last section concludes.

**Literature Review**

Traditionally, the concept of financial stress has been used in the literature of financial crises in reference to the incidence and rise of the different symptoms of disturbance of the financial system in the phase of panic and/or crash. BIS (1999) list under financial stress widening spreads on bond markets, falling stock indexes, the increasing volatility of asset prices in times of financial crises.

In a study that focuses on the Canadian financial system, Illing and Liu (2003) extended the definition of financial stress in dynamic inter-temporal variables that serve as indicators of disruption of the financial system. According to these authors, financial stress is defined as "the force exerted by the uncertainty and changing expectations of loss of economic markets and financial institutions. If financial stress is systemic, economic behavior can be modified sufficiently to have counter effects on the real economy .... Therefore, the financial stress is a continuous variable with a range of values, where the extreme values are called a crisis. ". Thus, it may be related to a disturbance of normal functioning of financial markets (Hakkio and Keeton, 2009). The examination of the level of financial stress and the impact of financial crises requires continuous monitoring of the financial system. However, analyses of financial crises and stress are closely linked, as crises are marked by achievements extreme financial stress. Frankel and Wei (2004) state that macro-economic fundamentals, contagion and the quality of institutions play a role in determining the level of stress in the financial system.

The main characteristics of financial stress are: the growing uncertainty regarding the fundamental values of the assets as well as the behavior of other investors, the rising of information asymmetry, the decrease in holding risky assets (Rötheli 2010, Dungey et al, 2009) and the reluctance to hold illiquid assets (Easley and O'Hara, 2010). These characteristics are the basis of periods origins of stress intensity.

The index of financial stress includes the set of variables that reflect the extent of disruption of the financial system. The literature on the financial crises shows symptoms of disturbance of the financial system which are: degradation of asset prices, the depreciation of the exchange rate and/or loss of exchange reserves, the insolvency/bankruptcy of market participants, the sovereign debt, rising interest rates and increased volatility of financial market returns. And we adopt a systemic approach to the analysis of financial stress that takes account of changes in the main components of the financial system, the banking sector, the foreign exchange market, the stock market and the market for public debt. So, the
The construction of an index of financial stress is crucial to detect the vulnerability of the financial system. This index provides a continuous set of circumstances that describe an economy at a given time. Balakrishnan et al (2009) add that episodes of financial stress are times when the financial system is turned on and intermediation capacity is weakened. This index is based on market data from high frequency while taking into account the volatility of the stock market, tensions on the foreign exchange markets, the vulnerability of the banking sector and the risk premium.

Several studies are designed to examine the determinants of the impact of financial stress (Rose and Spiegel, 2010 a, b, c; Blanchard et al, 2010; Frankel and Saravelos, 2010, Lane and Milesi-Ferretti, 2010, Beckman et al, 2009, and Giannone et al, 2010). A fourth-generation model of financial crises has identified three broad sets of variables as potential determinants of the incidence of seizures and the proliferation of the severity of stress in financial systems namely weak macro-economic fundamentals, the contagion process and weak institutions. In the present research, we are interested in the study of the effect of institutional quality on financial stress.

Sociologists often reserve the term "institution" to describe normative systems that operate in many areas of life. Indeed, a variety of institutional literature reveals two major conceptions of institutions, on the one hand as regularities of behavior, conventions, habits, and other similar rules. The second, adopted by North, seems more appropriate for the study of the form of business ownership. In addition, the two concepts are complementary.

Schotter (1981) and John Fagg Foster (1981) were the first who defines institutions as patterns of behavior and social conventions. Institutions are considered habits, customs, conventions that emerge through use. They have the game rules of a society.

The concept that the institutions are a set of rules governing the activity of economic agents is originated in the various currents of the new institutional economics (NIE) whose approach to North (1990) fits with the theory of the rights of property. According to North (1991), institutions are defined as formal and informal rules. Formal rules may be political in nature (nature of the political system), economic (property rights) such as contractual or statutory law, common law and regulations. Informal rules such as being cultural conventions, norms of behavior etc ... Indeed, institutions are systems of incentives that actually dictate human behavior.

North (1990) emphasizes the role of institutions is to "reduce uncertainty by establishing a stable structure to human interaction" and points out that formal and informal institutions are constantly changing, which changes continuously choice available to us.

Jack Knight (1992) defines an institution as "a set of rules that structure social interactions in particular ways." However, the theory of new institutional economics states that institutions must be considered essentially as balances, standards or rules (Aoki, 2001; Crawford and Ostrom, 1995). More recently, the World Bank (1998) defines institutions as come, "the set of rules (constitution, laws and regulations, political system) and informal (reliability of transactions, systems of values and beliefs, representations, social norms) that govern the behavior of individuals and organizations, the latter being the components of the individuals who pursue common goals. As a result, the concept of institutions is a multidimensional concept. It presents different understandings that relate to social relations, politics, the legal system and culture or religion. Indeed, researchers focus on further analysis, the quality of institutions as a factor of stability in the environment financial, La Porta et al (1997, 1998, 1999) and Islam and MMontenegro (2002).
Institutional quality is considered an important driving force of financial stability. This case raises a more fundamental question: why are there countries that are more stable than others? Addressing this issue, a major literature review becomes closer attention to the qualities of particular institutions and the legal system.

The first generation of studies explaining the institutional quality indicators are intended to identify good institutions. Indeed, a wide range of indicators of institutional quality variable are presented as proxies of governance in a country is, the guarantee of property rights in Knack and Keefer (1995), the risk of expropriation in Acemoglu, Johnson and Robinson (2001), political instability in Scully (1988), Fosu (1992) and Olson (1996), corruption in Mauro (1995) and Democracy in Barro (1996).

Second generation studies have attempted introduction of synthetic indices which requires the use of methods of aggregation and classification. Some authors use a simple average to construct an index of global governance, like the work of Knack and Keefer (1995), expanded by Hall and Jones (1999) thereafter. Kauffman, Kraay and Mastruzzi (2005) use unobserved components model to construct their global indicator of governance. Moreover, Scully (1992), Alesina and Perotti (1994) use the method of principal component analysis (PCA) to construct indices of political and economic freedoms.

Institutional quality seems to play a role. Thus some authors have increasingly begun to question the role of policies and institutional arrangements in this wave of financial instability. Many other works & Rodrik (2002, 2003, 2004) suggest that the quality of institutions is involved in all areas of economics and finance. Rodrik (2008) argues that a good institution is a means and an end in itself. They have a tool to lead to better public policy and economic and financial results. Similarly, it is a development objective which is associated with the relationship between the state and citizens.

Demirgüç-Kunt & Detragiache (1998) were the first to examine the contribution of the institutional environment to banking crises. Using indicators such as the degree of compliance with laws, bureaucracy, GDP per capita and corruption, they showed a developed institutional environment tends to reduce the likelihood of crises. Mehrez & Kaufmann (2000) studied the effect of transparency on the occurrence of banking crises in liberalized financial systems. They confirm that the transparent low economies are more vulnerable to banking crises following financial liberalization.

Demirgüç-Kunt and Detragiache (2000) agree that a large number of countries are involved in triggering the financial and banking crises due to the fragility of their institutional environments and a high interest rate deregulation favoring hazard moral.

From the study of the Savings and Loan crisis, Kroszner (1997) showed the presence of a significant relationship between political factors such as the transparency of government decisions, competition between interest groups and the structure legislation on the one hand, and reducing the costs of banking crises on the other.

The study of Claessens, Klingebiel & Laeven (2004) conducted a panel of 29 countries over the period 1980-2000 indicates that the time and cost of resolving systemic crises depend significantly on the level of corruption and efficiency the legal system. A low level of corruption reduces the costs due to the occurrence of increased financial instability.

More recently, Ben and Gamra.S Plihon.D (2008) attempt to examine, in the context of an institutional approach, the dynamic recurrent banking crises in emerging markets. They
exude a nontrivial economic relationship between the quality of institutions and the dynamics of systemic banking crises. They suggest that recurrent banking crises are the result of institutional fragility of emerging economies engaged in financial liberalization. Institutions vary significantly across countries, and these differences affect the way in which financial liberalization may be associated with seizures. Institutions can encourage excessive risk taking if they do not fulfill their role. To prevent these attacks, it should strengthen institutional structures.

Beji and Youssef (2010) proceed to build legal and institutional indicators from six institutional indicators. These indicators are the Control of Corruption, the Rule of Law, the quality of bureaucracy, the Ethnic Tensions, the repudiation of Government Contracts and the risk of expropriation by the state. According to these authors, the quality factor of the institutional environment is indispensable to the achievement of sustainable banking and finance. In a study on the MENA not, these authors studied the relationship between the institutional environment and development bank, they did not find a significant positive relationship. To this end, these countries should implement reforms that boost the institutional and political development, so they can finally act on financial stability and banking and therefore by improving economic growth. Institution has a good effect to promote the integration of countries into the global economy, Rodrik (2008).

Pattama et al (2006) evaluate the causes of currency crises and exchange with emphasis on the role played by a wider range of institutional factors. Their results also show that the institutions that economic factors influence the likelihood of crises. Indeed, they show that corruption, weak government stability,

These key characteristics of financial stress are the amplification of uncertainty about fundamental values of assets and about the behavior of other investors, the rise of asymmetric information, the decline will hold risky assets (flight to quality) (Rötheli, 2010; Dungey et al., 2009) and reduced willingness to hold illiquid assets (flight to liquidity) (Easley and O'Hara, 2010). These characteristics are the basis of the origins periods of stress intensities.

Various qualitative aspects such as the legal system, economic freedom and political stability of a country are very important in determining the strength of the financial sector. To control these aspects, we evaluate institutional quality in four areas critical to retain institutional environment namely the regulatory environment, public environment, the legal and political environment. These indicators are derived from the database (WGI) Kaufmann et al. (2012).

On a regulatory framework for the exercise of banking is ordered around a banking law, an agreement establishing the Commission Bancaire, prudential and accounting standards uniforms. However, the weakness of the regulatory and legal environment makes the banking system more sensitive to a crisis, this is achieved in the case where countries and rules enforcement is also weak, inefficient bureaucracy mechanisms for enforcing contracts are inefficient.

The ineffectiveness of the regulatory framework may affect the soundness of the financial system, and especially if there is asymmetry of information available on the actual situation of institutions in difficulty, this can prepare mounted instability since the quality and reliability of published documents that are important to differentiate between the good of those bad banks and their customers to cope with credit risk and put in place the necessary provisions to cover commitments risky.
The regulatory environment is evaluated by prudential rules as the Cooke ratio, McDonough and recently the Basel 3. Several studies have shown the impact of the regulatory environment on the amplification and duration of the Asian crisis (1997) as studies conducted by Hussain and Wihlborg (1999), Plihon (2006), Godelewiski (2004), etc. Plihon (2006) shows that the increased requirements for capital can have a destabilizing impact by strengthening macroeconomic cycles. In addition to the procyclical behavior of banks, Plihon (2006) identifies another channel through which capital requirements cause financial instability and increase the likelihood of systemic crises. Is the fact that outsourcing risks off bank balance sheets in order not to be obliged to comply with the prudential standards. This outsourcing is taking advantage of financial innovations such as securitization or through financial derivatives. These results in increased dissemination of market risks and their transfer to smaller players watched as institutional investors and hedge funds. Similarly, Beck et al (2006) study the impact of regulation on the probability of occurrence of a systemic banking crisis. They show that regulatory policies could hinder competition which may trigger a banking instability. However, Ahrend. R and A. Goujard (2012) show that the strengthening of banking supervision led to a decrease in the probability of banking crises around 58%. Ahrend well. R et al (2011) argue that regulatory force indicators are relatively well correlated with the extent to which countries can avoid bank failures during the financial crisis.

Regarding the public environment, the United Nations Secretary General denounces that "corruption is a threat to development, democracy and stability. It distorts markets, inhibits the growth and discourages foreign investment "(United Nations, 2010). Jain (2001) defines corruption as "the acts in which the power of the civil service is used for personal purposes in a manner that contravenes the rules of the game." A large number of university research has been focused on the economic and financial consequences of corruption at the country level. Indeed, much evidence suggests that corruption is a factor that contributes to financial crises in the world due to its negative impact on bank balance sheets. Deteriorating balance sheets remains one of the main symptoms of financial crises. An example of the financial crises in Asia in the years 1997-1998, it was revealed that increased corruption contributes to a financial crisis.

Junghee Park (2012) studied the impact of corruption on the strength of the banking sector. It proves that corruption significantly aggravate the problems of bad loans in the banking sector. Indeed, corruption distorts the allocation of funds which reduces the quality of private investment and thus lowers economic growth while increasing the probability of occurrence of banking crises. This author finds that corruption deteriorates considerably the quality of bank loans. The relationship between the corruption index and ratio of nonperforming loans is positive and highly significant. Whereas the increase in loan portfolio risk makes the banking system as a whole very low, and therefore it makes the country more vulnerable to the financial crisis, and corruption can be a major cause of financial crises.

On environmental policy, Acemoglu et al (2003) argue that poor political institutions lead to distorting policies, which resulted in a reduction in growth and an increase in the volatility of financial markets. A. Cavallo and E. Cavallo (2010) show that the strengthening of democratic institutions can mitigate or even eliminate the negative effects of financial crises. So the existence of a high level of political participation and civil liberties ensures a level of political stability to the maintenance of a balance on the financial market. However, political uncertainty only expands a set of triggers banking crises while increasing financial instability. Indeed, the weakening of the government, the presence of violence present catalysts financial stress. This is the case of crises in Mexico in 1994, Korea in 1997 and
Brazil in 1998 and 2002. Similarly, the fragility of the political system in Indonesia has fostered economic and financial vulnerability. Such political uncertainty affect investment, this leads to leakage of capital flows and domestic cost increases, including an intervention rigorous and thorough institutional reform is a first necessity.

The political environment is assessed by the political rights and the functioning of political institutions, in particular the freedom and legality of elections, acceptance or denial of the change at the head of the state and the participation of military life, political capacity measured by political decision-making capacity, policy coherence and authority of political freedoms and the autonomy of civil society, including freedom of the press, association, assembly and demonstration, respect of the relationship between citizens and respect for ethnic, religious and linguistic and national security measured by the security of goods and people, ethnic conflict, criminal activities and violent social conflicts. D.Acemoglu and J.Robinson (2012) state that the success or failure of nations depends mainly on the quality of political and economic institutions.

Analyses follow and try to examine the phenomenon of financial stress in its economic events, managers and accountants (Marini 1999-2000 Giovanoli 2000). G20 summits, the Heads of State and Government have spoken statements whose purpose is the overhaul of the financial system on a solid foundation. This requires a mix between a recovery strategy based on fundamental principles of economic development and strengthening the regulation and supervision of financial regulation. Reform of international financial institutions is also a great need. Considerations behind these economic and political profiles in place of law in the context of the financial crisis and the measures envisaged to cope.

The legal environment is evaluated by safety of oral and written contracts between private local and foreign contract enforcement by the state, the form of contracts, security of property rights as measured by the effectiveness of legal existence of a system of compensation for the land, the means of production and the absence of pressures on private property, and the effectiveness of bankruptcy law on companies measured by the degree of application of the bankruptcy law and the independence of the bodies responsible for deciding bankruptcy.

In summary, stability, sustainability and efficiency of financial markets in emerging countries depend crucially a set of institutional factors namely: prudential regulation, supervision, transparency, fight against corruption, the effectiveness of public action, contract security, respect for property rights, capacity and political stability. It should then be noted that despite efforts by officials and organizations, the establishment of effective institutions developed and remains a major challenge.

Methodology

Premium on board, it is important to note that the institutional environment is a mechanism that determines the efficiency of financial markets and their stabilities. In addition, a failure of this environment suggests taking excessive risks by banks in reducing the effectiveness of governance. Under this section, we will discuss the contribution of indicators of institutional quality in explaining financial instability. Similarly, we will try to find an answer to the following question: strengthening the institutional and regulatory
framework it can guard against financial and banking crises and addressing the problems of financial stress?

This study supports the literature on financial instability and institutions. The main objective is to reassess the determinants of financial crises by focusing on the role played by a wider range of institutional factors while controlling the financial and economic factors with the aim to correctly estimate the contribution of institutions to stress financial. From a financial market stability requires the presence of good institutions.

Our econometric study covers a sample of 27 emerging countries for a period from 1996 to 2011 to assess the relationship between institutional quality and financial stress. These individual data and time that allow us to make an estimate in panel data. The use of panel data allows us to use statistical information in two dimensions: individual and temporal. It therefore follows an efficiency gain in accuracy estimates.

Model

The independent variable: Financial Stress Index (ISF)

The Financial Stress Index is calculated as follows:

\[
FSI = \beta + \text{Returns} + \text{stock} + \text{market volatility} \ EMBI + \text{Index speculative pressures on the foreign exchange market}
\]

With :

**The beta of the banking sector**: it is a measure of the correlation between the total returns of the stock index of the banking sector and the overall market index. The calculation is as follows (Financial beta) noted:

\[
\beta_{IS} = \frac{\sigma_{B}^{2}}{\sigma_{M}^{2}}
\]

with \( r \) the annual performance of the banking sector (B) ou du market (M).

**The components of the sub-index on the stock market:**

- The stock market returns: changes in monthly stock returns multiplied by -1 yields a decrease dung is considered a higher stress on the stock market. The decline in stock market returns can cause a drop in risk appetite among investors. Thus, the flight to quality and liquidity to be observed.

- The stock market volatility: measured by the mean square moved in six months back one month to another market yields dung. The increased volatility in the stock market involves information asymmetry and flight to liquidity and investor uncertainty about fundamental values.

**The components of the sub-index on the foreign exchange market:**
The volatility of the foreign exchange market: measured by the mean square moved in six months back one month to another market yields exchange for advanced economies. It is measured by the pressure of emerging economies EMPI. It captures the depreciation of the exchange rate and levels of international reserves.

\[
EMPI_{i,t} = \frac{(\Delta e_{i,t} - \mu_{i,e})}{\sigma_{i,e}} - \frac{(\Delta RES_{i,t} - \mu_{i,RES})}{\sigma_{i,RES}}
\]

where \( \Delta e \) and \( \Delta RES \) indicate the monthly change in the exchange rate and total reserves minus gold, respectively. \( \mu \) and \( \sigma \) are the mean and standard deviation of the series. This component involves uncertainty about fundamental values and asymmetry of information on the forex market.

**EMBI**: standard sovereign debt

The explanatory variables

**Political stability / absence of violence:**

It measures the probability of violent changes of government system, as well as serious threats to public order, including terrorism. It also combines several indicators that measure how perceived likelihood of destabilization and overthrow of a government by institutional or resort to violence. A higher level of government stability means that the government is more likely to be able to continue its programs announced and remain in power. Factors such as the type of governance, control the legislature and the public approval policies are considered. Government stability consequently leads to minimize the uncertainty about the business (bank and nonbank) and strengthen the economy and reduce capital flight and panic in the financial market. From a higher index value indicates a greater political stability. The expected sign of this variable is negative.

The Effectiveness of Government:

It measures the competence of the bureaucracy and the quality of public services and how they are able to handle political issues without interruption of services. This indicator combines into a single index of perceived quality of public services, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures and the credibility of the government. This index is oriented inputs required for the government to be able to produce and implement sound policies and ensure good public service.

A higher level of quality of the bureaucracy means that the government is more likely to be able to continue its programs announced and remain "in office". Therefore, there is less uncertainty with respect to the conduct of government and less uncertainty regarding economic performance. From a higher index value indicates a greater stability of the government the expected sign of the stability of government is negative.

**Voice and Accountability:**

...
It includes a number of indicators measuring various aspects of the political process, civil liberties, political rights and independence of the media. It assesses the extent to which a country's citizens are able to participate in selecting their government, they monitor and accountable.

**Control of Corruption:**

It measures the use of powers (attribution) for personal enrichment especially individuals with a position of power. Higher levels of corruption are more likely to lead to inefficient economic decisions and greater resource allocation. The inefficiency and misallocation of resources exposes the economy to a greater risk of suffering economic performance loss (whether in the banking sector, public sector export and import, etc.). Since the poor economic performance can lead to capital flight. And higher levels of corruption can increase the magnitude of financial instability. Corruption can also make it more uncertain the outcome of contracts and transactions that may increase the propensity to sell risky assets. Since a higher index means less corruption, the expected sign of the effect of corruption on financial instability as measured by financial stress is negative.

**Rule of Law:**

It measures the quality of legal enforcement of contracts by the judiciary, impartiality and compliance popular law. This index is composed of several indicators that measure the degree of confidence of citizens in the rules designed by the company and how they comply. These indicators include perceptions of crime, violent and nonviolent, efficiency and fairness of the judiciary and respect for contracts and agreements. All these indicators determines the success of a state to establish an environment in which fair and equitable rules form the basis of economic and social relations. A higher degree of order means that not only are there more "respect" for the law by the people, but also that the judicial system is fair and impartial. Thus, a higher degree of order also implies less uncertainty in all types of transactions. Contractual obligations are more likely to be met under the terms of the agreement and the legal system is more likely to settle cases fairly. Thus, the law and order can indirectly strengthen the economy and make it less likely to be subject to capital flight and crisis. Since a higher number indicates a greater respect for law and order, the expected sign of law and order is negative.

- **Regulatory quality:**

  It has regulatory barriers to functioning markets. This indicator measures the impact of policies on the open market (such as price controls or weak bank supervision), and perception of burden (tax and regulatory) that is excessive regulation of sectors such as trade and business development. This indicator shows the strength and quality of the public and the bureaucrats and how they are able to handle political issues without interruption of services. This indicator shows both the independence and autonomy of the administration vis-à-vis the political and executive changes, as well as incentives that officials have to work through the mechanisms of recruitment and promotion. It is oriented policies in the strict sense. This criterion includes the antis liberal policy measures such as price controls or inadequate bank supervision, as well as the burden imposed by excessive regulation in areas such as foreign trade and business development. A higher level of quality of the bureaucracy means that services and policies are less likely to be interrupted and / or modified and that organizations
are less likely to be influenced by political pressure. Therefore, there is less uncertainty with respect to the conduct of government and less uncertainty regarding economic performance. Thus, the crisis may be less likely to arise in the presence of a good quality of the bureaucracy. From a higher index value indicates a higher quality of the bureaucracy, the expected sign of the regulation is negative.

The financial stress index is derived from the base Balakrishnan. R et al (2009), IMF WP "The Transmission of Financial Stress from Advanced to Emerging Economies." The set of variables representing institutional quality are collected from worldwide Governance Indicators Database (2012) and Data Gov.

The model we present attempts to analyze the relationship between institutional quality and financial stress. This is a linear model between the variables representing institutional quality and financial instability. The econometric model is as follows:

\[ ISF_{it} = \alpha_0 + \beta_2 SPO_{it} + \beta_2 GOVE_{it} + \beta_4 V - ACC_{it} + \beta_4 CC_{it} + \beta_4 RL_{it} + \beta_4 RQ_{it} + \mu_{it} \]

With :

\[ \mu_{it} = \text{Error term} \]

\[ SPO_{it} : \text{Political stability to the country i and period t} \]

\[ GOVE_{it} : \text{Government Effectiveness to the country i and period t} \]

\[ V - ACC_{it} : \text{Voice and accountability for period t and country i} \]

\[ CC_{it} : \text{Control of Corruption for the period t and country i} \]

\[ RL_{it} : \text{Rule of Law for the period t and country i} \]

\[ RQ_{it} : \text{Regulatory quality in period t and country i} \]

**Findings**

To analyze the effect of institutional quality on financial stress in the emerging markets, we adopt an econometric approach with panel data estimator as the Method of Generalized Square to address the problem of autocorrelation. The results are given in the following table:

| Variables                        | coefficient | Std.Error | Z-statistic | P>|z|  | [95% Conf. Interval] |
|----------------------------------|-------------|-----------|-------------|------|----------------------|
| Political Stability              | -0.21272    | 0.0947171 | -2.25       | 0.025| -0.3983622 -0.0270779|
| Government Effectiveness         | -0.6385371  | 0.2902719 | -2.20       | 0.028| -1.207459 -0.0696147 |
| Voice/Accountability             | -0.6360556  | 0.1175914 | -5.41       | 0.000| -0.8665305 -0.4055807|
| Control of Corruption            | -0.1797893  | 0.2360944 | -0.76       | 0.446| -0.6425257 0.2829471 |
The results of different estimates verify the hypothesis that good institutions explain positive financial stability and minimizing the level of stress and tension, trigger sources of financial and banking crises. Overall, the variables studied appear relevant, the explanation of financial stress and are statistically significant with the expected sign.

According to the estimates presented in the table above, the political stability variable is negatively significant which justifies the existence of a direct relationship between the political and financial instability. Improved political stability is to reduce the level of financial stress, thereby minimizing the likelihood of emergence of financial and banking crises. According to Alberto F. Cavallo (2010) the strengthening of democratic institutions can mitigate or even eliminate the negative effects of financial crises. So the existence of a high level of political participation and civil liberties ensures a level of political stability to the maintenance of a balance on the financial market. A higher level of government stability means that the government is more likely to be able to continue its programs announced and remain in power. Factors such as the type of governance, control the legislature and the public approval policies are considered. Government stability consequently leads to minimize uncertainty to businesses (bank and nonbank) and strengthen the economy and reduce capital flight and panic in the financial market. Indeed, the success or failure of nations depends mainly on the quality of political institutions which maintain economic and financial stability, and D.Acemoglu J.Robinson (2012).

Government effectiveness variable is significant. There is a negative relationship between government effectiveness and financial stress. This is explained by the fact that improving the level of efficiency of the government is to reduce financial stress. Indeed, the more the government is able to formulate and implement sound policies, more countries have financial stability.

Voice and Accountability variable is significant with a negative coefficient (-0.6360556). This can be explained by the fact that most citizens are more likely to access the selection of their government, a stable political environment characterized by civil liberties, political rights and freedom of the press and media, the financial environment present fewer constraints guaranteeing a level of stability. Informational transparency has thus enhanced competition.

The Rule of Law variable is significant. It has a negative sign. A higher degree of order and law means that the people are subject to a fair and impartial judiciary. Compliance with laws and orders can indirectly strengthen the economy and make it less likely to be subject to capital flight, financial crises and banking fragility. Thus the law purports to strengthen financial stability. Delors, good legal institutions can mitigate the tendency of financial risks.

The regulatory quality variable is significant. It has a negative sign. Since a high quality regulatory indicates a level of financial stability. This result is confirmed by studies Ahrend. R and A. Goujard (2012) which showed that the strengthening of banking supervision led to a decrease in the probability of banking crises around 58%. Ahrend well.
et al (2011) argue that regulatory force indicators are relatively well correlated with the extent to which countries can avoid bank failures during the financial crisis.

**Conclusion**

The last two decades have seen a proliferation of financial crises across countries throughout the world and especially emerging with increased interest among researchers and Policymakers. However, it is only recently that there has been a major change in the level of understanding of financial stress starting with macroeconomic and financial determinants to determinants deeper institutional type. Institutions can be presented as economic, financial, political, legal or social or implied that affect expectations and thus the risk of uncertainty in international transactions, algal source of financial and currency crises.

This article attempts to examine in the context of an institutional approach to the dynamics of recurrent financial crises in emerging markets. The objective is to demonstrate, through an econometric analysis of stylized facts, the role of the quality of institutions governing economic and financial activity and identify institutional dimensions may contribute to financial stress.

Our empirical study strengthens the hypothesis of a relationship between institutional quality and the dynamics of financial stress. The results of various theoretical estimates support the hypothesis that the quality of institutions plays an important role in explaining the financial stress. The overall results suggest that financial stress is the result of institutional fragility of emerging economies. Despite the average quality of institutions in these countries, they can boost financial stability by further improving the quality of their institutional environment. Indeed, countries wishing to establish a regular and sustained financial stability must show real capacity to conduct economic and financial policies of the government to create an enabling environment for freedom of expression, respect for the rule of law to delineate and avoid all forms of violence and political instability, gain height by the cancellation of corruption. Similarly, a better institutional quality leads to more stability.

To summarize, a more consensual with better public governance, political stability and absence of violence, government effectiveness, a fair and impartial judiciary, a good political process (civil liberties, political rights, press freedom, independence media ...) everything will be equal, a country relatively free of financial stress and therefore financial crises. These results allow enriching the theoretical models of crises and 4th generations to build on this aspect of forecasts of future crises.

**References**


Quality and change management at the Malaysian school system. The case of Sultan Ibrahim Girl School

Firend Rasheed, PhD
Noorazah Binti Mohd Hussien

Abstract

The objective of this study is to examine the relationship between total quality management implementation in Malaysian public schooling system, student passing rate and achievement, and the level of governmental spending on public education. This research aims to develop better understanding of the underlying principles to such high student performance in the general examination, and whether substantial governmental investments in public education can yield over time such high performance. This research is a case study of a public school in southern Malaysia, whereby a public school was examined for the high quality and outstanding achievement of its students in the national primary exam. It was found that number of factors contributed to such high achievement, with the implementation of total quality management principles being at the heart of the organizational policy, which is largely attributed to the availability of government funding to such programs.

Keywords: Malaysia public schools, primary schools in Malaysia, government funding, TQM in education.

Introduction

Public education in Malaysia is undergoing great reforms. Such reforms represented in great investments in the public schooling system by the Malaysian government. Total Malaysian government investment in primary and secondary education is the highest in East Asia as a percentage of Gross Domestic Product (GDP) (The Malaysian Education Blue Print of 2013-2025). Total government spending in 2011 was 3.8% of GDP (The Malaysian Education Blue Print of 2013-2025), which is higher than the Organisation for Economic Co-operation and Development “OECD”, average (Figure 1).
This puts Malaysia in the same rank with top performing economies such as Singapore, Korea and Japan. In 2012, a 37 billion Malaysian Ringgit was allocated to education in Malaysia, which counts for 16% of the total budget (The Malaysian Education Blue Print of 2013-2025). Primary school enrolment in Malaysia has been increasing steadily at 1% annually since 2004 (The World Bank Report) to make it at 101% in gross primary school enrollment (The World Bank Report).

Figure 1: Source: The Malaysian Education Blue Print of 2013-2025

Figure 2: Malaysia vs. East Asia primary school enrolment.
Source: The World Bank & UNESCO Institute for Statistics
Such large investments in education since the early 1980’s must have yield a progressive public schooling system over the years. However, a measurement of performance from prospective of quality management of the schooling system will add another dimension to the understanding of such massive investment in public education. Hence, an interest asorse in examining the relationship between total quality management in public schooling system, high student passing rate and achievement, and the level of governmental spending on public education.

**Literature Review**

There is a wealth of literature that links adequate government funding to higher student performance. King, Swanson, Sweetland (2002) make such connection by arguing that suitable government funding almost always produce more Equity and Efficiency in the public education system. Ladd and Hansen (1999) also confirms King et. al. argument. West and Peterson (2007) concur to such argument by stating that adequate public school funding is a viable alternative strategy in the pursuit of improved public education in the United States as an example of poorly funded public education system. Yinger (2004) provided a compelling examples of how lack of adequate funding for the public schooling system in the United States is a matter of lack of government priority, which impacts a substantial segment of the American populous to be left behind socially and economically.

Swanson and King (1996) provided historical examples of the impact of lack of proper funding for public schooling and education in general on the learning outcome and the economy at large. Such link Swanson and King argue that is policy based and has proven to have devastating impact on education in the United States. Ladd and Hansen (1999) argue that United States government spending of $300 billion on public elementary and secondary education is wasted when measured with students’ results in examinations. Ladd and Hansen argue that lack of quality and performance by American teachers is directly linked to students’ achievements.

Cassidy (1996) makes the argument that total quality management can be streamed in education and provided evidence of successful TQM streaming in education. Aly and Akpovi (2001). Weller and Hartley (1994) provided a compelling example from the State of
Georgia’s experience in reforming education and the implementation of TQM as crucial element in such reform. Ngware, Wamukuru, and Odebero (2006) described the triumphant experience in applying TQM principles in Kenyan public education system. Doherty (1994) long argued that TQM is not insufficiently applied in the education system. Doherty contend that the application of TQM principles in the education field can significantly contribute to students’ learning outcome.

Sallis (2002) described TQM as a philosophy that can be applied to any group of people organized to achieve set of objectives. This is particularly true in the case of education according to Sallis. Cooper, Gustafson and Salah, (2013) noted that schools administrators play a essential role in creating an motivated teachers and controlling ultimatly students performance. Cooper et. al. suggested a model for ideal schooling with TQM as one of the primary corner stones of such model.

**Significance of the research**

The significance of this research stems from the better understanding of the underlying principles to such high student performance in the general examination, and whether substantial governmental investments in public education can yield over time such high performance. Such knowledge would be significant to the education world and to available literature.

**Research objectives**

The research objectives are as following;

1. To determine whether there is a relationship between government financial investment and quality in the public schooling system
2. To examine the relationship between TQM implementation in public schooling system and students achievement.
3. To understand the relationship between student population in numbers and TQM implementation

**Research hypotheses**

$H_0$: higher government spending on public education may not necessarily improve students’ academic standings

$H_1$: higher government spending on public education can improve students’ academic standings

$H_0$: Implementation of TQM in education cannot make a difference in students’ achievement

$H_2$: Implementation of TQM in education can make a difference in students’ achievement
Methodology

The approach to this research is exploratory qualitative, whereby one school is chosen with large student population to be examined as a case study for the purposes of this research. The chosen school is Sultan Ibrahim Girl School (SIGS), which is located in the Southern city of Johor Bahru, Johor. The school is a representative sample of the Malaysian public schooling system, since the school has 30 teachers and 1500 students from standard one (1) to standard six (6). SIGS is established as one of the top five school in Johor Bahru, Malaysia because of the 100% students passing rate in the national primary school evaluation test “UPSR”, which is a test that must be taken by all Malaysian primary students at year six, prior to them entering secondary school.

Data Collection

Primary data was collected from teachers at SIGS. Public school record were also available for examination and comparasnt. Structured and semi-structured interviews was the method of data collection with school administrators, teachers, and students at random.

Theoretical Development

The theoretical bases of this research is that there is a widly accepted assumption that despite higher governmental spending on public education in Malaysia, students at primary level still lack the basic requirements that allows them to compete and unable to move to the secondary education level. This is conjoint with lack of association between the values of TQM and learning at primary levels in South East Asian public education in general. To determine wheather such assumption is well founded, an assessment was needed by examining a school that combines TQM as an integral part of their learning approach.

Statistical Testing

Cronbach alpha and Guttman coefficient are performed as measurement to test for goodness of fit, and how how well the statistical model fits the observations by encapsulating discrepancies between observed values and the values expected under the model in question

Analyses and findings

SIGS decision to utilize Total Quality Management “TQM” principles to improve the learning process, that is made out of awareness of the relavence of TQM to successful learning outcome. Government funding to public schools across Malaysia, allowed school such as SIGS to utilize quality management tool and principles across the school to achieve higher standards and results. The school administration, which is comprised of the principle, the administrative team, and teachers attribute the ability to get training and implement TQM principles as an essential component of their daily tasks, to the availability of funds and financial support available to the school.

SIGS utilization of available government funds to improve the quality and well-being of education provided, teachers, and students educational experience. Geotsch and David (2013) stated that the essence of excellence in organizational quality management, is continual improvement of people, processes, products, services, and the overall surrounding environments. When examining the implementation of quality management principles at SIGS, it was found that there are emphases on practices of quality in curriculum training, quality in orientation training, and quality in ethical training.
It was found that teachers are involving students by providing planning tools to them during curriculum development. Extensive discussions with students consist of students outlining their needs prior to the planning of activities. Such needs include required uniforms, adequate number of required equipment such as balls and rackets for each game, helps teachers develop a comprehensive picture of students need to attain higher interest, participation and student involvements in each activity.

Teachers and administrators of the school were systematically engaged in progress review. Such review focuses on achieving consistency of performance in total quality setting and improvements as such are measurable to all parties involved. Students recognition was a central component of the TQM system. Achievement recognition by awarding students for various standings helped motivate students and intensified the feeling of belonging amongst them.

**Applying TQM in learning**

![Four steps approach to TQM application in learning](image)

*Figure 4: The four steps approach to TQM application in learning.*

The approach taken by SIGS to achieve higher standards and improve the learning process included the four layers approach outlined in figure 4.

A culture was established by the principle whereby every Monday of every week, a discussion would take place between teachers and the principle to highlight the current and important issues to be tackled. The briefing would also include highlighting the approach to be taken by teachers in planning their lessons and get preparing necessary material. This is stage one of the TQM approach, which allowed for early preparation.

The presentation stage involved student, whereby they must present their planned lesson and discuss issues of concern to them with fellow peers. This is done through a question and answer setting, which is believed held by teachers that this approach highly contributes to the development of self-confidence.
Following the presentation sessions, teachers provide students with the opportunity to apply the lesson learned through practice with students. The objective is to increase the value of concepts learned through supporting activities, in which role-playing becomes hands-on approach to developing new skills and play as a change agent in the learning environment to improve the overall learning experience. The final stage of the TQM approach consists of correction measure. This is done through the systematic evaluation of teachers’ performance to take correctable measures early on. This stage also reinforces a shared believe held by the principle and teachers that is performance must be measurable.

Data analyses (Table 1) further showed high correlation coefficient at .832, which suggests positive correlation between TQM implementation and students’ performance, which cause to reject both null hypotheses, and the acceptance the alternative hypotheses. This is supported by the goodness of fit tests performed using Cronbach Alph and Guttman coefficient. Performance assessment variables such as grade attained per subject, and passing grade in the UPSR exam is the effective means by which the school determines their success rate in relation to performance results, and the performance results in relation to TQM implementation, which is used as an a tool to measure performance to attain the high set of standards. Testing of variables in (Table 2) shows Alpha (α) of 0.481 and Guttman coefficient of 0.382.

<table>
<thead>
<tr>
<th>Element</th>
<th>Correlation Coefficient</th>
<th>Alpha (α)</th>
<th>Guttman</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance Assessment</td>
<td>0.832</td>
<td>0.481</td>
<td>0.382</td>
</tr>
</tbody>
</table>

*Table 1: SPSS results of Correlation coefficient, Cronbach alpha, and Guttman tests, by using aggregate variable values*

**Conclusion**

SIGS management headed by the principle and teachers were found to be heavily involved in the implementation of school plans to achieve the set objectives. This in turn contributed to such high student performance in exams. The implementation of quality improvement training in the education process at SIGS reflected positively on students performance in the UPSR exam.

Although further research is needed in this area by examining other schools in different parts of Malaysia, it is evident that substantial financial support, coupled with adequate training provided and high commitment by teachers, can positively impact student learning experience and ultimately their scoring results in the national examination.

The impact of TQM in the education setting in Malaysia can help improve the culture of learning comprehensive participation by all stakeholders including students. The training curriculum approach showed to help in the development of positive relationship between teachers and students when examining the case of SIGS. Such approach might be considered...
for wider implementation across Malaysia, to play as a positive change agent in achieving the aspired standards set by the government of Malaysia.

References


Effects Of Motivation on Employees’ Performance at Petrovietnam Nghe An Construction Joint Stock Corporation (PVNC)

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Abstract

The purpose of any motivation programme is to motivate the organization’s employees to enable them work effectively. However, motivating employees is not an easy thing as what motivates employees differs among people. This paper intended to establish a set of factors that can motivate employees of PVNC and to establish the policy implications of these factors for managing staff of the PVNC. It was found that good salary is the most important motivational factor followed by good conditions of service. The paper revealed that these two factors are not the only factors that are needed to motivate employees of the PVNC. Other factors, including attractive pension schemes and career development programmes, are equally important depending on the type of motivational theory that is adopted. The study finally stresses the avoidance of disparities in pay/reward among staff of the same rank as a strategy to motivate and retain high quality staff in the PVNC. The study thus raises red flags that warn the management to be extra careful in their attempt to motivate staff of PVNC for effective.

Keywords: Employee motivation, employee performance.

Introduction

Effort towards developing a motivated workforce for the purpose of improving productivity remains the single most crucial function of heads of institutions in recent times. Why? The reason is provided by Kreisman (2002) who argues that the most valuable and volatile asset of any institution is a well-motivated and stable workforce which is competent, dedicated and productive. Interestingly, what motivates employees’ changes constantly? Explaining the dynamic nature of motivation, Kovach (1987) cites the example that as employees’ income changes, money ceases to be a motivational factor; and as employees grow older, interesting work becomes a motivational factor [6]. Hence, the declaration by Lindner (2004) is justified to write that of all the functions a manager performs, motivating employees is the most complex, as employee motivation is a never ending challenge. Heads of institutions thus face difficult challenge of motivating and retaining employees especially
in an environment of increased uncertainties such as PVNC where groups of workers usually deliberately stop working because of disagreement about pay and conditions of service and transferred to the private companies, corporations increasingly by better treatment policy. It would however look absurd for the university authorities to attempt to motivate the employees when the authorities do not know what motivate these.

**Objectives of the study**

The key to motivating employees is to know what motivate them and design a motivational programme based on those needs. Therefore the objective of this paper is to describe the importance of certain factors which motivate employees of the PVNC. Specifically, the paper seeks to describe the rank importance of some selected motivational factors, taking into consideration some theories of motivation. The selected factors (indicators) are: career development opportunities; job security; good salary; good conditions of service; full appreciation of work done; sympathetic help with personal problems; attractive pension schemes; personal loyalty with employees; personal recognition; and reputation of institution.

**What is Motivation?**

The term motivation has been defined variously by different authorities in the study of Psychology, Management and allied disciplines. According to Cole (2009), motivation is essentially about what drives a person to work in a particular way and with a given amount of effort. To Buford et al (1995), motivation is a pre-disposition to behave in a purposive manner to achieve specific needs. Obviously, there are divergences in these definitions, though some common threads seem to exist. What is common to the foregoing definitions, among others, is that something has to trigger an employee to perform in an exceptional way. For purpose of this paper, motivation is operationally defined as a set of indefinite factors that cause a person (an employee) to perform his or her duties in a special way. The factors are described as indefinite because they constantly change with time, as pointed out by Kovach (1987). What is implicit in this definition is that an employee will not work in that special way if he or she is not encouraged (motivated) to do so. An understanding of this definition depends on the appreciation of some existing theories of motivation.

**Theories of Motivation**

Among the earliest and well-known researchers in the motivation domain were Homans (1950) and Maslow (1954). The former identified three key elements (activities, interactions and sentiments) as the controlling factors of members in an informal group. Homans (1950) defines activities as the task performed by the members of an informal group. He refers to interactions as the relationship among the members; and explains sentiments as the individual and collective attitudes of these members. Homans regards these three elements as independent because, according to him, a change in any one of them affects the other two elements. Maslow (1954) on the other hand developed the need-hierarchy theory. In his theory, Maslow postulated that people’s (employees’) needs are arranged in a hierarchy in which basic needs generally have to be satisfied before higher needs come to play. Maslow’s idea did not escape criticisms and has hence been modified by other theorists notably Alderfer (1969) who introduced the idea of need along a continuum rather than in a hierarchy. Herzberg et al (1987) view motivation with different lenses. Their idea is today
known as the Herzberg two-factor theory as it reduces the factors of motivation to two
namely intrinsic and extrinsic factors. The former, which includes achievements and
recognition, produces job satisfaction, whilst the latter comprising good salary and job
security is often a source of lack of motivation on the part of employees. There is also the
McClelland Achievement Theory which is based on the idea that the single most important
motive is the need for achievement. McClelland (1961) suggests that the need for
achievement is a key human motive, which responds to, and is a product of, personal
experience and cultural background. This can be indoctrinated by means of training and other
attitude-forming activities. The theory advocates that the three most important employee
motivational factors are the need for achievement, the need for power or authority, and the
need for affiliation or belonging, in that order. One other theory of motivation which seems to
be accepted by most scholars in the present century is the Adam’s Equity Theory. The basis
of this theory, in the work context, is that people make comparisons between themselves and
others in terms of their inputs and what outcomes they receive from their inputs. The theory
states that when employees perceive an unequal situation, they experience equity tension
which they attempt to reduce by appropriate behaviour. Employees may either act positively
to improve their performance and/or seek improved rewards, or may act negatively (show
lackadaisical attitude to work) on grounds of being under-paid. Logical as they may be, all
these theories and several others have their loopholes and are hence seen as inconclusive in
contemporary literature, but they provide some interesting insight into employee motivation.
They are, in fact, relevant and a useful way to understand employee motivation.

Methodology

Descriptive and narrative survey methods were used to describe the rank importance
of ten motivational factors, organized in the form of a structured questionnaire, and
distributed among a sample of 80 respondents randomly selected from 109 employees at the
three branch of PVNC. The 70 respondents, representing 64.2 percent, were selected at
random through stratified sampling technique where the various categories of staff in the
department constituted the strata. Details of the staffing situation in the Registrar’s Offices
and the distribution of respondents over the strata are indicated in Table 1. Data analysis was
computer-aided, using the SPSS.

<table>
<thead>
<tr>
<th>Category of Staff</th>
<th>Quantity of Staff</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Percent</td>
</tr>
<tr>
<td>Senior Member</td>
<td>11</td>
<td>10.1</td>
</tr>
<tr>
<td>Senior Staff</td>
<td>46</td>
<td>42.2</td>
</tr>
<tr>
<td>Junior Staff</td>
<td>52</td>
<td>47.7</td>
</tr>
<tr>
<td>Total</td>
<td>109</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table 1: Categories of staff in the registrar’s
PVNC introduction

PetroVietnam Nghe An Construction Corporation is a member of PetroVietnam Construction Corporation (PVC), under Vietnam National Oil and Gas Group (PVN). It was formerly Nghe An Construction Company No.1. It was established on 20/4/1961 and was reorganized under the direction of Prime Minister No.500/TTG, decision No. 4495/QD-UB by the Chairman of Nghe An Provincial People's Committee, is one of the top units in the construction industry of Nghe An.

From 19/01/2005 Corporation officially came into operation in the form of joint stock company based on decision No. 284/QD-UB-DMDN dated on 19/01/2005 by Nghe An Provincial People's Committee and renamed to Nghe An Construction and Investment JSC No. 1. In May 2007, PVN accepted the company as a member of the Group under decision No. 2397/QD-DKVN on 4 May, 2007 and renamed to PetroVietnam Nghe An Construction JSC (Abbreviation PVNC). On 26/10/2007 PVN switched 51% of holding shares in PVNC to PVC and the company officially became a member of PVC. In May 10/2010 it was renamed to Petrovietnam Nghe An Construction Corporation. Joining to PVN and became a member of PVC marked an important turning point and opened up many great prospects for PVNC. On the one hand, Corporation is raising financial resources, increased competitiveness and prestige brands on the market; otherwise the Corporation has chance to access large projects of PVN and other units of the Group. This is a great opportunity for Corporation to develop to a new level.

Analysis of data

Each factor of motivation was ranked, and a tally of scores from the 70 respondents is indicated in the appendix. Good salary was ranked as the most important motivational factor. Good conditions of service were ranked the second most important motivational factor. All the factors were ranked, with sympathetic help with employees as the least important. A summary of these results, which shows the rank importance of each motivational factor, is shown in Table 2.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Motivational Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1ST</td>
<td>Good salary</td>
</tr>
<tr>
<td>2ND</td>
<td>Good Conditions of Service</td>
</tr>
<tr>
<td>3RD</td>
<td>Job Security</td>
</tr>
<tr>
<td>4TH</td>
<td>Attractive Pension Scheme</td>
</tr>
<tr>
<td>5TH</td>
<td>Career Development Programmes</td>
</tr>
<tr>
<td>6TH</td>
<td>Full Appreciation of Work done</td>
</tr>
<tr>
<td>7TH</td>
<td>Personal Recognition</td>
</tr>
</tbody>
</table>
Table 2: Ranked importance of ten motivational factors

<table>
<thead>
<tr>
<th>Rank</th>
<th>Motivational Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>8TH</td>
<td>Reputation of Institution</td>
</tr>
<tr>
<td>9TH</td>
<td>Personal Loyalty with Employees</td>
</tr>
<tr>
<td>10TH</td>
<td>(least important) Sympathetic Help</td>
</tr>
</tbody>
</table>

A comparison of these results to the afore-mentioned theories of motivation provides some insight into employee motivation. The summary of results shown in Table 3 indicates that good salary, which is a physiological need, is the number one ranked motivator. The number two ranked motivator, good conditions of service, is also a physiological need. The number three motivator, job security, is a safety need. The number four motivator, attractive pension schemes, is also a safety need. The number five motivator, career development programmes, is a self actualizing need. Therefore, according to Maslow (1954), if the PVNC's management wish to address the most important motivational factor of employees at PVNC, good salary must first be satisfied. That is to say that strategies needed to increase employees’ salaries should be a serious agenda for the PVNC.

Similarly, if the management wish to address the second most important motivational factor of PVNC employees, good conditions of service must be given a high premium. These two motivational factors, being physiological needs, confirm Maslow’s theory that basic needs generally have to be satisfied before higher needs come to play. The analysis further justifies Maslow’s theory with the third and fourth positions in the analysis being occupied by safety needs. Beyond this level, the range of motivational factors is mixed in the study. The explanation is that, with the principles of the theory, the next motivational factor must be a social need. However, the analysis shows that the next factor, career development programmes, is a self actualization need. Therefore, Maslow’s conclusions that lower level motivational factors must be met before ascending to the next level on the hierarchy were not confirmed by the study. This paper however gives an idea about the relevance of some other theories of motivation. In the study, the most important factor of motivation, good salary, is one of Herzberg’s Two-Factor Theory classified as an extrinsic or a hygiene factor [4]. The theory stipulates that the absence of good salaries (or poor salaries) certainly causes most employees to look for better job opportunities elsewhere. In fact, good salary as a motivational factor is so independent with other factors that it is impossible to separate it out as a factor having an independent effect. Therefore, although good salaries have been shown in the study as the most important motivational factor among employees of PVNC, this factor of motivation will not separately lead to motivate the employees even when they are handled generously by the employer. Even though full appreciation of work done, as a motivational factor, is not well placed on Maslow’s needs hierarchy (sixth most important factor), it is a very important factor of motivation in the work place as contained in the Adam’s Equity Theory. According to the explanation of Adams (1965), if an employee (at PVNC) feels that there is lack of appreciation for work done, as being low relative to another employee, an inequity may exist and the employee may be de-motivated. Implicit in the Adam’s theory is that employees will attempt to restore equity through a variety of ways, some of which may be counter-productive to the goals and objectives of the PVNC. Again, career development programmes relates well with the McClelland Achievement Theory. This theory advocates that the most important employee motivational factor is the need for achievement which comes about as a result of career development. There is no doubt that there are some employees who accepted appointment to PVNC because they expect to benefit from available
career development programmes. When they find their expectation to be a mirage, their level of motivation will be very low despite good salaries.

**Implications for management of PVNC**

The ranked importance of motivational factors of employees at the Registrar’s Offices provides useful but complex information for the management of the PVNC. The strategies for motivating the employees depend on the type of motivation theories used as a reference point. If McClelland Achievement Theory is the point of reference for motivating employees, management should begin by focusing on staff development rather than good wages. In terms of the Maslow’s needs-hierarchy theory, the converse should be the order. However, if Adam’s Equity Theory is followed, management should begin by focusing on areas where there may be perceived inequities (e.g. disparities in allowances for staff of the same rank) before focusing on good salaries or staff development programmes. Regardless of which theory is followed, good salaries and good conditions of service appear to be important links to higher motivation of employees of the PVNC. However, management should not lose sight of inequities in allowances among staff of the same rank. An employee would not be motivated by good salaries if his/her colleagues receive high allowances when he/she does not. Such a condition has a spread effect: employees who feel they are caught in the inequity trap find no affection or love from the authorities; neither do they feel to belong to the group of PVNC staff. Their presence in the PVNC therefore is only influenced by the increasing unemployment situation in the country. Lukewarm attitude by such employees is obvious, and the damage their attitude can do to others can not be underestimated. It behoves the authorities to avoid any inequities in the PVNC reward system in order to maintain a high level of motivation among all staff. However, employees at PVNC should let the employer know what motivate them. The employer must be willing to design rewards systems that motivate the employees. While seeking to know what motivates employees of the PVNC, the authorities should also identify those factors that are likely to cause some dedicated employees to budge from the PVNC. For example, an employee who is motivated by a high degree of appreciation of work done is likely to resign if whatever he/she does is met with contempt. Similarly, an individual who is motivated by personal recognition is likely to resign if he/she is not acknowledged for a good work done. It is important for the superordinates to motivate their subordinate staff by giving them feedback on their performance. The authorities should further motivate their subordinates by treating them with dignity and respect, and by giving them recognition, which enhances their self-esteem, and encourage them to continue to work effectively and efficiently.

**Implications for management of PVNC**

The study has shown that every motivational factor is important. It emphasizes that the degree of importance of each motivational factor depends on the type of motivational theory that is adopted. The study has also established that both the employer and the employee must establish a mutual relationship by working together to agree on the best way to motivate the latter. Such a relationship has a spiral effect because as Kreisman (2002) puts it, how long an employee works in an institution and how productive he/she is, while working in the institution, depends on his/her relationship with his/her employer. Emphasis is placed on avoidance of inequities among staff of the same rank. In as much as inequity exists, some workers would always be aggressive. Their actions can damage the attitudes of other workers in the university. For example, absenteeism and tardiness on the part of aggrieved employees,
and their low level of cooperation with the authorities can cause far reaching problems. Additionally, they can behave in a condescending critical manner towards their colleagues, who eventually are likely to be spiteful. Therefore, the challenge for the Management of PVNC is not only to find ways of motivating the staff but also to create an environment in which their self motivation can flourish, and in which they do not become de-motivated.

References


http://www.pvnc.com.vn
Management Control System in Selected Microfinance Institutions in Central Region, Uganda

Dr. Sunday Arthur

Abstract

The study examined the levels of Management Control system in the selected Microfinance institutions central region, Uganda. The ex-post facto or retrospective, prospective designs and descriptive survey design, and specifically descriptive comparative and correlation strategies were employed. A minimum sample of 266 was used in data collection and analysis. The findings revealed that the level of management control system in the microfinance institutions in central region Uganda is efficient with an overall mean of 3.23. The contingency theory by Joan Wood Wards (1958) as cited and explained by Simons’ (1995) levers of management system control model was authenticated and validated. The conclusion was drawn that the level of Management control system was generally efficient and it was recommended that Microfinance institutions should enhance, strengthen set and establish strong and effective control systems: all of the financial, operational and other control systems which are carried out by internal controllers and which involve budgeting, monitoring, independent evaluation and timely reporting to management levels systematically in order to ensure that all the institutions activities are performed by management levels in accordance with current policies, methods, instructions and limit.

Introduction

The Microfinance sector in Uganda is made of formal and informal microfinance finance institutions (Hanning 2000). The formal institutions are either companies which are regulated under the banking laws; financial intermediaries which are not banks but regulated by the government as Microfinance Deposit taking Institutions; non-regulated companies that offer only credits; or formally registered cooperatives and societies that serve their members. The formal institutions are members of the Association of Microfinance Institutions of Uganda.

According to the Ministry of Finance (2000), Microfinance became an issue for the Ministry of Finance and Economic Planning as well as the Bank of Uganda, as both made themselves acquainted with national and international experiences and practices. The unwillingness or inability of the formal financial institutions to provide financial services to the urban and rural poor, coupled with the unsustainability of government sponsored development financial schemes contributed to the growth of private sector-led microfinance in Uganda.

The evolution of Micro finance institutions in Uganda was a direct response to the failure of past attempts by government and donor funded rural credit programmes to reach poor families and landless households within the rural areas (Abbink 2002). Coupled with this is the fact that the small scale business people targeted by Micro finance institutions did not have the traditional
collateral which is the basis for loan acquisition to the formal banking sector. The first microfinance institutions appeared in South Asia almost twenty years ago, but have since spread to Latin America, South East Asia and more recently Africa, China, the South Pacific.

Uganda is generally seen as the country with the most vibrant and successful microfinance industry in Africa. Some microfinance institutions have experienced strong growth and are now reaching a considerable number of clients, (Bategekea 1999). Microfinance came to be viewed as the most obvious vehicle for delivering financial services to the urban and peri-urban low-income earners as well as to the rural population (Opiokello 2000).

Access to credit is a major issue among the rural poor, and microfinance institutions, and loan schemes are designed to fulfil this demand. Such organizations often teach community members about the benefits and methods of saving, while offering micro-loans to start small businesses. Along with microfinance opportunities, socioeconomically excluded Ugandans need micro enterprise creation and development training to effectively utilize credit.

In times of rapid changes and increasing competition, the top management, corporate quality managers, financial controllers, and systems managers need to design Management Control Systems which help companies to achieve leading positions in terms of operational quality, productivity and financial break through. Management control is thus becoming increasingly complex across most industries (Carpenter 2000). In some cases, this increased effort seems to pay off in terms of positive financial returns. However, microfinance institutions show short sustainability and weaknesses in enhanced management control practices or initiatives which seemed successful and beneficial for other industries. Microfinance institutions are expressing more emphasis on using executive ability and control system for solving management and decision issues such as cost difference analysis, performance evaluation and budget execution.

Microfinance institutions in Uganda are always often faced with high operating costs to provide financial services to the poor people and small and medium enterprises (Micro banking Bulletin 1998). As more microfinance institutions grow and become formal financial institutions, each microfinance institution has a unique profile and operational structure that determines which types of controls are appropriate to increase financial performance.

Most Microfinance Institutions in Uganda are unable to meet their obligations when they become due usually resulting from poor cash flow planning, failure to monitor portfolio quality closely and take action when necessary. Portfolio quality has deteriorated more rapidly in microfinance institutions than in traditional financial institutions due to the short-term and unsecured nature of micro lending, micro loan portfolios which tend to be more volatile (Ssewanyana 2009). Most microfinance institutions have also been experiencing financial losses due to changes in market interest rates. This has been due to lack of a good and strong Management control system (Ministry of Finance, Planning and Economic Development 2000). These challenges increase transactions costs for services provided by the Microfinance Institutions.

The New Vision of April 19th 2002, in its micro finance Supplement noted that microfinance in Uganda though a fairly new industry is very vibrant and has seen a growth rate of over 70% per year, but major microfinance institutions in Uganda lack management control tools in
directing the Microfinance institutions towards their strategic goal and are currently, independently financially sustainable.

**Literature Review**

**Management Control System**

Management control systems is designed to help an organization adapt to the environment in which it is set and to deliver the key results desired by stakeholder. Widener (2007), describes Management control as the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives. (Anthony, 1965). Management Control System is thus the process that links strategic planning and operational control (Merchant, K et al. (2007). Management Control Systems have the purpose of providing information useful in decision-making, planning and evaluation (Widener, 2007; Merchant & Otley, 2007). The focus of MCS is not only on one form of control like performance measures but on multiple control systems working together (Widener, 2007; Otley, 1980).

Simons (1995) argues that Management Control Systems are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities. Merchant (2007), maintains that Management Control Systems thus have two main purposes: providing information useful to management and helping to ensure that resources are obtained and used effectively and efficiently in the accomplishment of the organization’s objectives. The focus of MCS m is not only on one form of control like performance measures but on multiple control systems working together (Widener, 2007; Otley, 1980).

Microfinance institutions, whether non-government organizations or banks, may not be using MCS jargon but they could already be using the Management Control Systems concepts or its building blocks. “Performance management” could be an alternative way of presenting MCS, as organizations are probably more familiar with this concept.

The fit between different organizational constructs is assumed to be associated with organizational performance. The matching of these constructs leads to better organizational performance. The appropriateness of different control systems depends on the business setting, (Chenhall 2003). Management Control System in this study was conceptualized in terms of budgeting, Internal control system and performance measurement.

**Budgeting**

Pandey (2003) argues that a budget as a financial plan and as an action plan enables managers in achieving the objectives of the firm. Lucey (2003), maintains that budgeting provides a focus for the organization and aids the co-ordination and acts as a means of translating the overall objectives of the organization into detailed, feasible plans of action.
Welsh (2003) asserts that budgeting is the only comprehensive approach to managing so far developed that, if utilized with sophistication and good judgment fully recognizes the dominant role of the manager and provides a framework for implementing such fundamental aspects of scientific management as management by objectives, effective communication, participative management, dynamic control, continuous feedback, responsibility accounting management by exception and management flexibility.

Frederick (2001) argues that budgeting is the basis for directing and evaluating the performance of individuals or segments of organizations. Adams et al. (2003) discussed that to be effective, budgets must, firstly, be aligned with; the organization’s strategies, appropriate strategic planning and performance management processes introduced. And they must involve processes that are value based, consequential and continuous.

*Internal control system*

Bank failures and widespread losses over the past two decades have elevated the importance of effective risk management and internal control within the formal financial sector worldwide (Bald 2000).

According to Wterfield (1998), the microfinance industry also recognizes the importance of effective internal control. As microfinance institutions grow and more operate as regulated financial intermediaries, internal control becomes essential to long-term institutional viability. An effective system of internal control allows the MFI to assume additional risks in a calculated manner while minimizing financial surprises and protecting itself from significant financial loss. Thus, the primary objectives of the internal control process in a financial institution are: to verify the efficiency and effectiveness of the operations; to assure the reliability and completeness of financial and management information and to comply with applicable laws and regulations.

Microfinance institutions use internal control mechanisms to ensure that staff respects their organizational policies and procedures. However, internal control alone cannot ensure that the MFI is adequately minimizing its risk exposures. Only if the Microfinance institutions risk management strategies can be effectively integrated into its policies and procedures for internal control function to support risk minimization (Ledger wood 1999).

Internal controls provide reasonable assurance about the achievement of an entity’s objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Mwindi, 2008). It is worth noting that internal controls only provide reasonable but not absolute assurance to an entity’s management and board of directors that the organization’s objectives will be achieved. Organizations establish systems of internal control to help them achieve performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations, (Morris 2011).

Bisbe (2004), also acknowledges that internal controls can only provide reasonable assurance that management objectives will be achieved. Internal control system is a process and not an end in or of itself. Internal controls provide reasonable but not absolute assurance about the attainment of an entity’s objectives.
Performance Measurement

Financial institutions need activities that ensure that goals are consistently being met in an effective and efficient manner, (Aubrey 2004). Armstrong and Baron (1998), maintain that as a strategic and integrated approach to increasing the effectiveness of companies by improving the performance of the people who work in them and by developing the capabilities of teams and individual contributors.

According to Ledgerwood (1999), the performance of MFI is measured in many parameters. This includes: Portfolio Quality indicators: Portfolio quality ratios provide information on the percentage of non-earning assets, which in turn decrease the revenue and liquidity position of MFIs. Some of the measures used include the repayment rates, arrears rate, Portfolio at risk, delinquent borrowers, loan loss reserve ratio, and loan loss ratio.

Simon (1995) indicated that different management control systems will have different impacts on organization performance because they often set by high level management, are based on different strata or on how companies apply the interactive use of management control systems like financial budget.

Management Control Systems have the purpose of providing information useful in decision-making, planning and evaluation (Widener, 2007; Merchant & Otley, 2007). The focus of management control system is not only on one form of control like performance measures but on multiple control systems working together (Widener, 2007; Otley, 1980). Simons (1995) argues that Management control systems are the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities.

Null Hypothesis

The null hypothesis tested in this study was that: there is no significant difference in the level of management control system between the selected microfinance Institutions.

The Methodology

The study employed the ex post facto or retrospective, prospective designs and descriptive survey design, and specifically descriptive comparative and descriptive correlation strategies, data was collected using a standardized questionnaire with questions relating to the demographic characteristics of respondent and Management control Systems of the selected Microfinance Institutions. The Cronbach’s Alpha coefficient test indicated that the questionnaires where reliable since the coefficient was above 0.5 (α = 0.859). Using the Slovenia’s formula, a minimum sample size of 266 was obtained from the sample population of 792. Data was collected using a combination of purposive and systematic sampling and simple random sampling, from a sample of 266 respondents from the selected Microfinance institutions in central region, Uganda and analysed using summary statistics, such as means and ranks. The null hypothesis was tested using the t-test, correlations and regression analysis.
Findings

The level of Management Control system in the selected Microfinance institutions in central region, Uganda

The overall findings on management control systems indicated that the microfinance institutions are efficient (overall mean=3.23) in the levels of management control system. This exhibited the existence of management control systems among the selected microfinance institutions in central region Uganda.

Table 1: The level of management control system in regard to performance measurement, budgeting and internal control system

<table>
<thead>
<tr>
<th>Item</th>
<th>Mean</th>
<th>Interpretation</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance measurement</td>
<td>3.25</td>
<td>Efficient</td>
<td>1</td>
</tr>
<tr>
<td>Budgeting</td>
<td>3.24</td>
<td>Efficient</td>
<td>2</td>
</tr>
<tr>
<td>Internal control System</td>
<td>3.21</td>
<td>Efficient</td>
<td>3</td>
</tr>
<tr>
<td>Total Average Mean</td>
<td>3.23</td>
<td>Efficient</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data (2012)

Legend

<table>
<thead>
<tr>
<th>Mean Range</th>
<th>Response Mode</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.26-4.00</td>
<td>Strongly Agree</td>
<td>Very Efficient</td>
</tr>
<tr>
<td>2.51-3.25</td>
<td>Agree</td>
<td>Efficient</td>
</tr>
<tr>
<td>1.76-2.50</td>
<td>Disagree</td>
<td>Inefficient</td>
</tr>
<tr>
<td>1.00-1.75</td>
<td>Strongly Disagree</td>
<td>Very Inefficient</td>
</tr>
</tbody>
</table>

This was an indication that most microfinance institutions are efficient in preparing budgets, receive budget targets, budgets are reviewed periodically, budgets are used to measure performance and microfinance institutions employees are allowed to participate in the budget process. When properly applied, budgeting improves an organization’s ability to create and sustain superior performance (Tim 2006).
Microfinance institutions are efficient in performance measurement an indication that the microfinance institutions are efficient in the use of resources and comply with the respective laws. And also have efficient internal control system that is efficient in authorizations for acquisitions, in reviewing payroll calculations and have system on credit approvals meaning that underwriting is usually carried out before accredit facility is advanced.

Table 2: Level of Management Control System between the Selected Microfinance Institutions in Central Region, Uganda

<table>
<thead>
<tr>
<th>Category</th>
<th>MFI A</th>
<th>MFI B</th>
<th>Mean</th>
<th>T</th>
<th>Sig.</th>
<th>Interpretation</th>
<th>Decision on Ho</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management control System</td>
<td>3.1708</td>
<td>3.3079</td>
<td>4.181</td>
<td>.000</td>
<td>Significant difference</td>
<td>Rejected</td>
<td></td>
</tr>
</tbody>
</table>

Source: Primary Data 2012

N.B. If the significant value is equal or less than 0.05 level of significance, the interpretation is significant. If the significant value is more than 0.05 level of significance, the interpretation is not significant.

The findings indicated that the views of the respondents in terms of management control System in Microfinance Institution A (mean =3.3079) is higher than in Microfinance Institution B (mean = 3.1708), suggesting a difference in the levels of Management Control system. The significance of this difference was supported by the t value (t = 4.181) which was small since its sig value (0.000) was less than α = 0.05 resulting in to rejection of the null hypothesis and acceptance of the alternative hypothesis to the effect that there is a significant difference in levels of Management Control system between the selected microfinance institutions in Central Uganda at five percent level of significance (0.000< 0.05).

Conclusion

The overall findings on management control systems indicated that the microfinance institutions are efficient in the levels of management control system. This exhibited the existence of management control systems in the selected microfinance institutions in central region Uganda. The levels of management control system differ significantly between the Selected Micro finance institutions in central region Uganda.

Recommendations

Microfinance institutions should enhance, strengthen and establish strong and effective control systems: all of the financial, operational and other control systems which are carried out by internal controllers and which involve budgeting, monitoring, independent evaluation and timely reporting to management levels systematically in order to ensure that all the institutions activities
are performed by management levels in accordance with current policies, methods, instructions and limit.

References


A Study of Factors Influencing Customer’s Preference for a Bank, in Indore City

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ABSTRACT

In this research paper, an attempt has been made to highlight the role of various factors which influencing the customer preference for a bank and which is also responsible for attracting customers towards banks. The study was conducted in Indore city, India. Various theory and practical aspects were studied. Six components were extracted by rotated component analysis. It was found that the service quality is the most important factor for the respondents in choosing the bank. Service quality, value, relationship, technology and safety, customer care service and image are rated as top six factors of importance in factors influencing customer’s preference for a bank. Various parameters were also analyzed to know the current status of Banking Industry.

Keywords: Banking Industry, Customer Preference, Indore

Introduction

Indian banking industry is undergoing metamorphosis in terms on adoption on technology and automation. New generation private sector banks which came into existence in the last ten years have gained a substantial market share and government owned banks are losing market share to these new banks. It is very important for the banks to understand the preferences of the customers to offer the services required both to attract new clients and protect existing client-base from migrating to other banks. For firms to survive in contemporary highly competitive business environment, they should be able to attract and retain customers. Service organizations might be able to effectively attract and retain customers without satisfying their needs and/or wants and to meet customers’ needs, there is need to understand what is valuable to them and how they make decisions. To be profitable in a competitive industry, companies need to offer customers more value or be able to produce products and/or services more cheaply. Sometimes marketing planning of organizations do fail due to improperly identifying the factors or determinants that consumer consider in bank selection (Khazeh & Decker, 1992). Hence, there is need for service organization to effectively differentiate their offerings from those of competitors in order to attract customers’ attention and choice.
The business environment in contemporary times is practically undergoing a major revolution in the way customers buy, shop, and eventually decide to either come back or take their business elsewhere. Thus, companies are increasingly realizing that the balance of power is shifting from sellers to buyers. For example, customers need exactly what they want, at the right time and place that they want it, with a high specification and at the lowest possible price. In addition, businesses must make customers feel special or else they will take their money to another business that can provide all what they want (LeBoeuf, 1987).

The End of this Study

Satisfied customers are central to optimal performance and financial returns. In many places in the world, business organizations have been elevating the role of the customer to that of a key stakeholder over the past twenty years. Customers are viewed as a group whose satisfaction with the enterprise must be incorporated in strategic planning efforts. Forward-looking companies are finding value in directly measuring and tracking customer satisfaction as an important strategic success indicator. Evidence is mounting that placing a high priority on customer satisfaction is critical to improved organizational performance in a global marketplace. With better understanding of customers' preferences, companies can determine the actions required to meet the customers' needs. They can identify their own strengths and weaknesses, where they stand in comparison to their competitors, chart out path future progress and improvement. Customer satisfaction measurement helps to promote an increased focus on customer outcomes and stimulate improvements in the work practices and processes used within the company.

Literature Review

Profitability of banks and growth of client base are interlinked. With intensifying competition in the market, it is very important for the banks to understand "How customers choose their banks?" Then only banks can take proper marketing efforts to increase client base. Improper identification of true determinants of consumers' bank selection decision may result in poor results for marketing efforts. Management's failure to identify customers' desire is one kind of quality gap (Zeithmal et al., 1990).

It was found that Bank customers tend to be loyal provided they are satisfied with its service and stick on to the same bank for five to seven years on an average and they change over only when they move to a new home in an area outside their bank's network. (Huber et al., 1998) Khazeh and Decker (1992) analyzed the determinants of consumers' bank selection decision thro a survey conducted among 1198 of business school alumni of Salisbury state university in Maryland using a questionnaire containing 22 factors that were identified to influence the banking decision. Service charges, the reputation of the bank, interest rates on loans, time required for loan approval and friendly tellers were identified as the top 5 determinants of bank selection decision. Effective advertising was considered as least important (Rank 22) while ATM availability, closeness to work, closeness to home were ranked 12, 16 & 17 respectively.
Focusing customer attention on low ranking factors may do little to attract new customers and on retaining the existing one. Nielson et al. (1998) conducted a survey of CEOs of business firms and banks to find out how well banking industry in Australia understands the need of their business clients. Significant differences were found for six factors, which business firms consider prior to establishing a banking relationship. Business firms were found to place far more importance on the banks willingness to accommodate their credit needs, the efficiency of banking operations and the fact that banks have knowledge of their specific business. On the other hand, banks felt it was more important for them to offer competitive prices, full range of services and provide a personal banking relationship.

Mylonakis et al., (1998) concluded that the most important bank selections criteria are convenience, bank reputations, quality of products and services, interest rates and fees, education and personnel contacts, facilities, branch environment, services and after service satisfaction. Their research on bank customers of Greece showed that bank selection criteria like location-convenience, quality of service (attention to the customer, personalized service, no queues) seen to influence the bank selection and factors like Advertising did not seem to influence bank customers at all.

Phuong and Har (2000) undertook a study of bank selection decisions in Singapore using the Analytical Hierarchy process through a study of banking preferences of college students. The findings indicated that the most important criteria affecting undergraduates’ bank selection decisions are higher interest rate for saving, convenient location and overall quality of service. They are followed by the availability of self bank facilities, charges on services provided by banks, low interest rate on loans, long operating hours, availability of students privileges and recommendations by friends and parents specifically. The respondents considered overall quality of service more than twice as important as recommendations by parents/friends.

Almossawi (2001) studied the bank selection criteria by students of University of Bahrain. Findings revealed that the chief factors determining the bank selection by students were: Bank's reputation, availability of parking space, friendliness of the bank personnel and availability and location of ATMs. Study also found that the priorities of male and female students differed.

Colgate and Hedge (2001) studied the process of defection in Australia and New Zealand through a mail survey. The study indicated three main problem areas, which influenced customers to switch banks, were service failures, pricing problems and denied services. This finding is important in our context of study because, a client may switch to another bank because his present banker may not provide a service, which the customer thinks most important. They further add that customers tend to complain more often about services failure prior to exiting firm and customers may be staying silent about the problems that are most important in their decision to exit the firm.

Objectives of the Study

The objectives of the study were

- To find out the factors which influencing customer’s preference towards banks.
- To study the services provided by banks and the effectiveness of it.
Research Methodology

The Study: The proposed study was Survey Research.

Data Collection:
  - Primary Data: The primary data were collected from structured close ended questionnaire and face to face interview.
  - Secondary Data: The secondary data were collected from Published materials by various authors such as Periodicals, Journals, News papers, and Websites.

Sampling Method:
  - Simple Random sampling (SRS) was used for sample selection.
  - Sample Size: The total sample size of the study was 100.
  - Sampling Unit: The sampling units were Customers and Executives of bank.

Data Analysis:
  To analyze the data obtained, following tools were used:
  - Likert scale: These consist of a number of statements which express either a favorable or unfavorable attitude towards the given object to which the respondents are asked to react. A self structured scale was used to collect primary data. The 15 close ended factors of the scale were based on five point Likert scale (Strongly Agree-1 to Strongly Disagree-5) and used to measure customer’s preference.
  - Percentage and Pie Charts: These tools were used for analysis of data.
  - Factor Analysis: Factor Analysis tool was used with the help of SPSS software for analyzed the data.

Data Analyses

On the Basis of Age Group

Table 1: overall distribution of data on the basis of Age Group

<table>
<thead>
<tr>
<th>Age Group</th>
<th>No. of Respondent</th>
<th>Percent %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 25 Years</td>
<td>46</td>
<td>46%</td>
</tr>
<tr>
<td>25-50 Years</td>
<td>48</td>
<td>48%</td>
</tr>
<tr>
<td>Above 50 Years</td>
<td>06</td>
<td>06%</td>
</tr>
</tbody>
</table>

Chart 1: No. of Respondent on the Basis of Age Group
Analysis & Interpretation: It was found that the major population of Respondent i.e. 48% is above 25 years and below 50 years. And minority of respondent is above 50 years. It means majority of respondent are in age group i.e. 25-50 years.

On the Basis of Occupation

Table 2: No. of Respondent on the Basis of Occupation

<table>
<thead>
<tr>
<th>Occupation</th>
<th>No. of Respondent</th>
<th>Percent%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profession</td>
<td>28</td>
<td>28%</td>
</tr>
<tr>
<td>Business</td>
<td>21</td>
<td>21%</td>
</tr>
<tr>
<td>Student</td>
<td>45</td>
<td>45%</td>
</tr>
<tr>
<td>Others</td>
<td>06</td>
<td>06%</td>
</tr>
</tbody>
</table>

Chart 2: No. of Respondent on the Basis of Occupation
Analysis & Interpretation: It was found that the major population of Respondent i.e.45% is under the category of business. 28% Respondent are in the field of profession and 21% respondent are belongs from students. And minority of respondent is in field of others.

On the Basis of Gender

Table 3: No. of Respondent on the Basis of Gender

<table>
<thead>
<tr>
<th>Gender</th>
<th>No. of Respondent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>70</td>
</tr>
<tr>
<td>Female</td>
<td>30</td>
</tr>
</tbody>
</table>

Chart 3: No. of Respondent on the Basis of Gender

Analysis & Interpretation: It was found that the major population of Respondent is i.e.70% is under the category of male respondent. Another 30% Respondent are females.

Factor Analysis

Mean score for Factors Influencing Customer’s Preference for a Bank Variables

Table 4. depicts the mean score for different factors
<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Analysis N</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1.3800</td>
<td>.48783</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>1.5900</td>
<td>.63715</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>3.5300</td>
<td>1.27489</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>2.9300</td>
<td>1.25734</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>1.5400</td>
<td>.79671</td>
<td>100</td>
</tr>
<tr>
<td>6</td>
<td>1.6700</td>
<td>.76614</td>
<td>100</td>
</tr>
<tr>
<td>7</td>
<td>2.0300</td>
<td>1.06794</td>
<td>100</td>
</tr>
<tr>
<td>8</td>
<td>1.5000</td>
<td>.55958</td>
<td>100</td>
</tr>
<tr>
<td>9</td>
<td>1.5400</td>
<td>.82168</td>
<td>100</td>
</tr>
<tr>
<td>10</td>
<td>1.9000</td>
<td>.74536</td>
<td>100</td>
</tr>
<tr>
<td>11</td>
<td>1.9000</td>
<td>.77198</td>
<td>100</td>
</tr>
<tr>
<td>12</td>
<td>1.5100</td>
<td>.79766</td>
<td>100</td>
</tr>
<tr>
<td>13</td>
<td>2.9100</td>
<td>1.21518</td>
<td>100</td>
</tr>
<tr>
<td>14</td>
<td>1.8900</td>
<td>.85156</td>
<td>100</td>
</tr>
<tr>
<td>15</td>
<td>3.2800</td>
<td>1.25594</td>
<td>100</td>
</tr>
</tbody>
</table>
Table 5. Rotated component matrix for Factors Influencing Customer’s Preference for a Bank

<table>
<thead>
<tr>
<th>Factor</th>
<th>Component 1</th>
<th>Component 2</th>
<th>Component 3</th>
<th>Component 4</th>
<th>Component 5</th>
<th>Component 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>-.761</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>.731</td>
<td>.409</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>.647</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td></td>
<td>.741</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>.721</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td>-.498</td>
<td>.464</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td></td>
<td></td>
<td></td>
<td>.823</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td>.530</td>
<td>.461</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td>.502</td>
<td></td>
<td>-.480</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td>.821</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-.501</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>.808</td>
</tr>
<tr>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-.477</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>-.460</td>
<td></td>
<td></td>
<td></td>
<td>-.527</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 30 iterations.

Extraction method: Component 1- Service Quality Component 2- Value, Component 3-Relationship, Component 4- Technology and Security, Component 5- Customer Care Service, Component 6- Image
Major factors which influencing customer’s preference for a bank

Table 6: Grouping of various variables

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Age of the Bank</td>
<td>Physical Environment of the Bank</td>
<td>Pleasing Manners</td>
<td>ATM Coverage by the Bank</td>
<td>Staff Friendliness with Customer’s</td>
<td>The Bank at Convenient Location</td>
</tr>
<tr>
<td>2</td>
<td>Pleasing Manners</td>
<td>Transaction Tracking System Availability in the Bank</td>
<td>24-Customer Service</td>
<td>Secured ATMs</td>
<td>Confidentiality</td>
<td>Reputation of the Bank</td>
</tr>
<tr>
<td>3</td>
<td>Timely Service and friendly staff willing to work</td>
<td>ATM Coverage by the Bank</td>
<td>Secured ATMs</td>
<td>Net Banking Facility Provided by Bank</td>
<td>Personal Attention</td>
<td></td>
</tr>
</tbody>
</table>

Table 7. Determining the factor load

Rotation Sums of Squared Loadings

<table>
<thead>
<tr>
<th>Component</th>
<th>Factors</th>
<th>Factor Load in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Service Quality</td>
<td>2.136</td>
</tr>
<tr>
<td>2</td>
<td>Value</td>
<td>1.835</td>
</tr>
<tr>
<td>3</td>
<td>Relationship</td>
<td>1.793</td>
</tr>
<tr>
<td>4</td>
<td>Technology and Security</td>
<td>1.625</td>
</tr>
<tr>
<td>5</td>
<td>Customer Care Service</td>
<td>1.528</td>
</tr>
<tr>
<td>6</td>
<td>Image</td>
<td>1.191</td>
</tr>
</tbody>
</table>
Interpretation of The Data

Factor analysis was carried out on various Factors influencing Customer’s Preference for Bank variables, to find out the major factors that are influencing Customer’s Preference for Bank. Six components were extracted by rotated component analysis. Tables 4 and 5. In the case of factors influencing customer’s preference for a bank, service quality, value, relationship, Technology and Security, Customer care, image, is the main factors that influence customer’s preference for a bank. From the factor analysis, it is found that Service Quality is the key factor that influences the customer’s preference for bank. The customers were contented with age of the bank, Pleasing Manners, Timely Service and Friendly Staff Willing to work.

The another factor which influenced customer’s preference for bank is value of the bank. The customer were contented with reputation of the bank, transaction tracking system availability, the physical environment of the bank these are the factors which influencing customer’s preference for a bank under the category of value of the bank. Another factor that was found to influence customer’s preference is the relationship it has with the customer which is determined by the promptness with which the complaints were resolved the warmth shown by customer care department and the behavior of the staff with customers. The fourth factor that was found is the technology and security in this factor the customer is contented with ATM coverage by bank, Net banking Facility, Safety of the funds and secured ATMs. The fifth factor that was found is the customer care service. Effective customer service is a component that can magnetize the attention and loyalty of customer’s. The last and sixth factor that was found is the Image where the customer’s contented with two factors the bank at convenient location and reputation of the bank.

Results and Findings

The questionnaire listed the important factors identified as the influencing factors on preference and satisfaction levels of the customer’s from various studies referred in the literature survey and captured the respondents' perceived importance of the factors viz. a viz. the performance of the bank on each of the factors. The responses were captured in a scale of 1 to 5, 1--represents the "Strongly Agree" while 5 represents "Strongly Disagree". The Factor Analysis scores of all responses were calculated and the scores on importance were ranked and tabulated.

- The overall distribution data on analyzing the Table 1, it was found that the major population of Respondent i.e.45% is under the category of business. 28% Respondent are in the field of profession and 21% respondent are belongs from students. The minority of respondent is in field of others. On the analyzing table 2 it was found that the major population of Respondent i.e.45% is under the category of business. 28% Respondent are in the field of profession and 21% respondent are belongs from students. And minority of respondent is in field of others.

In the findings the following things may be observed.

- The service quality is the most important factor for the respondents in choosing the bank. service quality, value, relationship, technology and safety, customer care service and image are rated as top six factors of importance in factors influencing customer’s preference for a bank.
Conclusion

It is found that timely service and pleasing manners finds a top priority in Factors influencing customers’ preference for a bank. Hence banks' have to give due importance in establishing a code of conduct for employees and friendly environment among the executives and customers or they have to train their employee for better performance in the work. While studying the customer’s preference for bank, availability of Technology based services is found to be a major preference by customers. Hence banks have to work on that area to understand the needs of the client and have to implement strategies to satisfy the needs in order to retain their existing customer’s and attract new customers.

Similarly the soft skills of the counter staff members has a significant role to play in influencing customer’s preference for a bank which is evident from the fact that five out of top 15 factors are found to be the factors linked with the performance of the staff members. Hence banks have to take significant efforts in selecting, training and motivating the staff members to perform to the satisfaction of customers.

Suggestions

- Banks' have to give due importance in establishing a code of conduct for employees and friendly environment among the executives and customers.

- Banks’ have to work on that area to understand the needs of the Customer’s and have to implement strategies to satisfy the needs in order to retain their existing customer’s and attract new customers.

- Banks' have to give due importance in establishing a wide ATM network.

- Banks have to take significant efforts in selecting, training and motivating the staff members to perform to the satisfaction of customer’s.

References

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Impact Of Corporate Governance On Firms’ Performance: Evidence From The Automotive Industry Of Pakistan

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Abstract

The objective of this research study is to assess the relevance, effectiveness and impact of corporate governance framework on the performance of the five listed companies in the automotive sector of Pakistan. The findings show that there is no positive correlation among the 3 variables of firms performance i.e ROA, ROE and Tobin’s Q, which factors were taken as the basis for evaluating firms performance.

The finding of this study also shows that there is no relationship between corporate governance and firms performance. Had there been a relationship, the companies’ performance should not have shown comparatively dismal results for the last 5 years particularly when all the companies under study were claiming to comply with the corporate governance practices. This raises a serious question for the economic planners and legislators to review the existing criteria of implementing corporate governance so that its impact on the firm’s performance can be visible.

Keywords: Corporate governance, automotive sector, Ownership concentration, CEO duality, Board’s independence, Board committees, firms’ performance

Background of the Study

As the Code of Corporate Governance launched by SECP in Pakistan completed 10 years of its implementation, there is a need to find out as to what extent the Code has succeeded in keeping the governance frame work in listed companies relevant and effective in terms of its usefulness to the shareholders and stakeholders including employees and customers.

The intended purpose of the Code is to have independent thinking in the strategy formulation, decision making and over viewing of financial performance and results which, in turn, should be able to facilitate better business sense and reflect itself in better performance in terms of
financial results, productivity and efficiency improvement, environment friendly work culture, responsible management, responsible business practices, improved customer loyalty and brand image.

**Problem Statement**

Although major work has been done and continues to be carried out internally as well as in our region particularly Malaysia, Singapore, Srilanka And India, the literature pertaining to corporate governance culture in Pakistan is quite scares due to lack of research culture in Pakistani academic and institutional areas (Yasir, Entbang and Mansor, 2011)

The concept of corporate governance is still in its emerging and formative phase and the business enterprise need to grasp the spirit of corporate governance more intensively by going beyond the syndrome of ‘paper compliance’

Therefore, it is important to conduct a research into the extent to which the legal framework of code of governance is complied with by the listed corporate companies’, what impact such a compliance is reflecting on the complaint company’s performance to assess its relevance and effectiveness. If such a study is not done, the business community in Pakistan may not be aware of the potential benefits of corporate governance system when such a code is eventually extended to all listed and unlisted companies’ in due course of time.

**OBJECTIVES OF THE STUDY**

The objective of this research study is, to assess as to what extent a corporate governance framework is relevant and effective in terms of its impact on the performance of the listed companies. The scope of such a research being too wide, this study is intended to be confined to five listed companies in the automotive sector of Pakistan.

**SCOPE OF THE STUDY**

The present study analysis the corporate governance and performance of five leading companies in the automotive sector which include M/s Indus Motor Company, Pak Suzuki Motor Company, Gandhara Industries Limited, Hinopak Motors Limited and Atlas Honda Limited, which are the leading companies manufacturing cars, trucks and buses and motorcycles in Pakistan. It may also be mentioned that the automotive industry has been an active and growing field in Pakistan, contributing 16 to 20 % to the manufacturing sector and 3 to 4 % to the total GDP.

**Literature Review**

**Introduction to corporate governance**
Corporate governance has recently become increasingly well known phenomenon due to, among other factors, rise in corporate scandals which have been unveiled through external audit or strict enforcement of enactment(s) by the regulatory body, quasi judicial authority or the competent court of law. It constantly reminds us that poor corporate governance can adversely affect the lives of community encompassing investors, creditors, employees and shareholders. Corporate governance involves a set of relationship between a company’s management, board of directors, shareholders and other stakeholders. In simplest terms, corporate governance is the “nuts and bolts of how the company is run” (Kaushik & Dutta, 2005).

Since the corporations aim is to maximize profits, corporate governance, which is the entire process by which corporation are managed and controlled, ensures that the profits are made by adhering to universally accepted corporate governance principles, i.e. fairness, accountability, responsibility and transparency. Corporate governance mechanism is strengthened by legislating good practices into law which inevitably provide a competitive playing field and instill business ethics among corporate managers.

The performance of the company goes hand in hand with compliance with the legal regime of corporate governance. Therefore, the objective of corporate governance is to enhance the performance and ensure the conformance of corporations (Centre for International Private Enterprise, 2005). Accordingly, good corporate governance reduces risk, stimulates performance, improves access to capital markets, enhances the marketability of goods and services, improves leadership and demonstrates transparency and social accountability (The World Bank Report, 2005). It will be considered whether the companies are adhering to the rules and principles of corporate governance and simultaneously able to improve their performance.

The Theoretical context

The monitoring role of board of Directors assumes growing importance in corporate governance in the context of two contrasting theories: The agency Theory and The stewardship Theory.

Berle and Means (1932) viewed corporate governance as a mechanism where board of directors as an essential monitoring device minimizes the problems arisen out of Principle agent relationship. In this case agents are the managers and the principal are the owners and the board of directors acts as monitoring vehicles.

According to Jensen and Meckling (1976) the separation of ownership from management may lead managers not to take actions maximizing shareholders growth and instead benefits themselves rather than owners. In contrast, according to Donaldson, L and Davis (1991) the stewardship theory considers managers as good stewards who will act in the best interest of the owners. Based on the principles of social psychology , the theory sees a strong relationship between managers, interests and the firms success as the managers act as stewards to protect and maximize shareholders wealth’ monitoring and accountability can be provided by the adoption of corporate governance principles and practices so that steward satisfy stakeholders groups. In an organization by improving performance, when these groups interests are well served by increasing organizations result.
A research conducted to study the impact of corporate governance on firm performance based on evidence of the Tobacco Industry of Pakistan (Khan et al. 2011) have used CEO duality, Ownership concentration and Board’s Independence as components of cooperate governance and ROA (Return on Asset) and ROE (Return on equity) as measures of firm’s performance.

Yet another research to study the impact of corporate governance on firm’s performance in an unstable economic and political environment based on evidence from Sri Lanka (Heenetigala and Armstrong, 2011) used separate leadership, board structure and board committees as components of corporate governance while it used ROE, ROA and Tobin’s Q as tools to measure firm’s performance.

National Legislation on Corporate Governance

The Code of Corporate Governance Act, 2012, regulating corporate governance in Pakistani companies’ lays down the following guidelines:

**Composition of the board:** The board of directors is encouraged to have a balance of executive and non-executive directors including independent directors and those representing minority interests with the requisite skills, competencies, knowledge and experience so that the board as a group includes core competences and diversity.

Executive directors, that is, paid executives of the company from among senior management shall not be more than 1/3 of the elected directors including the chief executive.

No person shall be a director of more than seven listed companies simultaneously.

**Separate Leadership/ CEO Duality:** The chairman and the chief executive officer (CEO) by whatever name called, shall not be the same person except where provided for under any other law. The chairman shall be elected from among the non-executive directors of the listed company. The chairman shall be responsible for leadership of the board and shall ensure that the board plays an effective role in fulfilling all its responsibilities. The board of directors shall clearly define the effective roles and responsibility of the chairman and the CEO.

**Board Committees:** Board of directors of every listed company shall establish an Audit committee at least of three members comprising of non-executive directors. The chairman of the committee shall be an independent director who shall not be the chairman of the board. The board shall satisfy itself such that at least one member of the audit committee has relevant financial skills / expertise and experience.

There shall also be a Human Recourse and Remuneration (HR & R) committee at least of three members) comprising a majority of non-executive directors, including preferably an independent
director. The CEO may be included as member of the committee, but not as the chairman of the committee.

**Conceptual Framework**

The above discussed literature focuses on corporate governance practices related to board structure effecting performance. Both agency theory and stewardship theory apply to board leadership structure and its relationship to firms performance. The Model given below defines the relationship of variable chosen for the purpose of this study.

![Conceptual Framework Diagram]

- **Ownership Concentration**
- **Corporate Governance**
  - Separate Leadership
  - CEO Duality
  - CEO Duality
- **Firms’ Performance**
  - ROA
  - Return on Assets
- **Board Independence**
  - Majority Ind.
- **Board Committees**
  - ROE
  - Return on Equity
  - Tobin’s Q
The above model describes the inter-relationship of variables assuming that the corporate governance as an intervening variable is effected by independent variables such as CEO duality/ Separate Leadership, ownership concentration and boards independence and Board Committees.

The CEO duality that is the same person holding both the top offices of the chairman and the CEO would have a impact on the firms performance. There is also a relationship between ownership, concentration and corporate governance. Available literature supports the view that the more the ownership is concentrated, the less effective will be the corporate governance. Another independent variables, the board’s independence and board committees also have their impact on corporate governance. The literature supports the view that the presence of more independent directors on the board and functioning of the board committees result in better corporate governance which has a positive impact on the firms performance. The model measures the firm’s performance through ROA (Return on assets, Return on equity and Tobin’s Q Ratio.

**Variables and Hypothesis**

Out of the numbers of factors affecting corporate governance and performance of the firm, this study is confined to the relationship of 7 factors (Variables ) which are briefly described below:-

**Independent Variables:**

(a) **Ownership concentration:** It is the shareholding pattern of the firm whether few people have larger no of shares or shares are diversified to larger no of people

(b) **CEO Duality:** It is whether a firm’s has different person appointed as CEO and chairman or the same person assumed both the positions.

(c) **Boards Independence:** It is the presence of non executive directors of the board. The presence of more non-executive directors of the board will make the board more independent which will be in a better position to make independent decision, thus safeguarding the interest of all the stakeholders particularly the rights of minority shareholders.

(d) **Board Committees:** It is the presence of board committees such as Audit committee and HR and Remuneration committee as per SECP requirement, which helps to alleviate the agency problems by the timely actions with these committees take for improving firms performance.

**Intervening Variable : (a) Corporate governance**

**Dependent Variables: Firms Performance:** Firms Performance has been measured by:-

a. **Return on Assets (ROA):** It is an indicator of how profitable a company is in relation to its total assets. ROA gives an idea as to how efficient management is at using the assets to generate earning. It is calculated by dividing the net income by the total assets of the firm.
b. **Return on Equity (ROE):** It measures a company’s profitability by revealing how much profit a company generates with the money shareholders have invested. It is calculated by dividing the net income by shareholders equity of the firm.

c. **Tobin’s Q Ratio:** It is the Ratio divided by James Tobin, A Nobel Lauriat in economics hypothesized that the combined market value of all the companies on the stock market shall be about equal to the replacement cost. The Q ratio is calculated by the total value of the firm divided by the total asset value. A Low Q (between 0 and 1) means that the cost to replace firm assets is greater than the value of the stock, which means the stock is under valued. Conversely a high Q (greater than 1) implies that a firm’s stock is more expensive than the replacement cost of the assets, which implies that its stock is over valued. The measure of the stock valuation is that driving factor behind the investment decision in Tobin’s Model.

**Hypothesis:** In order to study the relationship between corporate governance and firms performance, this study suggest the following hypothesis.

**Hypothesis 1:** The variables of firms performance that is ROA, ROE and Tobin’s Q Ratio are positively correlated.

**Hypothesis 2:** Better the corporate governance of the firm the better would be firm’s performance.

**METHODOLOGY**

To study the relationship between corporate governance and firms performance data from five listed companies in the automotive sector in Pakistan namely: Indus Motor Company...
The conceptual framework of this study is based on a positivist paradigm of a deductive method and qualitative techniques / descriptive statistics has been used to analyze the data collected from secondary sources, that is the annual reports of the above named companies of the last five years.

**Data Analysis and Presentations.**

For the purpose of this research, the data gathered is presented as under:

| DATA ON FIRM PERFORMANCE COLLECTED FROM 5 AUTOMOTIVE COMPANIES IN THE AUTO SECTOR |
|-----------------------------------------|-----------------|-----------------|----------------------------|
| Indus Motor Company Limited             | Market value    | Total Asset     | To akin’s Q ratio         |
| Fiscal Year                             | 2012            | 2011            | 2010                      |
| Year end                                | 19,257,000,000  | 17,292,000,000  | 20,819,000,000            |
| Fiscal Year                             | 17,779,210,000  | 20,819,000,000  | 27,575,218,000            |
| Fiscal Year                             | 20,819,000,000  | 27,575,218,000  | 27,575,218,000            |
| Fiscal Year                             | 27,575,218,000  | 27,575,218,000  | 27,575,218,000            |
| Fiscal Year                             | 27,575,218,000  | 27,575,218,000  | 27,575,218,000            |

---

**ANNEXURE A**

<table>
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<tr>
<th>Fiscal Year</th>
<th>Market value</th>
<th>Total Asset</th>
<th>To akin’s Q ratio</th>
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<tbody>
<tr>
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<td>6,551,903,000</td>
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<tr>
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<td>1,361,990,000</td>
<td>0.05</td>
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<tr>
<td>Fiscal Year</td>
<td>138,478,600</td>
<td>1,494,933,000</td>
<td>0.04</td>
</tr>
<tr>
<td>Fiscal Year</td>
<td>369,205,252</td>
<td>2,831,997,000</td>
<td>0.13</td>
</tr>
<tr>
<td>Fiscal Year</td>
<td>159,783,000</td>
<td>1,923,441,000</td>
<td>0.08</td>
</tr>
<tr>
<td>Fiscal Year</td>
<td>606,110,380</td>
<td>1,243,312,000</td>
<td>0.28</td>
</tr>
<tr>
<td>Fiscal Year</td>
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<tr>
<td>Fiscal Year</td>
<td>138,478,600</td>
<td>1,494,933,000</td>
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<td>Fiscal Year</td>
<td>369,205,252</td>
<td>2,831,997,000</td>
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<tr>
<td>Fiscal Year</td>
<td>159,783,000</td>
<td>1,923,441,000</td>
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</tr>
<tr>
<td>Fiscal Year</td>
<td>606,110,380</td>
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<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Market value</th>
<th>Total Asset</th>
<th>To akin’s Q ratio</th>
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</thead>
<tbody>
<tr>
<td>March-end</td>
<td>3,496,969,000</td>
<td>5,097,090,000</td>
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</tr>
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<td>0.17</td>
</tr>
<tr>
<td>March-end</td>
<td>2,284,000,000</td>
<td>3,961,000,000</td>
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</tr>
<tr>
<td>March-end</td>
<td>1,428,000,000</td>
<td>10,573,427,000</td>
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</tr>
<tr>
<td>March-end</td>
<td>2,182,505,600</td>
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<td>March-end</td>
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<tr>
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<td>9,942,000,000</td>
<td>0.17</td>
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<table>
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<th>Total Asset</th>
<th>To akin’s Q ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlas Honda</td>
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<tr>
<td>Fiscal Year</td>
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<td>1,945,545,000</td>
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</tr>
<tr>
<td>Fiscal Year</td>
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<td>0.61</td>
</tr>
<tr>
<td>Fiscal Year</td>
<td>9,942,000,000</td>
<td>1,945,545,000</td>
<td>0.61</td>
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<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Market value</th>
<th>Total Asset</th>
<th>To akin’s Q ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pak Suzuki Motor Company Limited</td>
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**LIMITATIONS**

The above framework is limited to the five companies because of the availability of information in the secondary sources. The companies used in the study are limited to the five companies because of the availability of information in the secondary sources.
## DATA ON CORPORATE GOVERNANCE COLLECTED FROM 5 AUTOMOTIVE COMPANIES IN THE AUTO SECTOR

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<tr>
<th>VARIABLES</th>
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<th>CEO DUALITY</th>
<th>OWNERSHIP CONCENTRATION</th>
<th>BOARD INDEPENDENCE</th>
<th>BOARD COMMITTEES, AUDIT /OTHERS</th>
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<td>Y</td>
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<td>Y</td>
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SPSS Analysis of data on firm’s performance

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<th>ROA</th>
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<th>TOBINQ</th>
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<td>Mean</td>
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<td>.4312</td>
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<tr>
<td>Median</td>
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<td>.0400</td>
<td>.3000</td>
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<tr>
<td>Mode</td>
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<td>.01</td>
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<td>Std. Deviation</td>
<td>3.49732</td>
<td>2.54219</td>
<td>.35029</td>
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<tr>
<td>Variance</td>
<td>11.815</td>
<td>6.463</td>
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</table>

a. Multiple modes exist. The smallest value is shown

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<th>ROA</th>
<th>TOBINQ</th>
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<tr>
<td>ROA Pearson Correlation</td>
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<td>.164</td>
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<td>Sig. (2-tailed)</td>
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<td>.403</td>
</tr>
<tr>
<td>N</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>TOBINQ Pearson Correlation</td>
<td>.164</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td></td>
<td>.403</td>
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<tr>
<td>N</td>
<td>25</td>
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</table>

<table>
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<tr>
<td>ROE Pearson Correlation</td>
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<td>Sig. (2-tailed)</td>
<td>.765</td>
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ANNEXURES H 2/3

### ANOVA

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<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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</thead>
<tbody>
<tr>
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<td>.617</td>
<td>.092</td>
<td>.765</td>
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<tr>
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<td>23</td>
<td>6.717</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>155.495</td>
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</table>

a. Predictors: (Constant), TOBINQ

b. Dependent Variable ROE

### Coefficients

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<th>Unstandardized Coefficients</th>
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<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
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<tr>
<td></td>
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<td>.460</td>
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a. Dependent Variable ROE

### ANOVA

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<th>Model</th>
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<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
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<tr>
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<tr>
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<td></td>
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</table>

a. Predictors: (Constant), TOBINQ

b. Dependent Variable ROA
Results and Findings

Analysis of the data on firm’s performance collected from 5 automotive companies in the auto sector (Annexure A) there graphical presentations in Annexure B-F and the SPSS application on the data reveals that data on ROA is normally distributed while the data on ROE and Tobin’s Q are positively skewed. Pearson’s correlation analysis shows that Tobin’s Q Ratio and ROA are in moderately positive correlation whereas Tobin’s Q and ROE is closed to zero, showing very little positive correlation.

Regression analysis shows that no relationship exist between the three variables.

In the light of the above analysis. Hypothesis no.1 is rejected since no relationship exist between the 3 variables of the firms performance. This is also supported by the graphic presentations of the 5 years performance of the companies under study.

An analysis of Annexure G containing data on corporate governance collected from 5 automotive companies in the auto sector shows that all the companies are corporate governance compliant, except Pak Suzuki Motor company, all the 4 companies have CEO duality i.e separate leadership. All the 5 companies have ownership spread out. All the companies have non-executive directors on majority on the board. All the companies are showing board committees as having been form. Summarily therefore the 5 automotive companies are fully complied with corporate governance.

Discussions and Recommendations.

The finding of this study show that there is no relationship between corporate governance and firms performance. Had there been a relationship, the companies’ performance should not have shown comparatively dismal results for the last 5 years particularly when all the
companies under study were claiming to comply with all the corporate governance practices. This raises a serious questions for the economic planners and legislators. Are the requirements and parameters of corporate governance sufficient enough to ensure that a company is not only complying with the legal requirements of the corporate governance but also that its implementation shows a visible impact on firms performance. A review of the corporate governance regulations becomes inevitable. This research also opens new avenues for further research in the area to explore as to whether the findings of this research can be generalized for other sectors of industry in Pakistan.

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Reed, D. and Sanjoy, M. Corporate Governance, Economic Reforms, and development The Indian Experience, Oxford University Press


2013 Publication of

The International Journal of Business and Management Research

“IJBMR”

Volume 1, Number 1.
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