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# Economics and Commerce

Impact of Demonetization 2016

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Governance of SACCOs in Uganda

Effectual use of Customer Retention

Discovering Thoughts, Inventing Future

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## Economics and Commerce

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# Evaluation De La Qualité De Gouvernance Des Institutions De Microfinancement (IMF) Et De Son Impact Sur Leur Performance: Etude De Cas De La Région MENA

By Afef Tlili
*University of Tunis El Manar*

*Abstract-* This paper raises the problem of the quality of governance of MFIs in the MENA region, and its impact on their performance. It stipulates the construction of an aggregate index, to be able to evaluate the quality of governance of institutions operating in the microfinance sector, based on the example of 7 Arab countries in the MENA region. Like the work of Wele IP. (2009), this index combines both the internal and external mechanisms of good governance within MFIs. The microfinance literature highlights strong links between the quality of governance and the performance of MFIs such as the work of: Hartarska V. (2005); Mersland R & Strøm RØ. (2009); Tchakoute Tchuigoua H. (2010). This work suggests the incorporation of indices measuring the quality of governance of the MFIs of the selected sample, among the explanatory variables, through panel data, in order to determine its impact on the performance of these institutions.

*Keywords:* *microfinance, gouvernance, performance.*

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# Evaluation De La Qualité De Gouvernance Des Institutions De Microfinancement (IMF) Et De Son Impact Sur Leur Performance: Etude De Cas De La Région MENA

Afef Tlili

*Résumé-* Ce papier pose le problème de la qualité de gouvernance des IMF de la région MENA, et de son impact sur leur performance. Il stipule la construction d'un indice agrégé, pour pouvoir évaluer la qualité de gouvernance des institutions opérant dans le secteur microfinancier, à partir de l'exemple de 7 pays arabes de la région MENA. A l'instar des travaux de Wélé IP. (2009), cet indice regroupe à la fois les mécanismes internes et externes d'une bonne gouvernance au sein des IMF. La littérature microfinancière met en évidence des liens étroits entre la qualité de gouvernance et la performance des IMF tels que les travaux de: Hartarska V. (2005); Mersland R & Strøm RØ. (2009); Tchakoute Tchuigoua H. (2010). Ce travail suggère l'incorporation des indices mesurant la qualité de gouvernance des IMF de l'échantillon choisi, parmi les variables explicatives, à travers les données de panel, à fin de déterminer son impact sur la performance de ces institutions. L'étude montre que ces IMF doivent améliorer leur système de gouvernance pour renforcer leurs performances financières et sociales.

*Motsclés: microfinance, gouvernance, performance.*

*Abstract-* This paper raises the problem of the quality of governance of MFIs in the MENA region, and its impact on their performance. It stipulates the construction of an aggregate index, to be able to evaluate the quality of governance of institutions operating in the microfinance sector, based on the example of 7 Arab countries in the MENA region. Like the work of Wele IP. (2009), this index combines both the internal and external mechanisms of good governance within MFIs. The microfinance literature highlights strong links between the quality of governance and the performance of MFIs such as the work of: Hartarska V. (2005); Mersland R & Strøm RØ. (2009); Tchakoute Tchuigoua H. (2010). This work suggests the incorporation of indices measuring the quality of governance of the MFIs of the selected sample, among the explanatory variables, through panel data, in order to determine its impact on the performance of these institutions. The study shows that these MFIs need to improve their governance system to enhance their financial and social performance.

*Keywords: microfinance, gouvernance, performance.*

## I. Introduction

Les IMF sont à la phase de recherche de la pérennité et de la durabilité. La performance de ces institutions constitue leur défi principal, et l'objectif majeur afin de réaliser leur but initial, qui sert à toucher le maximum de pauvres.

Les déterminants de la performance sont nombreux, dans notre cas, nous avons choisi d'identifier l'impact de la gouvernance sur la performance des IMF. L'objectif de notre travail consiste à déterminer la qualité de la gouvernance des IMF de pays arabes de la région MENA entre 2007 et 2012, ainsi que son impact sur leur performance. Notre échantillon est constitué par des IMF de 7 pays arabes qui sont : la Tunisie, le Maroc, l'Egypte, la Palestine, la Jordanie, le Liban, et le Yémen. Notre démarche consiste tout d'abord à la détermination de la qualité de gouvernance de notre échantillon à travers la construction d'un indice agrégé. Puis l'analyse en utilisant les données de panel, de l'impact de la gouvernance et d'autres variables explicatives sur la performance des IMF sujettes de notre étude.

## II. Revue de Littérature

La gouvernance des organisations quelle que soit leur nature, représente un angle d'attaque intéressant, elle renvoie à l'ensemble des mécanismes qui assurent qu'une organisation et ses dirigeants prennent des mesures conformes à la mission qu'ils se sont donnés. Pour pouvoir gérer le secteur de la microfinance, la gouvernance au sein d'une IMF doit être consciente de ses missions à vocation économique et sociale. Dans cet élément, nous allons tout d'abord présenter les cadres d'analyses de la gouvernance en microfinance. Par la suite nous allons traiter son impact sur la performance des IMF.

### *a) Les cadres d'analyses de la gouvernance en microfinance*

La pérennité des IMF ne signifie pas seulement la viabilité financière de l'institution et son adaptation aux cadres juridiques existants. Elle doit suivre aussi une stratégie claire pour son fonctionnement, et avoir une organisation transparente. Ensuite tous les acteurs directs de l'institution (à savoir: salariés, élus, clients, opérateurs, bailleurs ou actionnaires) devront se mettre d'accord sur ces procédures. Ces questions constituent

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en quelque sorte le concept de la « gouvernance ». Pour la microfinance, l'analyse de la gouvernance constitue un domaine relativement nouveau, mais qui doit permettre de mieux expliquer les succès et les échecs dans ce secteur, afin de construire des bases solides pour son développement et sa croissance d'avenir. Dans la littérature de la microfinance, un bon nombre d'auteurs ont fourni plusieurs contributions qui s'intéressent au thème de la gouvernance des IMF. Il existe deux courants principaux qui traitent ce sujet. Certains auteurs ont développé une grille d'analyse générale applicable à plusieurs types d'IMF, comme le cas de Labie (2003, 2005). D'autres (Lapenu & Pierret, 2005 ; Rock & al., 1998) ont présenté des analyses basées sur des règles typiques, afin de construire une structure de gouvernance propre à chaque institution.

Dans leur ouvrage qui s'intitule « Principles and Practices of Microfinance Governance », Rock, Otero et Saltzman (1998) proposent une série de principes permettant de bien gouverner une IMF. Leur approche met l'accent sur le rôle déterminant du conseil d'administration. Selon ces auteurs, ce facteur représente l'outil central d'une bonne gouvernance des IMF. Ils définissent les responsabilités des membres du conseil, pour réaliser un bon système de gouvernance. Parmi lesquelles nous citons les suivants: le respect de la mission institutionnelle, la décision stratégique, implanter des systèmes d'information efficaces, mettre des politiques et des procédures qui permettent la continuité de l'activité et la participation des membres. Ces auteurs déterminent quatre problématiques fondamentales qui peuvent rencontrer les IMF, et qui doivent être prises en considération par leurs conseils d'administration afin d'assurer une gouvernance efficace. D'après Rock & al., (1998), ces problématiques sont: la mission double des IMF, la structure de propriété, la responsabilité du conseil en tant qu'agent, et l'évaluation du risque en microfinance. D'autres auteurs présentent une optique plus synthétisée de l'analyse de la gouvernance des IMF, tout en cherchant à dépasser la première analyse limitée aux seuls aspects techniques et aux relations entre le conseil d'administration et les gestionnaires. C'est le cas de CERISE qui implémente une grille d'analyse prenant en compte les relations de pouvoir, les conditions de son exercice et le traitement des dysfonctionnements. Selon Lapenu C. (2002), cette grille permet à l'IMF de bien piloter son fonctionnement au quotidien, tout en identifiant les techniques nécessaires pour prévenir et surmonter les crises. Contrairement à la première approche qui est de type restrictif, en se basant seulement sur les relations entre les actionnaires et les dirigeants de l'IMF, l'analyse de la gouvernance selon le deuxième courant s'inscrit dans un cadre plus synthétisé englobant les relations entre les différentes parties prenantes de l'institution. Il s'agit d'appréhender la gouvernance dans sa globalité et de préciser les principaux enjeux pour l'ensemble des acteurs impliqués dans l'activité de l'IMF.

La définition de la gouvernance retenue par CERISE est la suivante: « *la gouvernance d'une institution de microfinance, basée sur sa structure de propriété, regroupe l'ensemble des mécanismes par lesquels les acteurs et actrices (élu(e)s, salarié(e)s, autres) définissent et poursuivent la mission de l'institution (notamment le public cible, les services et la couverture géographique) et assurent la pérennité en s'adaptant à l'environnement, en prévenant et surmontant les crises* »[1]. Ce cadre d'analyse de la gouvernance suit une démarche en trois principales étapes. Il s'agit, tout d'abord, d'examiner l'organisation pour déterminer qui détient le pouvoir de décision. Puis, le deuxième point de l'analyse se focalise sur la façon dont ce pouvoir est exercé. En troisième lieu, il s'agit d'analyser la gestion des dysfonctionnements et des crises au sein de l'organisation. La diversité des contributions de ces auteurs démontre l'importance accordée à l'analyse de la gouvernance dans la microfinance, qui nécessite de préciser le positionnement de l'approche retenue. Bien que ces approches révèlent des aspects contradictoires dans leur conception, nous pouvons trouver un point commun entre eux qui se manifeste dans l'impact de la gouvernance sur le bon fonctionnement et la performance des IMF.

*b) Impact de la gouvernance sur la performance des IMF*

Plusieurs auteurs (tels que : A. Rafael (2013) et F. Mekouar (2014)) ont indiqué que la qualité des mécanismes et le bon fonctionnement des organes de gouvernance permettent de garantir la bonne performance des organisations. Dans le secteur microfinancier, Tchakoute Tchigoua (2010) stipule que l'efficacité des mécanismes de gouvernance peut jouer le rôle d'un levier de création de valeur sociale et financière dans le secteur de la microfinance. La recherche sur la gouvernance des IMF est encore en continuation pour constituer une base théorique enrichissante. Un bon nombre de travaux ont mis l'accent sur ce thème tels que: Lapenu (2002); Hartarska (2005, 2009); Hartarska et Nadolnyak (2007); Mersland et Strøm (2009); H. Tchakoute Tchuigoua (2010). En étudiant le cas de quatre IMF, Lapenu (2002) a montré que la gouvernance représente un facteur clé de succès pour la microfinance. Hartarska (2005, 2009) et Mersland & Strøm (2009) ont focalisé leurs attentions

[1] Lapenu C & Pierret D. (2005); « Guide opérationnel d'analyse de la gouvernance d'une institution de microfinance »; CERISE–IRAM; P. 12.

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sur le rôle moteur des mécanismes de gouvernance et leurs effets sur la performance sociale et financière des IMF. Leurs études consacrent respectivement les pays de l'Europe Centrale et de l'Est et un échantillon international de sociétés privées d'IMF. Cependant, H. Tchakoute Tchuigoua (2010), a accordé son attention à l'analyse des effets des mécanismes internes et externes de la gouvernance sur la performance des IMF de l'Afrique subsaharienne, à partir de l'étude d'un échantillon composé de 64 IMF africaines entre 2001 et 2005. Les principaux points traités pour analyser l'impact des mécanismes de gouvernance sur la performance des IMF sont les suivants: « mécanismes externes de gouvernance et performance des IMF; taille du conseil d'administration et performance des IMF; statut juridique et performance des IMF; méthodologie de crédit et performance des IMF; forme organisationnelle et performance des IMF et les mécanismes internes et externes de gouvernance »[2]. Les résultats retenus par ces différents auteurs montrent l'existence de différents liens entre les mécanismes internes et externes de la gouvernance des IMF et leur performance. Toutefois, ils ne donnent pas un accord concernant le sens de ces liens. Notre étude de cas des IMF arabes de la région MENA souhaite apporter un certain enrichissement aux travaux de réflexion qui aborde le thème d'analyse de l'impact de la gouvernance sur la performance de ces institutions. Dans ce qui suit nous allons développer notre méthodologie suivie dans la réalisation de ce travail.

## III. Description de la Méthodologie

Notre problématique consiste à identifier l'impact de la gouvernance sur la performance des IMF, entre 2007 et 2012. Notre échantillon est constitué par 18 IMF localisées dans 7 pays arabes de la région MENA. Notre méthodologie regroupe deux principales parties : la construction d'un indice agrégé qui détermine la qualité de gouvernance des IMF arabes dans la région MENA ; et la détermination de l'impact de la gouvernance sur la performance des IMF de notre échantillon par les données de panel.

### *a) La construction d'un indice agrégé de la gouvernance*

Notre travail pose, dans un premier lieu, le problème de la qualité de gouvernance dans le secteur de la microfinance de la région MENA, plus précisément les pays arabes. La construction d'un indice agrégé s'avère adéquate pour la réalisation de cette tâche. Plusieurs travaux en microfinance ont indiqué qu'il existe des liens étroits entre la qualité de la gouvernance des IMF et leur performance. La qualité de la gouvernance constitue un défi principal pour la plupart des IMF cherchant la pérennité, dans les pays arabes de la région MENA. Notre échantillon est hétérogène, d'après Wélé IP (2009) il est indispensable, dans ce cas, de se référer à des études réalisées par « la Banque Mondiale et le Fonds Monétaire International, qui ont comparé la qualité du management de différentes organisations issues de plusieurs secteurs d'activité. Le FMI (2004), Briceno-Garmendia & Foster (2007) et Mbangala (2007) proposent un indice agrégé de gouvernance, qui regroupe une série de critères basés essentiellement sur des données binaires »[3]. L'utilisation de cette procédure permet d'évaluer le mode de gestion des entités examinées sur la base des normes bien précises. Ces critères tiennent compte de plusieurs dimensions, regroupées en quatre rubriques applicables dans le cas des IMF. Il en résulte un indice constitué de l'ensemble de neuf critères, qui sont présentés dans le tableau suivant[4].

[2] Tchakoute Tchuigoua H. (2010); « L'influence des mécanismes de gouvernance sur la performance des institutions de microfinance d'Afrique Sub-saharienne »; CEB Working Paper N° 10/026; Université Libre de Bruxelles-Solvay Brussels School of Economics and Management Centre Emile Bernheim; pp. 5-9.

[3] Wélé IP; (2009); « la qualité de la gouvernance micro-financière dans les pays de l'UEMOA : construction d'un indice agrégé de gouvernance des IMF appliquée au cas du Benin »; Cairn. Info; Reflets et perspectives de la vie économique ; Tome XLVIII ; Mars ; pp. 77–78.

[4] Cité dans Wélé IP; (2009); « La qualité de la gouvernance micro-financière dans les pays de l'UEMOA: construction d'un indice agrégé de gouvernance des IMF appliquée au cas du Benin » ; op.cit ; P. 78.



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*Tableau 1:* Les variables de mesure de la qualité de gouvernance des IMF

| Variables | Indicateurs | Modalités |
|---|---|---|
| Respect de la législation | Autorisation d'exercice | '1' si l'IMF est autorisée, '0' si non |
| | Respect des normes prudentielles | '1' si 100% des règles prudentielles sont respectées, '0' si non |
| Autonomie managériale | Vis-à-vis des pouvoirs publics | '1' s'il y'a indépendance vis-à-vis des pouvoirs publics, '0' si non |
| | Vis-à-vis des bailleurs de fonds | '0' s'il y a influence des bailleurs, '1' si non |
| Qualité du système d'information | Cohérence des manuels de procédures | '1' s'il y a cohérence des manuels, '0' si non |
| | Disponibilité des rapports d'audit | '1' si les rapports d'audit sont disponibles, '0' si non |
| | Participation à une évaluation internationale | '1' si l'IMF participe à une évaluation internationale, '0' si non |
| Conseil d'administration | Séparation des fonctions de Directeur Général et de Président du CA | '1' s'il y a séparation des pouvoirs, '0' si non |
| | Pouvoir de décision | '1' si le CA est autonome, '0' si non |

*Source: Adapté de FMI (2004); Briceno-Garmendia & Foster (2007); cité par Wélé IP; (2009).*

Briceno-Garmendia & Foster (2007)[5] suggèrent que l'indice agrégé de gouvernance possède certains avantages, parmi eux il y a sa capacité à intégrer la diversité des dimensions de la gouvernance dans un seul indicateur. A laquelle nous ajoutons sa simplicité de pratique sur le plan méthodologique. Cette simplicité est fondée sur le recours aux variables binaires pour constituer notre indice. D'autres travaux (H. Tchakoute Tchuigoua (2010, 2015); Mersland et Strøm (2009)…) ont choisi d'autres variables pour évaluer la qualité de la gouvernance. Il s'agit des mécanismes internes et externes de la gouvernance. Les mécanismes internes de la gouvernance sont: la composition du conseil d'administration (taille et indépendance du CA); la méthodologie de crédit; les variables de propriété (statut juridique et l'existence des institutionnels); la forme organisationnelle (si l'IMF est organisée sous forme de réseau ou non). Les mécanismes externes de la gouvernance sont représentés par la supervision, la notation et l'audit. Pour notre cas nous allons considérer les variables qui sont disponibles. Nos éléments sont collectés de la base de données du Microfinance Information Exchange (MIX)[6] et Sanabel[7].

*b) Analyse de l'impact de la gouvernance sur la performance des IMF des pays arabes de la région MENA*

Pour déterminer l'impact de la gouvernance des IMF arabes de la région MENA sur leur performance, nous allons adopter des données de panel sur la période [2007 ; 2012]. Notre échantillon est constitué par des IMF ayant des formes institutionnelles différentes associées à des missions spécifiques. Vu cette hétérogénéité nous avons opté pour une approche multidimensionnelle de la performance, qui renvoie à la performance financière et la performance sociale de l'institution. Le modèle retenu vise à estimer l'impact de la gouvernance et d'autres variables de contrôle *(indice de gouvernance; la taille de l'IMF; l'âge de l'IMF; le portefeuille à risque à 30 jours; emprunteurs par effectifs du personnel; et encours de crédit)* sur la performance des IMF. Le modèle empirique utilisé pour estimer ces différents impacts s'écrit comme suit :

$$Y_{it} = \alpha + X_{it}\beta + \varepsilon_{it} \quad (1)$$

[5] Cité par Wélé IP ; (2009) ; « La qualité de la gouvernance micro-financière dans les pays de l'UEMOA : construction d'un indice agrégé de gouvernance des IMF appliquée au cas du Benin » ; op.cit ; P. 78.

[6] MIX est la source de premier ordre de données objectives, et de l'analyse des performances de la microfinance. Il fournit des informations sur les performances des institutions de microfinance (IMF), les bailleurs de fonds, les réseaux et les fournisseurs de services dédiés à servir le secteur financier en faveur des pauvres, dans une stratégie de transparence destinée à renforcer l'inclusion financière et le secteur de la microfinance. Il remplit sa mission à travers plusieurs programmes, dans le but de fournir un accès libre et instantané aux indicateurs de performance financière et sociale des IMF. MIXMARKET est une organisation à but non lucratif chargée d'aider à la création d'une infrastructure de marché en offrant des services de collecte de données, des benchmarks, des outils de suivi de performance et des services d'informations spécialisés. Cet organisme vient d'un partenariat entre le CGAP et d'autres institutions opérant dans le même domaine.

[7] Sanabel est le réseau de microfinance des pays arabes. C'est le seul et le plus grand réseau de microfinance régionale. Cet organisme qui est dirigé par ses membres, envisage toutes les personnes à faibles revenus dans les pays arabes et l'accès à des services financiers complets. Les actions de Sanabel se focalisent sur la croissance, l'innovation, les meilleures pratiques et la normalisation du secteur de la microfiance dans la région arabe.



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Avec:

$Y_{it}$: la matrice des variables à expliquer de l'IMF i à la période t; $X_{it}$ : la matrice des variables explicatives de l'IMF i à la période t; $\varepsilon_{it}$: le vecteur des termes aléatoires ; $\beta$ : : le vecteur des coefficients des variables explicatives ; $\alpha$ : : constante ; i = 1,……18 ; et t = 2007,……2012 ; i indique les IMF ; et t indique le temps.

Le modèle testé est alors:

Performance = constante + variable (indice de gouvernance) + variable (taille de l'IMF) + variable (l'âge de l'IMF) + variable (portefeuille à risque à 30 jours) + variable (emprunteurs par effectifs du personnel) + variable (encours de crédit).

C'est-à-dire:

$$\text{Performance} = \alpha_{it} + \beta_1 (\text{Indice gov})_{it} + \beta_2(\text{Taille})_{it} + \beta_3(\text{Age})_{it} + \beta_4(\text{PAR (30)})_{it} + \beta_5(\text{Emp-Ef})_{it} + \beta_6(\text{Enc-créd})_{it} + \beta_{it} \quad (2)$$

## IV. Echantillon; Variables et Données

Dans ce qui suit nous allons identifier notre échantillon. De plus, nous allons présenter nos variables retenues dans notre étude ainsi que l'explication de nos choix de données.

*a) Notre échantillon*

Notre échantillon est constitué de 18 IMF arabes appartenant à la région MENA. Les pays qui sont concernés dans notre étude sont au nombre de 7, qui sont les suivants: la Tunisie (Enda); Maroc (Alkarama, Attadamoune, FONDEP); l'Egypte (ABA, Al Tadamun, DBACD, CEOSS, Lead Foundation, SBACD); la Palestine (Faten, Asala); la Jordanie (Alwatani, DEF, MFW, Tamweelcom); le Liban (Almajmoua); et le Yémen (National microfiance foundation). Le tableau suivant récapitule les composantes de notre échantillon. Notre choix n'est pas arbitraire. Nous avons considéré les IMF qui présentent des sites internet, sur lesquels elles mettent leurs rapports et des informations spécifiques sur leurs activités. Dans ces sites les IMF présentent leurs CA (Conseil d'Administration). Nous avons aussi choisi les IMF qui sont notées d'un nombre de diamants selon la notation adoptée par Mix Market[8]. Les IMF qui possèdent plus de 4 étoiles sont jugées les plus transparentes en termes d'informations, car les informations comptables diffusées par ces organisations présentent un niveau de fiabilité élevé. Les IMF possédant 4 diamants dévoilent des informations qui communiquent des indicateurs relatifs à leur portée et à l'impact de leurs interventions sur les bénéficiaires de leurs services. Leurs états financiers (bilan et compte de résultat) sont audités et certifiés par des experts comptables et des commissaires aux comptes. Celles qui présentent un niveau de 5 diamants, ajouté aux caractéristiques des IMF de niveau 4, font recours aux systèmes de notation fournis par des agences spécialisées dans le domaine de microfinance.

*b) Variables et données*

L'ensemble des éléments chiffrés utilisés dans notre travail provient de la base de données de MIXMARKET, qui est considérée la base de données la plus conséquente et la plus fiable en communiquant des informations sur les IMF à l'échelle internationale. Ces informations sont principalement de nature financière. Cette base de données ne présente pas des indicateurs réels sur la performance sociale des IMF (par exemple : un score social). Notre choix s'est porté sur 18 IMF de la région MENA, localisées dans 7 pays arabes. C'est pour cela que nous avons aussi fait accès à la base de données de SANABEL[9] étant donné qu'il s'agit du réseau de microfinance des pays arabes.

i. *Notre indice*

Pour déterminer la qualité de gouvernance de notre échantillon, nous avons procédé à la construction d'un indice agrégé, englobant un ensemble des mécanismes internes et externes de la gouvernance d'une IMF. Notre indice comporte 8 critères, que nous avons déterminé en fonction de la disponibilité des données adéquates. Le tableau suivant présente notre indice agrégé de gouvernance et ses principales constituantes.

[8] www.mixmarket.org

[9] www.sanabelnetwork.org



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*Tableau 2:* Nos variables de mesure de la qualité de gouvernance des IMF

| Variables | Modalités |
|---|---|
| Régulation/Autorisation | 1 si oui ; 0 si non |
| Audit | 1 si oui ; 0 si non |
| Contrôle | 1 si oui ; 0 si non |
| Rapport | 1 si oui ; 0 si non |
| Taille de CA | 1 si ≥ 7 membres ; 0 si non |
| Séparation des fonctions de Directeur Général et de Président du CA | 1 si oui ; 0 si non |
| Nombre de diamants | 1 si le nombre de diamants est ≥ 4 diamants ; 0 si non |
| Notation | 1 si oui ; 0 si non |

*Source: L'auteur.*

ii. *Nos variables*

Plusieurs auteurs « (Bruett, 2005; Lafourcade et al., 2006; Hartarska, 2007, 2005; Mersland et Strøm, 2009, 2008; Cull et al., 2007, 2009) ont utilisé des indicateurs de rentabilité et de pérennité (viabilité financière), pour mesurer la performance financière des IMF »[10]. En ce qui concerne les sociétés privées opérant dans le secteur de la microfinance, la rentabilité financière est simplement et facilement déterminée. Dans ce cas, l'actionnaire n'a qu'un but unique qui tourne autour de la maximisation de la rentabilité de ses capitaux investis, mesurée par le ROE (*Return On Equity*). Alors que, dans les coopératives de microfinance et les ONG, l'objectif crucial des apporteurs de fonds réside dans la recherche de la performance sociale, son évaluation peut être déterminée en fonction de la qualité des services fournis par les organisations et leurs impacts en faveur des pauvres. Dans notre cas, l'échantillon étudié est hétérogène, constitué de différentes formes institutionnelles, ce qui induit à une hétérogénéité d'objectifs stratégiques poursuivis et de différentes approches d'intervention. Pour cette raison, il faut établir un indicateur commun applicable dans la mesure de la rentabilité de toutes sortes d'IMF, afin de faciliter l'interprétation des résultats obtenus. Cet indicateur doit être susceptible de simplifier les comparaisons entre les institutions examinées. Dans notre étude, nous allons retenir le taux de rentabilité économique ou ROA *(Return On Asset*). A l'opposé du ROE, Bruett (2005) suggère que le ROA est capable de mesurer la rentabilité quelle que soit la structure de financement de l'institution, et permet de comparer les IMF quels que soient leurs buts commerciaux ou sociaux. Les IMF sont des institutions ayant une double vocation d'objectif financier et social. La performance de ces organisations renvoie à leur profitabilité et leur efficacité sociale. Dans notre travail, nous allons se référer à des mesures qui sont couramment utilisées dans les études sur la gouvernance des IMF tels que les travaux de Hartarska (2005, 2009); Hartarska et Nadolnyak (2007); Mersland et Strøm (2009); Tchakoute Tchuigoua (2010) et Cull & al. (2009). Les mesures retenues dans notre travail sont: la rentabilité déterminée par le taux de rentabilité économique (ROA), et la viabilité financière représentée par l'autosuffisance opérationnelle (AO), elle s'appelle aussi le ratio d'autonomie opérationnelle (Operational Self Sufficiency), qui peut nous informer sur la profitabilité de l'institution. L'AO permet de mesurer l'aptitude de l'IMF de couvrir ses coûts induits à l'aide de ses revenus opérationnels. La portée du programme qui est supposée valable pour l'évaluation de la performance sociale, sera mesurée par le nombre d'emprunteurs actifs et la taille moyenne des prêts. Nos variables sont mesurées à partir des indicateurs chiffrés de nature comptable. Le tableau suivant récapitule la liste des variables à expliquer, retenues dans notre étude.

[10] Tchakoute Tchuigoua H. (2010); « L'influence des mécanismes de gouvernance sur la performance des institutions de microfinance d'Afrique Sub-saharienne »; op.cit ; P. 11.



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*Tableau 3:* Variables à expliquer de la performance financière et la performance sociale

| Critère | Identité de la variable | Mesure | Définition |
|---|---|---|---|
| Profitabilité | Rentabilité économique | ROA | Résultat net d'exploitation / montant moyen des actifs. Il mesure la capacité de l'IMF à utiliser ses actifs pour générer un rendement. |
| | Viabilité financière ou (Autosuffisance opérationnelle) | AO | Produits financiers / (charges financières + dotations aux provisions pour créances douteuses + charges d'exploitation). L'autonomie opérationnelle mesure la capacité de l'IMF à couvrir les dépenses d'exploitation avec ses recettes d'exploitation. |
| Performance sociale | Nombre d'emprunteurs actifs | NEA | Si NEA > 30000, portée forte.<br>Si 10000 ≤ NEA ≤ 30000, portée moyenne.<br>Si NEA < 10000, portée faible (Tchakoute Tchuigoua, 2013). |
| | Taille moyenne des prêts | TMP | Encours de crédit moyen par emprunteur / Revenu National Brut par habitant en US dollar. Il mesure le montant moyen de crédit. Des valeurs élevées (TMP > 1) indiquent que les IMF prêtent aux plus riches (Hartarska, 2005). |

*Source: L'auteur*

L'analyse de l'impact des mécanismes de la gouvernance sur la performance des IMF constitue le pilier principal de cette thèse. C'est pour cela que nous avons introduit l'indice de gouvernance comme une variable explicative. A côté du quel nous avons introduit d'autres variables indépendantes. La qualité du portefeuille est un facteur important dans le fonctionnement des institutions de microcrédit. Le portefeuille de crédit représente le principal actif d'une institution de microfinance produisant des rendements financiers qui constituent ses principaux revenus. Cet indicateur est introduit pour constituer une vue d'ensemble sur la manière suivant laquelle une IMF gère le problème d'asymétrie d'information qu'elle peut rencontrer avec ses emprunteurs, et sa capacité à se faire rembourser les crédits octroyés. La consultation de cet indicateur permet de construire une idée sur les produits futurs de l'IMF. Il permet également d'examiner la capacité de l'institution à accroitre sa portée et à être au service de sa clientèle. Pour la présente étude le portefeuille à risque à 30 jours sera indiqué par : PAR (30). Le calcul de ce ratio se fait en tenant compte à la fois, de la partie du prêt qui est en retard de plus de trente 30 jours, et de la totalité du solde du prêt qui affiche ce retard. Un ratio calculé sur la base du solde des crédits en retard détermine aux gestionnaires de l'institution l'ensemble des risques futurs qu'elle peut les trouver. Le principe étant qu'un prêt présentant un retard indique que les paiements à venir pourraient aussi être retardataires ce qui pourrait induire un danger à l'ensemble des créances de l'IMF.

Dans notre travail, la première variable indépendante retenue, à côté de l'indice de gouvernance, sera le portefeuille à risque à 30 jours (*PAR > 30*). Pour assurer sa durabilité, une IMF doit réduire le risque. Par conséquent, elle doit obtenir des meilleurs taux de remboursement lorsque l'unité d'analyse se focalise sur le groupe de ses emprunteurs. Au niveau de l'IMF, cela induit à une meilleure qualité de son portefeuille de crédits. Dans notre cas, cet indicateur sera mesuré par le portefeuille à risque à 30 jours PAR (30), qui désigne la portion du portefeuille de l'institution contaminée par des impayés. « Le portefeuille de crédit est sain si le PAR (30) est inférieur à 10 % »[11]. Ce ratio de risque et liquidité est utilisé pour apprécier l'influence d'un portefeuille à risque déterminé dans une période donnée sur le niveau de prêts à accorder dans la période qui suit. Les institutions de l'industrie microfinancière se donnent à une stratégie de crédits rotatifs, c'est-à-dire que les fonds prêtables de l'institution sont, presque totalement, reconstitués par les crédits. Nous s'attendons à un effet négatif du portefeuille à risque induit sur la performance des institutions étudiées, dans la mesure où les IMF ayant des portefeuilles à risques importants sur une période

[11] H. Tchakoute Tchuigoua (2010); « L'influence des mécanismes de gouvernance sur la performance des institutions de microfinance d'Afrique Subsaharienne »; op.cit ; P. 14.



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considérée, vont enregistrer une diminution au niveau de leurs fonds prêtables de l'avenir, ce qui va les pousser à rationner leurs crédits nets par la suite affecter négativement leurs performances. En ce qui concerne notre deuxième variable indépendante, nous allons utiliser le nombre d'emprunteurs par rapport à l'effectif du personnel (Emp-Ef), étant donné qu'une bonne gestion qui doit être moderne et efficace du personnel de l'IMF, peut positivement contribuer à l'amélioration de sa performance, et conduit à sa croissance durable. Cet indicateur capture la productivité de l'ensemble du personnel de l'institution, plus il est élevé, plus elle est jugée productive. L'utilisation du facteur (Emp-Ef) donne une idée indirecte sur le processus opérationnel de l'institution. Toutefois, un indicateur trop bas ne signifie pas nécessairement que le personnel de l'IMF est improductif, mais il peut indiquer que ses procédures d'opérations sont mal définies ou mal adaptées aux produits et aux clients desservis, comme il peut illustrer une forte décentralisation de ses processus de décision. En dernier lieu, et pour déterminer l'influence des facteurs institutionnels et de portée sur la performance des IMF, nous allons retenir, comme variables indépendantes, un ensemble de mesures à savoir : la taille de l'IMF ; son âge et l'encours de crédit. Dans le tableau suivant qui a pour titre « description opérationnelle des variables explicatives », nous allons présenter, avec précision, l'ensemble de nos variables à utiliser, tout en donnant leurs définitions.

*Tableau 4:* Description opérationnelle des variables explicatives

| | Identité de la variable | Définition |
|---|---|---|
| Indice de gouvernance | Indice gov | C'est un indice qui mesure la qualité de la gouvernance des IMF. L'indice varie entre 0 et 1. L'indice le plus élevé étant considéré comme le meilleur. L'indice est constitué et calculé par l'auteur de la thèse. |
| La taille de l'IMF | Taille | Total de l'actif en US dollars |
| L'âge de l'IMF | Age | Nombre d'années depuis la création :<br>Si $1 < AGE \leq 4$, l'IMF est une start-up de microfinance ; Si $5 < AGE \leq 8$, l'IMF est jeune ; Si $AGE > 8$, l'IMF est mature.<br>(MicroBanking Bulletin, 2008). |
| Le portefeuille à risque à 30 jours | PAR (30) | Le portefeuille à risque à 30 jours (*PAR > 30*). Ce ratio de risque et liquidité permet de mesurer l'impact d'un portefeuille à risque mesuré à une période donnée sur le niveau de crédit octroyé à la période suivante. Le portefeuille de crédit est sain si le PAR (30) est inférieur à 10 %. |
| Emprunteurs par effectifs du personnel | Emp-Ef | Le nombre d'emprunteurs par rapport à l'effectif du personnel, c'est un ratio de productivité. |
| Encours de crédit | Enc-créd | Encours de crédit/total actif. |

*Source: L'auteur*

## V. La Qualité de la Gouvernance des IMF Arabes de la Région Mena: Analyse des Résultats

Après avoir présenté notre méthodologie et après la sélection de nos variables, nous allons dans ce qui suit présenter et interpréter nos résultats. A partir de l'identification des variables utilisées afin d'évaluer la gouvernance de notre échantillon, nous avons constitué le tableau de l'annexe 1 qui résume l'indice agrégé de gouvernance des IMF dans les pays arabes de la région MENA. Sur la base des calculs faits dans ce tableau, il en découle que la moyenne de l'indice de gouvernance pour les 18 IMF examinées est de 60.42%. Ce qui indique que les IMF étudiées répondent à environ cinq sur les huit critères d'une bonne gouvernance. Néanmoins, la distribution des IMF sur les classes d'indices présente une concentration entre 65% et 75%. C'est la tendance de près de 28% des IMF se situent dans les limites comprises entre 65% et 75%. Il s'agit des limites qui définissent la classe modale de la qualité de gouvernance de l'échantillon.

## VI. Interprétation de Résultats des Données de Panel

Cette section présente le modèle utilisé ainsi que les variables retenues sur la base de la revue de littérature présentée précédemment. Les données utilisées sont celles de 18 IMF arabes localisées dans la



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région MENA sur une période de six années (2007-2012). Nous utilisons des données sur panel, qui sont connues aussi comme des données longitudinales. Ce type de données se caractérise par leur double dimension: une dimension individuelle et une dimension temporelle indicées respectivement par l'indice *i* et *t*, qui correspondent à un mélange de données en coupe instantanée et les séries chronologiques. Elles permettent d'observer plusieurs entités (dans notre cas les IMF) sur une période de temps (dans notre cas de 2007 à 2012). L'utilisation des données de panel peut fournir plus d'informations pour l'amélioration des propriétés des statistiques des tests, surtout dans le cas d'échantillon ayant une faible dimension temporelle. Un panel désigne un échantillon de population supposé être représentatif d'une population globale.

*a) Modèle de régression et analyse des résultats*

Le modèle retenu vise à estimer l'impact de la gouvernance (indice de gouvernance) et d'autres variables de contrôle (la taille de l'IMF; l'âge de l'IMF; le portefeuille à risque à 30 jours ; emprunteurs par effectifs du personnel; et encours de crédit) sur la performance des IMF qui a deux composantes: la performance sociale et la performance financière.

Performance= *f* (Indice de gouvernance + autres variables de contrôle).

*Le modèle testé est alors:* Performance = constante + variable (Indice de gouvernance) + variable (Taille de l'IMF) + variable (L'âge de l'IMF) + variable (Portefeuille à risque à 30 jours) + variable (Emprunteurs par effectifs du personnel) + variable (Encours de crédit).

C'est-à-dire: Performance = $\alpha + \beta_1(\text{Indice gov})_{it} + \beta_2(\text{Taille})_{it} + \beta_3(\text{Age})_{it} + \beta_4(\text{PAR (30)})_{it} + \beta_5(\text{Emp-Ef})_{it} + \beta_6(\text{Enc-créd})_{it} + \beta_{it}$

Avec : i = 1….18 ; t = 2007….2012.

Les variables associées à la performance sociale et financière des institutions de microcrédit désignent les variables dépendantes dans la régression linéaire. Avant de faire notre estimation, il faut tout d'abord déterminer la spécification de notre modèle. A cet égard nous allons effectuer le test de Hausman ; et le test de Durbin-Watson. Nos modèles sont représentés par les équations (1) ; (2) ; (3) ; et (4).

(1)

$$NEA_{it} = \alpha_{1i} + \beta_1(Indice\ \text{gov})_{it} + \beta_2(\text{Taille})_{it} + \beta_3(Age)_{it} + \beta_4(PAR(30))_{it} + \beta_5(Emp - Ef)_{it} + \beta_6(Enc - créd)_{it} + \varepsilon_{it}$$

(2)

$$TMP_{it} = \alpha_{1i} + \beta_1(Indice\ \text{gov})_{it} + \beta_2(\text{Taille})_{it} + \beta_3(Age)_{it} + \beta_4(PAR(30))_{it} + \beta_5(Emp - Ef)_{it} + \beta_6(Enc - créd)_{it} + \varepsilon_{it}$$

(3)

$$RAO_{it} = \alpha_{1i} + \beta_1(Indice\ \text{gov})_{it} + \beta_2(\text{Taille})_{it} + \beta_3(Age)_{it} + \beta_4(PAR(30))_{it} + \beta_5(Emp - Ef)_{it} + \beta_6(Enc - créd)_{it} + \varepsilon_{it}$$

(4)

$$AO_{it} = \alpha_{1i} + \beta_1(Indice\ \text{gov})_{it} + \beta_2(\text{Taille})_{it} + \beta_3(Age)_{it} + \beta_4(PAR(30))_{it} + \beta_5(Emp - Ef)_{it} + \beta_6(Enc - créd)_{it} + \varepsilon_{it}$$

➢ Test de Hausman

L'utilisation de ce test nous permet de définir notre choix entre le MEF (modèle à effet fixe) et MEA (modèle à effet aléatoire). Ce test de spécification permet de vérifier si les coefficients de deux modèles sont statistiquement différents ou non.

*Tableau 5:* Test de Hausman

| Modèle Performance Sociale | NEA | | TMP | |
|---|---|---|---|---|
| | Coefficient | significativité | Coefficient | Significativité |
| | 34.585348 | 0.00798251 | 46.258246 | 0.00177356 |
| Valeur critique de Khi-deux | 3.84<br>6.64 | 5%<br>1% | 3.84<br>6.64 | 5%<br>1% |
| Modèle performance financière | ROA | | AO | |
| | Coefficient | significativité | Coefficient | Significativité |
| | 37.682087 | 0.00589634 | 31.844826 | 0.003511005 |
| Valeur critique de Khi-deux | 3.84<br>6.64 | 5%<br>1% | 3.84<br>6.64 | 5%<br>1% |

*Source: L'auteur.*

Le test de Hausman donne pour l'équation du nombre d'emprunteurs actifs (NEA) une statistique égale à 34.6 supérieure à la valeur théorique de Khi-Deux pour un risque de 5% et un degré de liberté de 6 (le nombre de régresseurs). Pour l'équation de la taille moyenne de prêts (TMP) nous obtenons une statistique



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de Hausman égale à 46.25 largement supérieure à la valeur théorique de khi-deux. Ceci permet d'indiquer l'existence d'un effet fixe dans les deux équations. L'estimation par MCO des formes linéaires des spécifications (1) et (2) nous donne le résultat économétrique suivant : nous avons prouvé l'existence d'effet fixe à travers les deux estimations de nombre d'emprunteurs actifs et la taille moyenne de prêts. De même avant d'estimer les modèles correspondants à la performance financière, il est impératif de spécifier la nature déterministe ou aléatoire de l'effet individuel dans les équations (3) et (4). Le test de Hausman, pour les deux équations (3) et (4), nous donne les résultats suivants:

1. pour l'équation de ROA nous avons trouvé une statistique égale à 37.68 supérieure à la valeur théorique de Khi-Deux pour un risque de 5% et un degré de liberté de 6 (le nombre de regrésseurs) ;
2. pour l'équation d'AO nous obtenons une statistique de Hausman égale à 31.84 largement supérieure à la valeur théorique de khi-deux.

Ceci nous permet de conclure l'existence d'un effet individuel déterministe (effet fixe) dans les deux équations.

- Test de Durbin-Watson

Ce test nous permet d'examiner l'existence ou non d'autocorrélation des erreurs à travers les 4 modèles de données de panel à effets fixes. Le test de Durbin-Watson nous donne les résultats suivants:

*Tableau 6 :* Test d'autocorrélation des erreurs (Durbin-Watson)

| Modèle | Stat-Durbin-Watson | Valeur critique d1 et d2 respectivement à 5% |
|---|---|---|
| NEA | 1.678 | 1.20 et 1.41 |
| TMP | 1.827 | 1.20 et 1.41 |
| ROA | 1.952 | 1.20 et 1.41 |
| AO | 1.749 | 1.20 et 1.41 |

*Source: L'auteur.*

Nous avons prouvé que les statistiques de Durbin-Watson sont comprises entre zéro et deux (0 et 2) et qu'ils sont proches de deux, ceci nous permet de conclure l'absence du problème d'autocorrélation des erreurs à travers les quatre modèles considérés. L'absence du problème d'autocorrélation nous permet de déduire la significativité des quatre modèles (NEA, TMP, ROA et AO).

*b) Interprétation des statistiques descriptives*

Nous allons analyser les statistiques descriptives de nos variables retenues avant d'interpréter les résultats de la régression de nos modèles.

*Tableau 7:* Statistiques descriptives des variables

| Variables | Moyenne | Max | Min | Ecart-type | Observation |
|---|---|---|---|---|---|
| ROA | 5.972 | 26.14 | -26.72 | 6.5008317 | 18 |
| AO | 137.96 | 277.72 | 36.7 | 38.7859446 | 18 |
| NEA | 56483.5 | 234371 | 2018 | 55440.3916 | 18 |
| TMP | 22.796 | 129.96 | 5.11 | 27.5307727 | 18 |
| Ind gov | 62.268 | 91.666 | 25 | 18.467 | 18 |
| Taille | 28542030,8 | 90818114,7 | 1964111,8 | 25573174,7 | 18 |
| Age | 15.833 | 59.5 | 5.5 | 11.975 | 18 |
| Par (30) | 3,54542593 | 25,4616667 | 0.2866 | 5,61819834 | 18 |
| Emp-Ef | 168,968519 | 322 | 63.6 | 64,6496607 | 18 |
| Enc-créd | 77,3627037 | 93.625 | 55.131 | 11.9472 | 18 |

*Source: L'auteur. Noté Bien: les valeurs sont calculées sur les moyennes.*



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D'après ce tableau nous remarquons que les IMF arabes de la région MENA, qui sont sélectionnées dans notre échantillon enregistrent de bonnes performances financières. Les statistiques descriptives montrent qu'en moyenne, ces IMF sont profitables avec un rendement de l'actif moyen de 5.97%. En plus, elles sont financièrement viables avec une autonomie opérationnelle moyenne de 137.96%. L'autonomie opérationnelle nous renseigne sur la pérennité de ces IMF. En ce qui concerne les composantes choisies pour évaluer la performance sociale, ce tableau indique que les IMF de notre échantillon ont une forte portée avec environ 56.483 d'emprunteurs actifs en moyenne (valeur supérieure à 30.000). Cette large clientèle est caractérisée par sa pauvreté puisque la moyenne de TMP est autour de 23% (inférieur à 100%). Les statistiques descriptives nous montrent que l'indice de gouvernance des IMF étudiées représente une moyenne d'environ 63%. Cet indicateur varie entre 25% et 100%. Trois IMF seulement parmi les 18 étudiées ont pu atteindre le plafond (100%): Enda en deux reprises (2008 et 2012); Attadamoune en 2012 et Faten en 2011. Nos données indiquent aussi que la variable taille qui est mesurée par le total actif des IMF, est toujours en évolution durant la période [2007-2012]. D'après MicroBanking Bulletin[12] (2008), l'IMF est considérée mature si son âge dépasse 8 ans. Dans notre cas, la moyenne d'âge de notre échantillon est plus de 15 ans. Nous pouvons dire que notre échantillon est composé des IMF matures. CEOSS (Egypte) est l'IMF la plus âgée. Alwatani (Jordanie) est la plus jeune. Le PAR (30) moyen est de 3.54%, il est inférieur au seuil de 10%, ce résultat peut indiquer qu'en moyenne les 18 IMF étudiées présentent un portefeuille de crédit sain. La productivité du personnel atteint une moyenne presque de 169 emprunteurs par effectifs du personnel et s'améliore progressivement d'une année à une autre. Les meilleures valeurs sont enregistrées par CEOSS vu son ancienneté. Concernant la variable (Encours crédits /Total actif), les statistiques descriptives nous permettent de déduire que les IMF des pays arabes de la région MENA dédient en moyenne plus que 77% de leurs actifs à l'octroi de crédits. D'après ce tableau nous remarquons que les IMF arabes de la région MENA, qui sont sélectionnées dans notre échantillon enregistrent de bonnes performances financières. Les statistiques descriptives montrent qu'en moyenne, ces IMF sont profitables avec un rendement de l'actif moyen de 5.97%. En plus, elles sont financièrement viables avec une autonomie opérationnelle moyenne de 137.96%. L'autonomie opérationnelle nous renseigne sur la pérennité de ces IMF. En ce qui concerne les composantes choisies pour évaluer la performance sociale, ce tableau indique que les IMF de notre échantillon ont une forte portée avec environ 56.483 d'emprunteurs actifs en moyenne (valeur supérieure à 30.000). Cette large clientèle est caractérisée par sa pauvreté puisque la moyenne de TMP est autour de 23% (inférieur à 100%). Les statistiques descriptives nous montrent que l'indice de gouvernance des IMF étudiées représente une moyenne d'environ 63%. Cet indicateur varie entre 25% et 100%. Trois IMF seulement parmi les 18 étudiées ont pu atteindre le plafond (100%): Enda en deux reprises (2008 et 2012); Attadamoune en 2012 et Faten en 2011. Nos données indiquent aussi que la variable taille qui est mesurée par le total actif des IMF, est toujours en évolution durant la période [2007-2012]. D'après MicroBanking Bulletin[13] (2008), l'IMF est considérée mature si son âge dépasse 8 ans. Dans notre cas, la moyenne d'âge de notre échantillon est plus de 15 ans. Nous pouvons dire que notre échantillon est composé des IMF matures. CEOSS (Egypte) est l'IMF la plus âgée. Alwatani (Jordanie) est la plus jeune. Le PAR (30) moyen est de 3.54%, il est inférieur au seuil de 10%, ce résultat peut indiquer qu'en moyenne les 18 IMF étudiées présentent un portefeuille de crédit sain. La productivité du personnel atteint une moyenne presque de 169 emprunteurs par effectifs du personnel et s'améliore progressivement d'une année à une autre. Les meilleures valeurs sont enregistrées par CEOSS vu son ancienneté. Concernant la variable (Encours crédits / Total actif), les statistiques descriptives nous permettent de déduire que les IMF des pays arabes de la région MENA dédient en moyenne plus que 77% de leurs actifs à l'octroi de crédits.

*c) Résultats de la régression*

Nous avons utilisé le logiciel WinRATS pour régresser nos modèles à travers la méthode des MCO. Nos résultats de la régression sont exposés dans les tableaux suivants.

[12] Le journal est accessible au : http://www.themix.org/microbanking-bulletin/microbanking-bulletin

[13] Le journal est accessible au : http://www.themix.org/microbanking-bulletin/microbanking-bulletin



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*Tableau 8:* Résultats de la régression de nos modèles

| Modèle | NEA (1) | | TMP (2) | |
|---|---|---|---|---|
| | Coefficient | Significativité | Coefficient | Significativité |
| $\hat{\alpha}_{1i}$ | 58792.61* | 0.00 | 2.825787364 | 0.76 |
| $\beta_1$ | 248.82753 | 0.13 | -0.166486335 * | 0.00 |
| $\beta_2$ | -851.66409 * | 0.00 | 0.311316513 ** | 0.014 |
| $\beta_3$ | 0.00149 * | 0.00 | -0.035819582 * | 0.00 |
| $\beta_4$ | 368.41944 | 0.43 | 0.000000199 *** | 0.090 |
| $\beta_5$ | 366.91480 * | 0.00 | -0.000000124 | 0.30 |
| $\beta_6$ | -1421.77654 * | 0.00 | 0.144757362 * | 0.00 |
| $R^2$ | 0.67 | | 0.163 | |
| Modèle | ROA (3) | | AO (4) | |
| | Coefficient | Significativité | Coefficient | Significativité |
| $\hat{\alpha}_{1i}$ | 6.996570482 * | 0.00 | -0.342414 ** | 0.016 |
| $\beta_1$ | -0.053793238 ** | 0.014 | -0.342414 ** | 0.016 |
| $\beta_2$ | -0.118061052 * | 0.00 | 1.018751 * | 0.00 |
| $\beta_3$ | -0.000000016 | 0.327 | 0.000000 | 0.39 |
| $\beta_4$ | -0.388701076 * | 0.00 | -1.329845 * | 0.001 |
| $\beta_5$ | 0.043999707 * | 0.00 | 0.183150 * | 0.001 |
| $\beta_6$ | -0.138136721 * | 0.00 | -0.377164 *** | 0.061 |
| $R^2$ | 0.585 | | 0.509110 | |

*Source: L'auteur.* Avec: *, **, *** désignent respectivement la significativité à 1, 5 et 10 %.

Les coefficients de détermination $R^2$ obtenus indiquent généralement la significativité de nos modèles de régression. L'estimation par MCO des formes linéaires de spécifications (1); (2); (3) et (4) nous donne le résultat économétrique suivant:

*Tableau 9:* Tableau récapitulatif des résultats de régressions

| Facteurs Déterminants | Performance sociale | | Performance financière | |
|---|---|---|---|---|
| | NEA | TMP | ROA | AO |
| Indice gov | Ø | - | - | - |
| Taille | - | + | - | + |
| Age | + | - | Ø | Ø |
| PAR (30) | Ø | + | - | - |
| Emp-Ef | + | Ø | + | + |
| Enc-créd | - | + | - | - |

*Source: L'auteur.*

le signe (-) indique que le facteur a une relation négative avec la performance concernée. Le signe (+) indique que le facteur a une relation positive avec la performance concernée. le symbole (Ø) indique que le facteur est non significatif par rapport à la performance concernée.



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Dans notre cas, nous avons construit un indice agrégé qui regroupe à la fois les mécanismes internes et externes de la gouvernance des IMF, et qui semblent adéquats avec notre échantillon. La construction de cet indice est justifiée par le fait que l'inclusion de plusieurs variables de gouvernance dans des modèles explicatifs de la performance peut être sujette à un problème de multicolinéarité des variables. Nos résultats confirment les uns et infirment les autres. Nos régressions donnent des statistiques significatives et négatives de l'indice de gouvernance pour le ROA, l'AO, et la TMP. La même estimation nous donne une statistique non significative pour le NEA. Cela veut dire que les IMF arabes de la région MENA, en améliorant leur système de gouvernance, elles risquent de détériorer leurs performances financière et sociale. Nos résultats sont contradictoires avec ceux de Lapenu (2002), qui a examiné le cas de quatre IMF pour trouver que la gouvernance joue un rôle indispensable dans le succès des programmes de microfinance. D'autres auteurs ont trouvé des liens étroits de la qualité de gouvernance et la performance des IMF comme Rock & al. (2001), Labie (2001), et Mersland & Strøm (2007). L'impact négatif de la gouvernance sur la performance des IMF peut être causé par les éléments suivants:

- les effets conjoncturels sur la performance des IMF tels que la stabilité économique et politique des pays et les réformes réglementaires du système microfinancier;
- le manque du professionnalisme des membres du CA;
- les IMF agissent dans un environnement précaire au sein duquel leur système d'information et de contrôle n'est pas toujours développé ;
- la diversité des statuts juridiques des IMF ;
- les charges supplémentaires supportées par les IMF à cause de l'audit et du contrôle.

Tous ces facteurs rendent indispensable l'établissement des mécanismes clairs et efficaces de gouvernance des IMF. La régression montre que la variable taille représente une statistique significative et de signe négatif par rapport au NEA. Cependant, cette variable est significative avec un signe positif par rapport à la TMP. Ce résultat montre qu'il y a un certain arbitrage entre les deux composantes choisies afin de mesurer la performance financière de notre échantillon. Cet arbitrage s'explique comme suit : les IMF qui ont une grande taille, représentent un prêt moyen par emprunteur plus élevé. C'est le même résultat trouvé par Jebli (2012), c'est-à-dire, en augmentant leurs actifs, les IMF visent à servir prioritairement les clients les plus riches qui ont la capacité d'emprunter des montants plus importants induisant des coûts plus faibles par rapport aux petits prêts. Le risque dans ce cas est de dépasser les plus vulnérables et de se concentrer seulement sur le segment le plus rentable (les clients les plus riches qui peuvent emprunter des montants plus importants). Un autre risque peut régner dans le fait de se trouver avec des clients qui empruntent des montants supérieurs à leur capacité d'endettement et de remboursement. Pour le cas de la performance financière, la taille influence positivement l'AO des IMF, et négativement leur ROA. C'est-à-dire en augmentant leurs actifs, les IMF deviennent plus pérennes. Alors que leurs rendements peuvent se dégrader (avec une clientèle moins importante favorisant les plus riches). Nous pouvons dire dans ce cas, qu'afin d'augmenter son actif, l'IMF risque de dévier de sa mission sociale. Nos résultats sont contradictoires avec ceux de H. Tchakoute Tchuigoua (2010), qui prouve que la taille a un effet positif sur les dimensions sociales et financières de la performance des IMF. Les résultats de l'estimation des modèles (1) et (2), montrent que le facteur âge présente des statistiques significatives à 1%. La variable âge affecte positivement le NEA et négativement la TMP, c'est-à-dire la clientèle des IMF étudiées a augmenté avec le temps. Tandis que la taille moyenne des prêts a diminué. Ce résultat concorde avec celui de Jebli (2012), qui a trouvé que les AMC (associations de micro-crédit) marocaines touchent un grand nombre de personnes lorsqu'elles sont plus âgées. Nous pouvons dire alors qu'en s'avançant dans l'âge les IMF arabes de la région MENA deviennent socialement plus performantes. Puisqu'elles ont servi plus de pauvres (une clientèle plus large avec des tailles plus petites de prêts). En ce qui concerne la performance financière, la régression nous montre que l'âge ne joue aucun rôle sur le ROA et l'AO. Ce résultat est contradictoire avec celui d'El Kharti (2013), qui a trouvé que l'âge des IMF est parmi les facteurs essentiels de la performance financière des IMF. Jebli (2012), a constaté que l'ancienneté des AMC marocaines est accompagnée d'une dégradation de leur performance financière. Les résultats de la régression montrent que le portefeuille à risque à 30 jours n'a pas d'effet sur le NEA. Cependant cette variable est positivement significative, avec un faible effet sur la TMP. Cela veut dire que l'augmentation du portefeuille risqué peut engendrer, dans des proportions limitées, l'augmentation du montant des transactions des IMF. En ce qui concerne la PF (performance financière), nous pouvons constater l'existence d'un coefficient négatif et statistiquement significatif associé au portefeuille à risque à 30 jours. Cela signifie qu'une réduction significative du portefeuille à risque à 30 jours dans le portefeuille global des IMF devrait avoir un impact positif sur leur performance financière. Nos résultats corroborent ceux d'El Kharti (2013) et Tchakoute Tchigoua (2010), qui prouvent qu'une influence positive et significative est exércée par la qualité de portefeuille sur la rentabilité des IMF. Nous pouvons dire qu'un faible risque de



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portefeuille peut être accompagné par une rentabilité plus meilleure ce qui peut renforcer la viabilité des IMF. Mersland & Strøm (2009) trouvent des résultats différents, sur la base desquels ils prouvent que les sociétés privées d'IMF sont plus pérennes lorsqu'elles envisagent un risque élevé sur les investissements réalisés (crédits octroyés). Notre estimation montre qu'un portefeuille plus risqué peut limiter les produits provenant de l'octroi de crédits ce qui peut détériorer les fonds à prêter. Cette tendance peut engendrer le rationnement du crédit et l'impossibilité d'accorder aux clients avec durabilité des services de qualité, ce qui peut détériorer les résultats financiers des IMF. Le portefeuille à risque peut être lié inversement avec l'autosuffisance dans le sens où la baisse de rendement de l'actif suite à un rationnement de crédit peut causer un affaiblissement de la portée qui résulte initialement de la massification du microcrédit destinée à la réduction de la pauvreté. Par ailleurs, en appliquant la recommandation du CGAP (1999), selon laquelle jusqu'à la limite de 5 % de PAR>30 le risque s'avère encore maîtrisable. Le portefeuille à risque (PAR 30) est généralement un indicateur déterminant de la viabilité financière des IMF. Ce constat signifie qu'un portefeuille de crédits de qualité est un facteur indispensable de la viabilité financière des IMF. Toutes ces affirmations indiquent que les IMF sont tenues d'accorder plus d'efforts à leur gestion de risques afin d'avoir un portefeuille de crédit sain[14]. En ce qui concerne la productivité du personnel, la régression montre que cette variable a un effet positif sur la performance des IMF. En fait nous avons trouvé que la variable [Emp-ef] est fortement et positivement significative pour le NEA. Néanmoins, cette variable n'est pas significative pour la TMP. Cela indique l'effet important de la variable [Emp-ef] sur le nombre d'emprunteurs des IMF étudiées. Concernant le ROA et l'AO, l'estimation nous a donné des statistiques significatives et positives de la variable [Emp-ef]. Ce résultat indique que la productivité du personnel améliore la performance financière des IMF de notre échantillon. Ce qui infirme les résultats d'El Kharti (2013). Nous pouvons dire alors qu'afin d'améliorer leur performance (sociale et financière), les IMF doivent améliorer la productivité de leur personnel. L'encours crédits désigne le total des sommes encore dues au titre d'un ou de plusieurs crédits qui ne sont pas encore arrivés à l'échéance. Il représente le montant de crédits non recouvrés et qui est encore à la disposition des clients. Il est envisagé parmi les indicateurs usagés dans l'évaluation de l'activité des IMF. Pour le cas de la variable [Encours–Crédits / Total Actif], la régression de nos modèles nous a donné les résultats suivants:

- [Encours–Crédits/Total Actif] représente des statistiques significatives et négatives pour les deux composantes de la performance financière (ROA et AO). Cela veut dire que l'octroi de crédit pénalise l'autonomie financière et opérationnelle de l'IMF ainsi que sa rentabilité.
- Concernant la performance sociale, nous avons trouvé que cette variable influence négativement le NEA des IMF arabes de la région MENA (statistique significative et négative). En revanche, cette même variable a un effet positif sur la TMP. Cela indique qu'en octroyant plus de crédit, les IMF de notre échantillon, recouvre moins de clientèle avec des prêts de taille moyenne plus importante. C'est-à-dire qu'en accordant plus de crédits, ces IMF sont davantage tournés vers les plus riches des pauvres.

Nous pouvons dire alors que l'octroi davantage de crédit, avec d'autres qui ne sont pas encore remboursés, affecte négativement l'autonomie opérationnelle et la rentabilité des IMF arabes ainsi que la portée de leur activité.

## VII. Conclusion

Pour réaliser notre travail de recherche, nous avons retenu un échantillon composé de 18 IMF appartenant aux pays arabes de la région MENA, sur la période [2007-2012]. Notre objectif était de déterminer la qualité de la gouvernance de ces institutions et d'analyser son impact sur leur performance. L'étude montre que les IMF de notre échantillon appliquent certains fondements de la bonne gouvernance, à titre d'exemple le contrôle et la séparation entre les activités du Directeur Général et le Président du Conseil d'Administration. Cependant, L'analyse de l'indice de gouvernance de notre échantillon montre que la qualité du dispositif de gouvernance des IMF arabes de la région MENA est liée étroitement à la forme institutionnelle observée. Nous notons une dégradation de la qualité de gouvernance sur l'ensemble du secteur, ce qui veut dire que ces institutions doivent fournir plus d'efforts pour faire face aux défis d'amélioration de la qualité de leur gouvernance. Ceci relance le débat sur les perspectives de viabilité et de pérennité qui se présentent aux opérateurs de microfinance de la région MENA. Les statistiques descriptives montrent qu'en moyenne, ces IMF sont profitables. En plus, elles sont financièrement viables avec une autonomie opérationnelle moyenne qui dépasse 100%. L'autonomie opérationnelle nous renseigne sur la pérennité de ces IMF. En ce qui concerne les indicateurs retenus pour évaluer la performance sociale (PS), nos résultats indiquent que les IMF de notre échantillon ont une forte portée avec un nombre

[14] El Kharti Lahcen; (2013); « Déterminants de la performance financière des institutions de microfinance (IMF) au Maroc: Analyse empirique » XXIXèmes Journées du développement ; ATM; Université Paris Est Creteil 6; 7 et 8 juin.

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d'emprunteurs actifs important. Cette large clientèle est caractérisée par sa pauvreté. Cette performance est affectée principalement, dans ses deux dimensions (PF et PS), par l'indice de gouvernance, la taille de l'IMF, sa qualité de portefeuille ainsi que sa productivité du personnel. Dans notre cas, nous avons construit un indice agrégé qui regroupe à la fois les mécanismes internes et externes de la gouvernance des IMF, et qui semblent adéquats avec notre échantillon. La construction de cet indice est justifiée par le fait que l'inclusion de plusieurs variables de gouvernance dans des modèles explicatifs de la performance peut être sujette à un problème de multicolinéarité des variables. Nos résultats confirment les uns et infirment les autres. Nos régressions donnent des statistiques significatives et négatives de l'indice de gouvernance pour le ROA, l'AO, et la TMP. La même estimation nous donne une statistique non significative pour le NEA. Cela veut dire que les IMF arabes de la région MENA, en améliorant leur système de gouvernance, elles risquent de détériorer leurs performances financière et sociale. L'impact négatif de la gouvernance sur la performance des IMF peut être causé par les éléments suivants : les effets conjoncturels sur la performance des IMF tels que la stabilité économique et politique des pays et les réformes réglementaires du système microfinancier ; le manque du professionnalisme des membres du CA ; les IMF agissent dans un environnement précaire au sein duquel leur système d'information et de contrôle n'est pas toujours développé ; la diversité des statuts juridiques des IMF ; les charges supplémentaires supportées par les IMF à cause de l'audit et du contrôle. Tous ces facteurs rendent indispensable l'établissement des mécanismes clairs et efficaces de gouvernance des IMF.

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# Annexes

*Annexe 1*

*Tableau 1:* La qualité de la gouvernance des IMF de la région MENA

| IMF | régulation | audit | contrôle | rapport | CA≥7 | DG/P CA | diamants | notation | Total (%) |
|---|---|---|---|---|---|---|---|---|---|
| ONG | | | | | | | | | 59.61 |
| ENDA | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 100 |
| Alkarama | 1 | 1 | 1 | 0 | 1 | 1 | 0 | 0 | 62.5 |
| Attadamoune | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 100 |
| Fondep | 1 | 1 | 1 | 0 | 0 | 1 | 1 | 1 | 75 |
| ABA | 0 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 62.5 |
| Altadamun | 0 | 0 | 1 | 0 | 0 | 1 | 0 | 0 | 25 |
| CEOSS | 0 | 1 | 1 | 0 | 1 | 1 | 0 | 0 | 50 |
| DBACD | 1 | 1 | 1 | 0 | 1 | 1 | 0 | 0 | 75 |
| Lead foundation | 0 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 62.5 |
| SBACD | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 25 |
| Asala | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 75 |
| Almajmoua | 0 | 1 | 1 | 0 | 0 | 1 | 0 | 0 | 37.5 |
| National microfinance foundation | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 25 |
| IFNB | | | | | | | | | 65.62 |
| Faten | 1 | 1 | 1 | 1 | 1 | 1 | 0 | 0 | 75 |
| Alwatani | 0 | 1 | 1 | 0 | 1 | 1 | 0 | 0 | 50 |
| MFW | 0 | 1 | 1 | 0 | 1 | 1 | 0 | 1 | 62.5 |
| Tamweelcom | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 0 | 75 |
| Autre | | | | | | | | | 50 |
| DEF | 1 | 0 | 1 | 0 | 1 | 1 | 0 | 0 | 50 |
| Ensemble de l'échantillon | | | | | | | | | 60.42 |

*Source: Données collectées auprès des IMF, Février 2012.*

*Annexe 2*

*Tableau 1:* Matrice de corrélation (toutes les variables)

| | NEA | TMP | ROA | AO | Ind gov | Age | Taille | Par (30) | Emp-Ef | Enc-créd |
|---|---|---|---|---|---|---|---|---|---|---|
| NEA | 1 (0.05) | | | | | | | | | |
| TMP | -0.34 (0.16) | 1 (0.04) | | | | | | | | |
| ROA | 0.20 (0.51) | -0.30 (0.43) | 1 (0.37) | | | | | | | |
| AO | 0.21 (0.41) | -0.15*** (0.09) | 0.76 (0.38) | 1 (0.01) | | | | | | |
| Ind gov | 0.22*** (0.08) | 0.22** (0.03) | -0.20*** (0.07) | -0.18 (0.22) | 1 (0.00) | | | | | |
| Age | 0.09** (0.03) | -0.05** (0.03) | 0.26 (0.10) | 0.51*** (0.05) | 0.001* (0.00) | 1 (0.14) | | | | |
| Taille | 0.71 (0.61) | 0.076** (0.02) | -0.01 (0.58) | 0.08 (0.11) | 0.23* (0.00) | 0.061** (0.03) | 1 (0.07) | | | |
| Par (30) | -0.16 (0.21) | 0.21 (0.18) | -0.61 (0.41) | -0.42*** (0.06) | 0.05 (0.47) | -0.10*** (0.05) | -0.13 (0.11) | 1 (0.04) | | |
| Emp-Ef | 0.25*** (0.07) | -0.18 (0.11) | 0.59 (0.17) | 0.55*** (0.08) | -0.01** (0.02) | 0.53 (0.33) | 0.098 (0.87) | -0.40*** (0.08) | 1 (0.01) | |
| Enc-créd | -0.13*** (0.06) | 0.14* (0.00) | 0.14 (0.14) | 0.02** (0.04) | 0.06 (0.22) | 0.02* (0.01) | 0.10* (0.00) | -0.12 (0.11) | 0.40 (0.21) | 1 (0.03) |

*Source: Auteur*

*Note:* les valeurs entre parenthèses indiquent les significativités des coefficients de corrélations calculés entre les variables en questions.

*Avec:* * indique la significativité à 1%, ** indique la significativité à 5%, et *** indique la significativité à 10%.



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# Impact of Demonetization 2016 on Venezuelan Economy

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*Abstract-* This article aims to analyze the impact of desmonetization 2016 on Venezuelan economy. The government of Venezuela demonetized the 100 bolívares notes on December 11, 2016 for achieving economic, monetary and price stability, eliminating the smuggling of banknotes, achieving a higher level of efficiency and quality in government management, and eliminating the laundering of bolívares. In this sense, the origin of the measure is presented and the proposed objectives set are explored. It is resulted that the measure generated shortages of cash, changes in production decisions and commercialization of goods, increase in deposits in the Venezuelan banking system, change in the evolution of monetary aggregates, protests in the offices of banking, and a new distribution of the monetary cone. The originality of this work lies in it being pioneer in analyzing the impact of demonetizations implemented in Venezuela and Latin America. It is concluded that the desmonetization represented a monetary shock that altered the evolution of the economy and required complementary measures to mitigate its negative effects on the welfare of the population.

*Keywords:* *economics, demonetization, money, venezuela, monetary policy.*

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# Impact of Demonetization 2016 on Venezuelan Economy

Alberto José Hurtado Briceño [α] & Sadcidi Zerpa de Hurtado [σ]

*Abstract-* This article aims to analyze the impact of desmonetization 2016 on Venezuelan economy. The government of Venezuela demonetized the 100 bolívares notes on December 11, 2016 for achieving economic, monetary and price stability, eliminating the smuggling of banknotes, achieving a higher level of efficiency and quality in government management, and eliminating the laundering of bolívares. In this sense, the origin of the measure is presented and the proposed objectives set are explored. It is resulted that the measure generated shortages of cash, changes in production decisions and commercialization of goods, increase in deposits in the Venezuelan banking system, change in the evolution of monetary aggregates, protests in the offices of banking, and a new distribution of the monetary cone. The originality of this work lies in it being pioneer in analyzing the impact of demonetizations implemented in Venezuela and Latin America. It is concluded that the desmonetization represented a monetary shock that altered the evolution of the economy and required complementary measures to mitigate its negative effects on the welfare of the population.

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## I. Introduction

Demonetization corresponds to a measure taken by governments to reduce the problems generated by the falsification of money, the smuggling of coins and notes and the movement of funds obtained from illegal economic activities (Lahiri, 2016; Ramdurg and Basavaraj, 2016; Rani, 2016; Kotnal, 2017). With short-term results, demonetization is used to legalize funds from the underground economy as well as to identify the size of the formal sector of the economy. It is an economic policy decision that requires a joint effort between government authorities and the central bank to guarantee the deposit and exchange of demonetized money, without harming the purchasing power of its owners (Hurtado and Zerpa, 2019a).

In this sense, is a measure of monetary policy where the circulation of all or part of the pieces of the monetary cone is declared illegal. It usually occurs when there is an economic, political and social crisis that leads to a change of national currency by replacing the old monetary unit with a new one; front high levels of hyperinflation that generate recurrent updates of the monetary cone through the abandonment of the pieces of smaller denomination and its replacement by new notes of greater nominal value; the falsification and money laundering processes; the excessive storage of foreign currencies and national currency in cash; and the recurrent acts of corruption (Hurtado and Zerpa, 2018).

In Venezuela, due to widespread use of price controls, the appearance of parallel markets and the excessive implementation of subsidies, transfers and wage adjustments by the public sector, the Venezuelan economy began to be more informal. This increased the importance of cash, conditioned the decision making of the economic agents and hindered the achievement of the objectives of the economic policy implemented by the Venezuelan government.

Thus, on December 11, 2016, the government of President Nicolas Maduro announced the process of demonetization of the 100 bolívares note, with the purpose of achieving economic, monetary and price stability, eliminating the smuggling of banknotes, assuring the population the enjoyment of their economic rights and access to merchandise, achieving a higher level of efficiency and quality in government management, and eliminating the laundering of bolívares (Hurtado and Zerpa, 2019a, 2019b). In a context of stagnation of productive activity, generalization of parallel markets, shortage of cash and high inflation, this demonetization was a monetary shock measure with economic, political and social implications for the entire country.

In this sense, the article aims to analyzed impact of demonetization 2016 on Venezuelan economy. For this, the proposed objectives set are explored. In the next section the origin of the measure is presented, and the effects of the demonetization are identified. The results obtained by this government policy are presented below and, in the last section, the conclusions are identified.

## II. Origin of Demonetization in Venezuela

On December 11, 2016, the Venezuelan government announced the demonetization of the 100

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bolívares bills issued by the Central Bank of Venezuela (BCV, by its initials in Spanish). To this end, it established that, within 72 hours following the publication of Decree No. 2,589, of the state of exception and economic emergency, in the Extraordinary Official Gazette No. 6,275 of the Bolivarian Republic of Venezuela, the highest denomination note of the Venezuelan economy was declared illegal to be used in the exchange for goods and services. In this way, it represented a measure taken without prior notice, which was made known insisting on the need to address to the country's monetary problems.

As complementary measures to the announcement of the demonetization, it was established that the 100 bolívares banknotes would have a validity of 72 hours to be deposited or exchanged for legal tender banknotes in the offices of banks owned by the public sector. Demonetized banknotes that were not exchanged or deposited within the established period of time were declared without liberating power, that is, without the capacity to be used as a means of payment, but their owners had 10 additional banking days to exchange them at the ticket offices set up for this purpose by the BCV. The one hundred bolívares bills presented to the BCV and public banks were exchanged for their entire nominal value in pieces of lesser denomination of the current monetary cone. The BCV was in charge of the application and execution of the demonetization measure. In this sense, the Venezuelan issuing entity had assumed the commitment to put into circulation as of December 15 a new family of paper money to expand the current monetary cone, which included the issuance of five new bills of greater denomination: 500, 1,000, 2,000, 5,000, 10,000 and 20,000 bolívares. And the country's land, air and maritime borders were closed during the period given for the circulation of the 100 bolívares note, with the intention of preventing the return of the funds in that denomination obtained from illegal activities to Venezuela.

## III. Objectives of Demonetization in Venezuela

Demonetization was presented as a policy capable of achieving a multiplicity of objectives. In this order, the Venezuelan government and the BCV set themselves the main objectives: a) Guarantee and defend economic stability, ensuring the monetary and price stability of the Venezuelan economy; b) Eliminate the smuggling of banknotes, the economic war, the exchange distortion and the induced inflation that sectors of the population were using to destabilize the Venezuelan financial system and undermine the quality of life of the inhabitants of this country; c) Ensure that citizens enjoy economic rights and free access to goods and services, as well as the progressive satisfaction of individual and collective needs; d) Achieve greater efficiency and quality in government management aimed at restructuring the Venezuelan economy; and e) Eliminate the laundering of bolívares for illegal activities from the border with Colombia (Bolivarian Republic of Venezuela, 2016; Hurtado and Zerpa, 2019b).

In relation to these objectives, since the announcement of the demonetization of the 100 bolívares note, the Venezuelan authorities insisted on demonstrating the negative effects of the smuggling of coins and goods, as well as counterfeiting and money laundering at the borders between Colombia and Brazil with Venezuela. In this regard, the demonetization sought to eliminate the nominal value of all 100 bolívares bills located outside the country; generate a drop in the demand for cash at the border in order to recover the purchasing power of the bolívar; and eliminate the formation of the parallel bolívar-dollar exchange rate.

## IV. Effects of Demonetization in Venezuela

Given the speed of the measure, the short, medium and long term effects of the demonetization of the 100 bolívares note were not long in coming in the Venezuelan economy. In this sense, it highlights the impact of politics on the daily dynamics of economic agents, causing changes in the consumption, production and savings decisions of Venezuelans. And the change in the government's position stands out due to the initial results of the measure that allowed to solve the liquidity difficulties of the Venezuelan public sector and to reduce the amount of bolívares destined to illegal activities.

The main effect of the demonetization policy was the shortage of cash as a consequence of the outflow of 77% of the circulating money in the country. This situation caused consumers to advance the purchase of goods and services in order to get rid of the 100 bolívares banknotes, which in turn generated two effects: the reduction of savings of unbanked economic agents and the increase in inflationary pressures existing in the economy. The decisions of production and commercialization of goods in the country were modified due to: 1) Lack of cash that raised the costs of the productive activities highly dependent on this means of payment and 2) High uncertainty about what to do with the demonetized notes received in the commercial exchange. In this sense, many commercial establishments remained closed due to the unwillingness of their owners to accept 100 bolívares bills during the duration of the measure.

A stage began, which still continues in the country, of price discrimination of raw materials, inputs and goods based on the difference in the payment



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system to be used, resulting in the identification of at least two prices per product, one in cash and another using a debit card. In this regard, the price of products was considerably lower if they were paid in cash and with banknotes other than 100 bolívares compared to the price paid using demonetized notes, debit cards, credit cards or electronic transfers. In this way, demonetization made it difficult to identify the true exchange value of goods in the country, undermining the bases of the Venezuelan economy's pricing system and encouraging the upward trend in inflation.

The deposits of public and private banks in the Venezuelan banking system increased as a result of the government's decision to give the banks belonging to the Venezuelan government the exclusive right to exchange and deposit 100 bolívares notes, a decision that was later extended to private banks. The limited installed capacity of banking institutions to absorb the high demand for their services led them to restrict deposits per client, which generated the appearance of managers to deposit and exchange demonetized banknotes in the formal banking system. The proximity of the expiration of the 72-hour term given by the government to demonetize the highest denomination banknote in the economy provoked implausible behavior on the part of economic agents, among which they are: a) People who charged commissions to deposit funds in banks in an environment where all customers needed to go to the bank and, therefore, the costs of this activity were high; b) Savers who threw their notes into the air, throwing away their savings, due to the impossibility of depositing all their resources in banking institutions; c) People who decided to bury their resources, putting under the ground boxes with notes of 100, to avoid participating in the vortex of stress, uncertainty and speculation that became the day of demonetization; and d) Fall in the nominal value of the demonetized banknote, in this way, the funds expressed in 100 bolívares notes were exchanged up to 40% less than their nominal value for coins and bills of other denominations in the informal financial system, that is to say, during the exchange of a 100 bolívares notes only 60 bolívares were given in paper currency of other denominations.

In terms of the dynamics of productive activity, both the agricultural sector and the services and manufacturing sectors faced changes in the prices of their raw materials and inputs depending on the nature of the payment system used: in cash or with cards. They also evidenced the paralysis of their activities during December 12, 13, 14 and 15, 2016 as a consequence of the uncertainty about the legality of receiving 100 bolívares banknotes and the uses to be given to the funds collected in that denomination.

Another effect of demonetization was the reduction in consumption, due to the shortage of cash sectors of the economy such as transport, marketing of agricultural goods and food, dependent on payment with coins and banknotes, saw a reduction in sales in the first days of the exit of circulation of 100 notes, a situation that was reversed as the use of alternative payment systems became widespread. In that order, the use of electronic payment systems, debit cards, credit cards, checks and other options for the purchase of products without the need for cash increased.

In the face of the liquidity shock caused by the government measure, there were also protests in the offices of banking institutions and the regional headquarters of the BCV, looting of businesses and trades, vandalism and a shortage of basic necessities due to the fear of their commercialization using demonetized banknotes. Due to the weak banking infrastructure and the continuous telecommunications failures in the country, the installed capacity of the public and private banks was exceeded. Even working until midnight and with clients in front of the banking entities, they were unable to attend all the deposit requests, which generated discomfort and confusion among the population. In the communities without banking entities, small cities and towns of the country, where all commercial activities were carried out in cash, there was a paralysis of productive activity and commercial exchange due to the fact that economic agents could not deposit their funds in demonetized banknotes or cancel their commitments with suppliers. With respect to the impact on the commercialization and distribution of products, from hours before the deadline for the circulation of the 100 note to Friday, December 16 and Saturday, December 17, 2016, looting was recorded throughout the national territory, highlighting the events that occurred in the states of Sucre, Delta Amacuro, Anzoátegui, Trujillo, Mérida, Barinas, Apure, Táchira, Zulia and Bolívar (Hurtado and Zerpa, 2019a).

As a consequence of not being able to deposit all of the paper money, coupled with the inconvenience and anguish of losing their funds or falling into the hands of informal financial operators, the population protested and then attacked the commercial sector. These acts caused the paralysis of the commercial sector, closure of establishments, losses to their owners and unemployment. Similarly, protests and road closures occurred in the towns closest to the border with Colombia and Brazil, although within the framework of complementary measures to demonetization, it was stipulated that the border crossings be closed to prevent the entry of funds in 100 notes from abroad, the low level of bancarization of the border populations, the inability of the banks to serve all the population that intended to deposit their funds and the delay in the



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circulation of the new banknotes generated tension and protests in the border populations causing the closure of the border during and after the measure was executed. In this context, Oliveros and Oliveros (2016) consider that the untimely withdrawal of the highest denomination note caused: 1) Greater control of available money, 2) Collapse of the payment system, 3) Incapacity of the BCV to, in such a short term, remove the 100 bolívar notes from circulation and incorporate the new pieces of the monetary cone into the economy, and 4) Diverted attention from the country's problems.

The measure also led to the seizure abroad of more funds in banknotes of 100. Because the largest Venezuelan denomination paper currency is printed on high-quality paper and its face value is negligible in the face of the country's inflationary reality, it is attractive for counterfeiting banknotes, as well as for mobilizing resources from drug trafficking, illegal currency exchange and other underground economic activities. In this sense, since 2015 there have been reports of the seizure of large quantities of 100 bolívares banknotes outside the national territory, highlighting: a) Detention of persons of various nationalities trying to obtain abroad large quantities of bolívares bills; b) Seizure, on January 6, 2016, of 140,000 of 100 bolívares in the border Brazil-Venezuela; c) Seizure of more than 30 million bolívares between February and April 2016 by Brazilian authorities in Roraima; and d) Capture, on July 1, 2016, of two Ukrainian and Russian citizens in Manaos trying to airlift 7.3 million in 100 bolívares notes (Pimentel, 2016). After the demonetization has been implemented, there are reports of Venezuelan banknotes traffic in at least three countries: Colombia, Brazil and Paraguay (Hurtado and Zerpa, 2019a). These operations account for the resources expressed in bolívares in the hands of foreign economic agents and the alternative uses of Venezuelan paper money in the illegal economy.

Similarly, the Venezuelan government managed to resolve the liquidity difficulties of its owned banks and after the 72-hour demonetization deadline, decided to extend the measure for two more weeks until January 2, 2017, in order to collect paper money. The impact caused by the extension was not as expected, there was still illegal money in circulation, queues continued at banking institutions to deposit or exchange the 100 banknote, economic agents continued to be uncertain about what to do with the demonetized note, all this in an environment of slowness in the circulation of the new notes and in the adaptation of banking services to the new pieces of the monetary cone, which together with the shortage of cash and high inflation led the authorities to give up to 13 extensions to the date for the withdrawal of circulation of the 100 bolívar note (see Table 1), extending the demonetization process for more than one year and eight months until the execution of the monetary reconversion measure or reexpression of the country's monetary system unit scheduled for June 4, 2018, a measure that was later postponed to August 4 of the same year. Due to the deepening of the country's macroeconomic problems, the financial difficulties of the national executive and the limitations for the import of all the pieces of the new monetary cone, the government postponed the start date of the monetary reconversion to August 20, establishing new guidelines for its implementation.

In this sense, the incomplete demonetization of the 100 note caused widespread discontent among the population due to the high costs that people had to assume to maintain and use all the funds accumulated in the illegally decreed note; it caused changes in the consumption, production and investment decisions of Venezuelans who had to migrate to payment systems that allow cashless transactions; it did not eliminate the incentives for extracting the 100 bolívares banknotes, as well as the new larger denomination notes, from the national territory to the border; it caused a change in the confidence of Venezuelans in the local currency and in their perception of the role of the authorities and decisions taken by the BCV. This marked the beginning of a period of high uncertainty in the country's economic activities and deterioration in the indicators of the population's well-being and quality of life.



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*Table 1:* Schedule of extensions to the 100 bolívar banknote.

| Extension | New Date | Decree/ Official Gazette |
|---|---|---|
| 1st | January 2, 2017 | Decree No. 2,610 in Extraordinary Official Gazette No. 6,278 of December 17, 2016 |
| 2nd | January 20, 2017 | Decree No. 2,646 in Official Gazette No. 41,063 of December 29, 2016 |
| 3rd | February 20, 2017 | Decree No. 2,671 in Official Gazette No. 41.075 of January 16, 2017 |
| 4th | March 20, 2017 | Decree N ° 2,722 in Official Gazette N ° 41.098 of February 17, 2017 |
| 5th | April 20, 2017 | Decree No. 2,756 in Official Gazette No. 41,116 of March 17, 2017 |
| 6th | May 20, 2017 | Decree No. 2,819 in Official Gazette No. 41,133 of April 18, 2017 |
| 7th | July 20, 2017 | Decree No. 2,875 in Official Gazette No. 41,154 of May 19, 2017 |
| 8th | September 20, 2017 | Decree No. 2,993 in Official Gazette No. 41.196 of July 19, 2017 |
| 9th | November 20, 2017 | Decree No. 3,086 in Official Gazette No. 41,240 of September 20, 2017 |
| 10th | January 20, 2018 | Decree N ° 3.169 in Official Gazette N ° 41.282 of November 20, 2017 |
| 11th | March 20, 2018 | Decree No. 3,249 in Official Gazette No. 41,323 of January 18, 2018 |
| 12th | May 20, 2018 | Decree No. 3,328 in Official Gazette No. 41,364 of March 20, 2018 |
| 13th | Until the circulation of the pieces of the current monetary cone and its replacement by the coins and notes of the sovereign bolívar | Decree No. 3,430 in Official Gazette No. 41,399 of May 17, 2018 |

*Source: Prepared by the authors.*

## V. Impact of Demonetization on Venezuelan Economy

At present there are no official documents available where the Venezuelan government and the BCV give an account of the results obtained, in this regard there are only press releases and journalistic reviews describing the words of the President of the Republic and officials of the issuing entity. In this sense, the following section delves into the impact of the implemented monetary policy presenting, on the one hand, the official description of the results obtained and, on the other hand, analyzing the changes in the macroeconomic variables before, during and after the measure that took the 100 bolívar note out of circulation.

The first result of the demonetization was to remove from circulation 4.3 billion 100 bolívar banknotes, with a value of 430 billion bolívares. In declarations by the President of the Republic given in the framework of the presentation of the balance of the measure and the first extension of the validity of the 100 bolívar note, the amount collected allowed the national banking system to go from having an availability of 5% of the pieces of the demonetized note before the measure to accumulate more than 70% of the units of that note in the three days following the presentation of

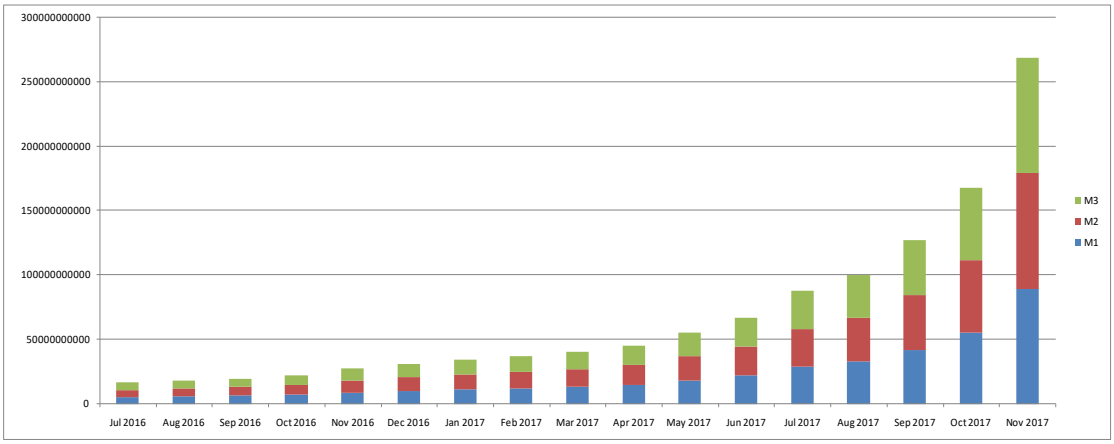


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the decree. The impossibility of timely collecting the remaining 30% of banknotes in the hands of economic agents who could not access the banking system to deposit or exchange their funds, as well as the insufficient entry into circulation of the new banknotes as part of the expansion of the monetary cone led the government to extend for the first time the date for withdrawal of circulation of the 100 bolívar banknote.

The government's achievement thus presented made it possible to correct the liquidity problems of public and private banks, which after extending the deadline for withdrawal of the demonetized banknote were able to use the 100 bolívar notes to cover their commitments to their customers. The adaptation of the ATMs to the new pieces of the monetary cone and the circulation of the new banknotes did not correspond to the urgency of the demonetization measure, deepening the effects of the cash shortage on the daily dynamics of Venezuelans.

As a result of the demonetization measure, two effects were achieved in the evolution of the monetary aggregates: firstly, its growth speed slowed down from December 2016 to February 2017 and, secondly, it began a phase of expansion of the different financial assets circulating in the national economy until reaching 25.38% monthly between March and November 2017. Both M1 and M2 and M3 showed an increase of 22.74% between October and November 2016, a rate considered high if one takes into account that the average of the previous months was 10%, a situation reached due to measures to stimulate consumption, increase wages and salaries, advance payment of bonuses at the end of the year (bonuses and profits), as well as the increase in transfers from the public sector via social missions (Hurtado and Zerpa, 2016a, 2016b). In December 2016 cash in public hands, demand deposits and transferable savings deposits increased 13.28% and in January 2017 grew 10.61%, that tendency to decrease in the rate of growth of M1 continued until February 2017 when it reached 8.36%. Starting in March 2017 all monetary aggregates grew at rates above 10%, reaching levels above 60% between October and November 2017. As Figure 1 shows, Venezuela's monetary aggregates did not evolve in a stable manner during and after the demonetization process, mainly because of the government's interest in stimulating the economy through expansionary fiscal policy. This strategy increased the demand for coins and notes, and made the government put more money in circulation, a situation that in a context of stagnant productive activity and high prices accelerated the spiral of galloping inflation that Venezuela lived for years.




*Source: BCV (several years).*

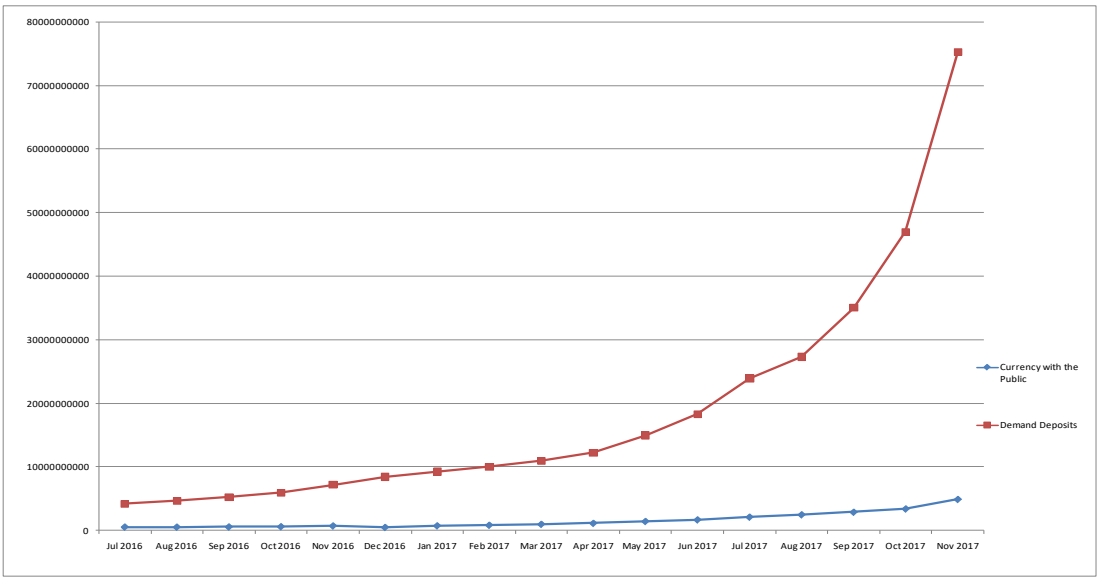
*Figure 1:* Evolution of monetary aggregates Venezuela

In this context, the gap between the demand for deposits and the demand for coins and notes by the Venezuelan population widened. Until October 2016 the demand for deposits was 4,302 million bolívares on average per month, higher than the demand for cash, from November of that year the gap grew above 6,000 million bolívares, and after the demonetization measure, in view of the uncertainty about what to do with the funds in notes of 100, the demand for deposits in the Venezuelan economy exceeded, on average every month between December 2016 and November 2017, 21,417 million bolívares to the balances that the population maintained in coins and notes. This implies the preference of Venezuelans to maintain their funds in the banking system, the immediate response of the population to the scenario of cash shortages caused by the outflow of the 100 bolívar note, and the mechanism preferred by the government to maintain the expansion of public spending. While coins and bills in the hands of the public only represented a monthly average of 1,817 million bolívares between November 2016 and November 2017, funds in deposits of the population



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reached a monthly average of 23,099 million bolívares in the same period (see Figure 2). This result shows that Venezuela is a country of low dependence on cash and that demonetization only increased the gap between the funds that the population maintains in cash and as deposits in banks.




*Source: BCV (several years).*

*Figure 2:* Evolution of cash in the hands of the public and demand for deposits Venezuela

As for the payment systems used in the economy, during the month of September 2016, credit cards operating under the Visa, Mastercard, American Express and Diners Club franchises, with national and international coverage were accepted at 432,845 points of sale, located in 349,229 affiliated businesses in the country, and 38,680 additional establishments only received the American Express card from the Banco Occidental de Descuento. Debit cards issued by public and private banks for national use only were received at 432,728 point-of-sale terminals, installed at 349,111 affiliated companies and 9,917 ATMs (Bolivarian Republic of Venezuela, 2016). After demonetization began and despite the liquidity shock generated, both the number of point of sale terminals for credit and debit cards and the number of ATMs distributed throughout the country decreased as a result of the low availability of point of sale terminal equipment in the country's main banks, limitations on the sector's access to foreign exchange to guarantee the purchase of this technology abroad, the telecommunications system crisis that limits the use of telephony and data services throughout the national territory, and disincentives to investment in the banking system, all of which prevented the high demand for this type of services from being met. In January 2017 credit cards were used through 431,813 points of sale located in 336,634 companies, debit cards were received in 431,813 point of sale terminals installed in 336,634 affiliated businesses, and 9,767 operating ATMs were reported (Bolivarian Republic of Venezuela, 2018). That is, 1,032 points of sale and 12,595 fewer companies to provide credit card service, 915 points of sale and 12,477 affiliated companies that ceased to provide debit card service, and 150 ATMs ceased to operate compared to September 2016. This influenced the evolution of the demand for products, brought about the appearance of queues for the use of available points of sale, and became an incentive for price differentiation, as outlets with points of sale established higher prices for their products due to the opportunity they gave their customers to pay with debit or credit cards.

Thus, the shortage of cash, the high inflation and the reduced number of alternative payment systems led the Venezuelan consumer to make greater use of point-of-sale terminals, equipment that saw its operations grow by 41% between June 2016 and June 2017, where 218,561,775 and 308,172,103 operations, respectively. Within this framework, debit cards were used more than credit cards; the former went from 185,777,509 transactions in June 2016 to 261,946,288 in June 2017; and the latter grew from 32,784,266 transactions in June 2016 to 46,225.815 in June 2017 (SUDEBAN, 2017), which demonstrates the population's preference for cash payment instead of debt, the use of debit cards as a substitute for cash, and traders' predilection for the immediate transfer of funds to avoid the loss of purchasing power of resources as a result of inflation.



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Despite the demonetization measure, the 100 note maintained its preponderance in the Venezuelan economy, due to the increase in its issuance and the increase in its role within the cash in circulation. Between 2015 and 2016 the number of 100 banknotes increased by 116.1%, while between 2016 and 2017 it increased by 35.9%, at a time when the amount of money in circulation grew by 101.5% and 37%, respectively, during each period (see Table 2). In this context, by 2015 the 100 banknote represented 71.07% of the money in circulation, while during 2016, despite the demonetization, this paper increased to 76.19%. With the exception of the 50 bolívar note, all other pieces of the monetary cone in Venezuela have a marginal weight in the distribution of banknotes in the economy. This is a consequence of high inflation, the preference of the national executive for the issuance of the highest denomination notes as a mechanism to facilitate the population's access to funds allocated via transfers, the need for economic agents to reduce their transaction costs through the use of 50 and 100 bolívar notes, the high cost to the population of using the lowest denomination coins and notes, and the high demand for high denomination pieces of the monetary cone to carry out transactions in parallel markets for goods and services. In 2017 the expansion of the monetary cone materializes, bringing with it seven new bills of greater denomination and generates a new distribution in the paper of each piece of the monetary cone. The 100 bolívar note stands out as the piece of greatest circulation representing 22.05% of the cash, followed by the new 10,000, 100,000 and 5,000 bolívar banknotes that represented 14.53%, 14.35%, and 12.25%, respectively during that year. These results show that the demonetization measure did not manage to take the 100 note out of circulation, nor did it diminish its importance in the economy.

*Table 2:* Distribution of banknotes in circulation Venezuela

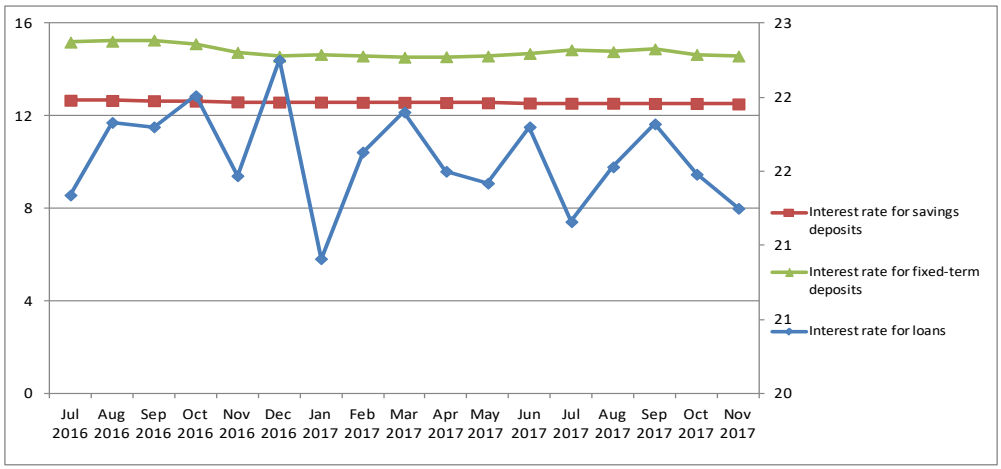
| Banknotes | 2015 | 2016 | 2017 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|
| 2 | 16,082,594.81 | 21,196,621.04 | 20,692,687.97 | 0.44 | 0.29 | 0.06 |
| 5 | 41,574,210.47 | 47,402,355.54 | 53,037,956.64 | 1.13 | 0.64 | 0.15 |
| 10 | 76,400,464.54 | 92,100,172.94 | 119,665,678.40 | 2.08 | 1.24 | 0.34 |
| 20 | 175,259,308.48 | 207,584,572.39 | 260,915,950.37 | 4.77 | 2.81 | 0.75 |
| 50 | 752,578,789.10 | 1,393,046,563.77 | 1,904,132,134.17 | 20.50 | 18.83 | 5.48 |
| 100 | 2,608,908,597.03 | 5,637,112,332.40 | 7,659,511,485.10 | 71.07 | 76.19 | 22.05 |
| 500 | - | - | 1,687,094,977.50 | - | - | 4.86 |
| 1,000 | - | - | 3,277,562,505.00 | - | - | 9.43 |
| 2,000 | - | - | 1,223,827,080.00 | - | - | 3.52 |
| 5,000 | - | - | 4,257,359,820.00 | - | - | 12.26 |
| 10,000 | - | - | 5,047,640,350.00 | - | - | 14.53 |
| 20,000 | - | - | 4,243,474,980.00 | - | - | 12.22 |
| 100,000 | - | - | 4,984,812,300.00 | - | - | 14.35 |
| **Total** | 3,670,803,964.44 | 7,398,442,618.09 | 34,739,727,905.16 | 100 | 100 | 100 |

*Source: BCV (several years).*

Another result of the demonetization was the weakening of interest rates received by bank customers for their savings and fixed-term deposits, together with the abrupt increase in the interest rate charged by banks for lending. Local money market passive interest rates, what people receive for depositing their resources in banks, have been aligned to a downward bias since December 2016 as a result of the management of the BCV and the demonetization measure of the 100 note. Thus, between July and November 2016 the banks paid for funds in savings deposits and fixed-term deposits, on average, 12.64% and 15.10% respectively, while during the execution of the demonetization measure only paid 12.59% and 14.57% (December 2016), this trend was maintained during 2017 for savings deposits that ended up paying, on average between January and November, 12.55% monthly return to Venezuelan savers; while the interest rate for fixed-term deposits showed slight increases until reaching an average monthly balance of 14.67% in the same period. These results account for a strategy of disincentive to savings and stimulus to consumption. On the other hand, the interest rate of loans granted by banks grew 3.63% between November and December 2016, as a consequence of the high demand for money evident during demonetization, which made the financing of economic agents more expensive (see Figure 3). This situation reversed during 2017, when the monthly rate charged by banks averaged 21.49% between January and November. This result was due to expectations about the new pieces of the monetary cone, their incorporation into the economy and the frequent extensions to the deadline for the circulation of the 100 note, all of which reduced the pressure on the demand for money and reduced the cost of borrowing.



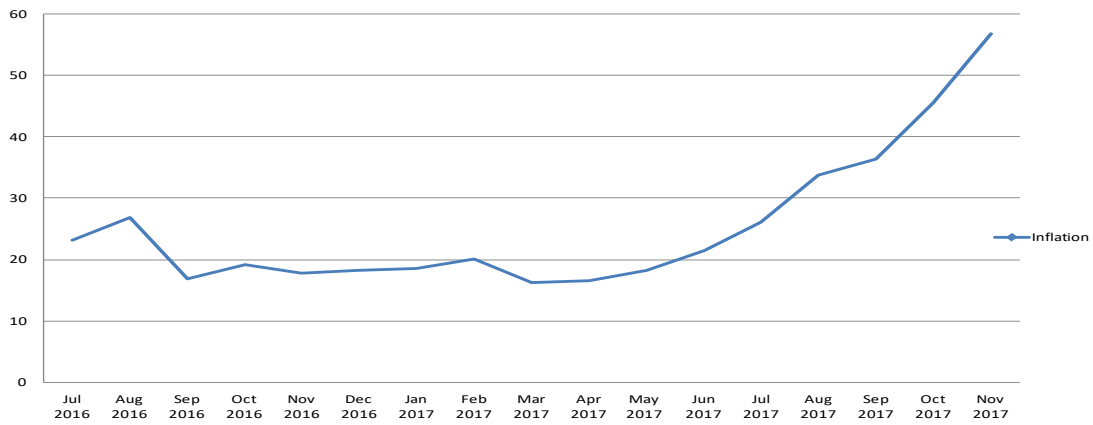
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*Source: BCV (several years).*

*Figure 3:* Evolution of the weighted average interest rate

The demonetization slowed the rate of inflation growth, but it did not prevent prices in the economy from continuing to rise, nor did it facilitate the strengthening of the national currency. Thus, Venezuelan inflation reached an average monthly growth rate of 17.98% between December 2016 and May 2017, slightly below the average monthly price variation of 20.78% evidenced between July and November 2016, as a consequence of the liquidity shock caused by the demonetization and the decrease in the growth rate of monetary aggregates (see Figure 4). This result ended up being much lower than the behavior of month-to-month prices between June and November 2017, where it reached a monthly average of 36.6% and exceeded for the first time the threshold of 50% per month, this as a result of the government's strategy of higher public spending expressed in recurrent increases in wages, salaries, bonuses and pensions, which pushed up the amount of money in circulation. In this order, in the face of a stagnant economy, the government's lack of interest in restructuring the tax system, the scarce recovery of the international marker of the price of Venezuelan oil, and the high cost of external and internal indebtedness, led to the printing of new coins and notes becoming the main source of government financing, causing greater price volatility. Thus, Venezuela abandoned its long history of galloping inflation that began in 1983 (Hurtado and Zerpa, 2017) and began to go through a hyperinflationary cycle. According to data from the Venezuelan National Assembly, in 2018 inflation closed at 1,698,488.2%.




*Source: National Assembly of Venezuela, own estimates (several years).*

*Figure 4:* Inflation

And with respect to the impact of demonetization on productive activity, the Venezuelan economy fell in 2016 for the third consecutive year. This climate of recession was a consequence of the government's strategy of nationalization of companies; temporary occupation of productive units; sanctions and closures of business organizations; generalized use of price controls; strict control of the exchange rate that



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was maintained for more than 10 years, causing an overvaluation of the currency, encouraging imports and limiting access to imported raw materials; rigid control of quantities; continuous increases in public spending; and a drop in the international price of Venezuelan oil. All this forced the paralysis of the productive activity and generated the closing of companies, a decrease in the number of available jobs and an increase in the scarcity of goods and services. This result can be seen in the fall of 3.89% and 6.22% in real gross domestic product during 2014 and 2015, respectively (IMF, 2018). The recessive environment thus recognized deepened in 2016 due to the liquidity shock implied by the exit of the 100 bolívar note from circulation, closing that year with a fall of 16.46% (IMF, 2018) in productive activity, that is, the production of goods was reduced three times more compared to the fall evidenced during 2015. The effects of demonetization, mainly those generated by the successive extensions to the exit of the demonetized banknote, the delay in the incorporation of the new pieces of the monetary cone, the delay in the adaptation of the banking system's technology to the highest denomination notes, and the validity of incentives for the demand for cash in parallel markets, had an impact on the Venezuelan economy, which during 2017 contracted by 14% (IMF, 2018), thus ending for the fourth consecutive year in recession.

## VI. Conclusions

Given the existence of money laundering processes, the smuggling of banknotes, the excessive storage of national currency in cash, and evidence of prices volatility in the Venezuelan economy, the Nicolas Maduro government decided on December 11, 2016 to take out of circulation 100 bolívar notes. This policy represented a monetary shock that altered the evolution of the economy and required complementary measures to mitigate its negative effects on the welfare of the population.

Thus, the demonetization generated in the Venezuelan economy: 1) cash shortage as a consequence of the outflow of 4,300 million banknotes, 77% of the money circulating in the country; 2) change in production decisions and commercialization of goods, due to increased costs and uncertainty about what to do with demonetized banknotes; 3) increase in deposits in the Venezuelan banking system; 4) greater use of electronic payment systems, debit cards, credit, checks and other options for the purchase of products without the need for cash; 5) protests in the offices of banking institutions, regional headquarters of the BCV, and acts of vandalism against the commercial sector; 6) greater seizure abroad of funds expressed in notes of 100; 7) change in the evolution of monetary aggregates, which grew at a lower rate between December 2016 and February 2017, and then entered into an expansion phase from March 2017 to the present; 8) a rise in the difference between the demand for deposits and the demand for coins and notes; 9) despite the demonetization, the issuance of the 100 note increased and its role within the cash in circulation rose; 10) the passive interest rate decreased and the active interest rate expanded; 11) the inflation growth speed slowed down, a result that was reversed as of March 2017; and 12) the fall in productive activity increased.

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# An Empirical Test of the Agency Theory in Corporate Governance of Saccos in Uganda

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*Abstract-* In a corporation, management is employed by owners for specified functions from which utility of owners and management is to be derived. While executing their roles and obligations, management may consider fulfilling their interests at the expense of owners' interests and vice versa. This results into agency problems. This study tests the relevance of the agency theory and examines whether existing governance mechanisms and ownership structure address agency problems in Savings and Credit Cooperatives (SACCOs) in Uganda. To accomplish this, a mixed research (both quantitative and qualitative) design is used. Self-administered questionnaire and personal interviews about: utility of owners and management, and governance mechanisms and ownership structure are administered onto the respondents-key informants-selected through stratified sampling of SACCOs in Uganda. Respondents' perceptions about utility levels of owners and management, and governance mechanisms and ownership structure within the studied SACCOs; are analyzed using a 5-point Likert scale.

*Keywords:* *corporate governance; agency theory; saccos in uganda.*

*GJMBR-B Classification:* *JEL Code: G34*




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# An Empirical Test of the Agency Theory in Corporate Governance of Saccos in Uganda

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*Abstract-* In a corporation, management is employed by owners for specified functions from which utility of owners and management is to be derived. While executing their roles and obligations, management may consider fulfilling their interests at the expense of owners' interests and vice versa. This results into agency problems. This study tests the relevance of the agency theory and examines whether existing governance mechanisms and ownership structure address agency problems in Savings and Credit Cooperatives (SACCOs) in Uganda. To accomplish this, a mixed research (both quantitative and qualitative) design is used. Self-administered questionnaire and personal interviews about: utility of owners and management, and governance mechanisms and ownership structure are administered onto the respondents-key informants-selected through stratified sampling of SACCOs in Uganda. Respondents' perceptions about utility levels of owners and management, and governance mechanisms and ownership structure within the studied SACCOs; are analyzed using a 5-point Likert scale. From a sample of 252 SACCOs with minimum of 10 years of experience; by regional concentration; majority SACCOS (40%) are in Western Uganda followed by Central region (29%), Eastern (20%) and lastly Northern region (11%). Over 78% have membership of over 1000 shareholders. By level of education, majority management board members (65.1%) have a minimum of degree as academic qualification; with male gender dominance (91.7%).The computed average welfare index for SACCO owners is 4=disagree (=bad welfare). The computed average welfare index for SACCO management is 2.7=agree (=good welfare). This shows divergence in achieving agent-principal objectives; a signal to existence of agency problem against the SACCO owners. Examining whether governance mechanisms and ownership structure impacts on SACCOs' problems, five corporate governance mechanisms: board size, CEO/chairman duality, independence of the board, remuneration of the board, and presence of an audit committee are used in evaluating probability of having agency problems within SACCOs. Experience/age and size of the SACCO are used as control variables. On corporate governance mechanisms, generally SACCOs have: less CEO duality, bigger size of the board (above 6 members), more non-executive directors, higher board remuneration, and majority have audit committees. The marginal effects from the probit regression indicate that mechanisms that have reduced agency problems with in SACCOs are: existing Board remuneration, board size, independence of non-executive directors, and presence of audit committees.

*Keywords: corporate governance; agency theory; saccos in uganda.*

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## I. Introduction and Motivation

It is generally impossible for owners (principals) in a modern public firm to be charged with responsibility for corporate operations. Hence, they delegate agents to manage operations in their interests. Naturally in this milieu governance problems such as conflicts of interest occur, particularly if shareholders are disappointed by their return on investment. Principals must weigh the costs of monitoring and controlling agents (agency costs) against the costs they are likely to incur from negative managerial behaviors in the absence of efficient monitoring and control. Thus, corporate governance issues arise due to the necessity of counteracting agency problems (Aguilera *et al.,* 2012) and fundamentally from shareholders' attempts to protect themselves from the expropriation of their wealth Caylor & Brown, 2006).Corporations generally have an organizational framework wherein there is a fundamental separation of ownership and control between principals and agents. In the relationship between them, the owners (principals) hire managers (agents) to run the firm in their best interests, compensating the latter for their efforts, generally in pecuniary form like salary and bonuses (Marashdeh, 2014). While executing their roles and obligations, conflicts of interest can arise due to the divergence of the interests of managers and shareholders. All these precepts rotate around the premises of the agency theory. Would the existing corporate governance mechanisms be blamed for the woes of SACCOs? Following agency theory, this study investigates the possible governance mechanisms (dispute-avoidance approaches) that can mitigate conflicts within SACCOs in Uganda. The significance of this paper is to help SACCOs work on their corporate governance mechanisms for better performance.

## II. Back Ground

In Uganda, Savings and Credit Cooperatives SACCOs are a category of micro finance institutions MFIs. The financial position of SACCOs was heightened by the launch of the government's "Prosperity for All" program intended among other interventions to address inadequate access to financial services. This program is designed to use a SACCO-per sub-county strategy to channel both agricultural and commercial loans at below market rates to borrowers. The government



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mandated that all members be leaders in the SACCO through democratically elected governance. In Annual General Assembly, members elect the board (5-9 members) and board committees. First is the supervisory-audit committee (composed of 2-3 members) is also elected by the general assembly. Management and staff is appointed and supervised by the Board (Kyazze, 2010).

There is regional disparity in formation and success of SACCOs in Uganda. Western Uganda, particularly Ankole region boasts over 300 vibrant SACCOs[i].Obara (2014) thinks that a more enlightened population and vibrant economic activities in Western and Central regions have contributed to the relative success of SACCOs in there as opposed to the Northern and Eastern regions. The Sunrise *(2017)* finds many SACCOs in western Uganda with more developed innovative products than other regions. Sadly, across the country, employees of different SACCOs have exploited loopholes in the law to mismanage or steal members' money. They sometimes lend to themselves at no cost, to relatives, or exaggerate the costs of different activities. This has made some collapse fully. Obara (2012) attributes failure of SACCOs in Uganda to: first, illiterate board committee members who lack basic skills to effectively supervise operations. Second, collusion: where there are increasing cases of highly placed individuals (in politics, Government and SACCO boards) who influence lending large sums of money (often without security) that is later defaulted; and third is fraud and mismanagement by board executives and management. Where in all these causes does corporate governance fall? This paper uses agency theory to explore the role of corporate governance in SACCO woes.

## III. Agency Theory

The theory posits that in the presence of information asymmetry, the agent (in this case directors and managers) is likely to pursue interests that are not favorable to the principal or shareholders. Agency theory has its roots in economic theory and was fully developed by Jensen and Mackling (1976). It explains the relationship between principals, such as shareholders and agents such as the firm/organization's management committee and managers. In this theory, members (principal) who are owners of the firm elect the management committee to run the operations of the firm. The board members then delegate the running of the business to the managers and employees. The members expect the agents to act and make decisions in the principal's interest. On contrary the agent may not necessarily make decisions in the best interest of the principals. He may succumb to self-interest, opportunistic behavior that falls short of congruence between the aspirations of the principals and those pursued by the agents. Main reasons agents can be anticipated to expropriate the principals are related to their own job security, status and remuneration. The principal may then reap less than expected utility. This results into agency problems.

The assumption of information asymmetry in agency theory results into adverse selection and moral hazard problems. Adverse selection arises because principals cannot correctly verify the skills or abilities the agent claims to possess at the time of hiring, they might not be able to select the best applicant or to know whether the agent shall perform or not. Moral hazard appears when agents fail to put in the required effort in the best interests of the principal. Agents may shirk. Because the principal might not know this fully, they need information to monitor the effort level and measure it in order to reward it correctly. High effort exerted should be rewarded accordingly but in practice, agents who underperform or shirk attract higher rewards resulting into big financial losses and agency costs. Good corporate governance should minimize this.

Within a firm, the Board of Governors forms the topmost-corporate level of management through which adequate monitoring of the agents' efforts and activities is done. The board should equally represent the interests of firm owners and those of management if agency problems are to be minimized. Within SACCOs, management committees may make decisions and act in a manner that is not in the best interest of the principal. When this happens, the principle (owners) demands a leadership style that demonstrates integrity and fairer judgment in directing the affairs of the Sacco. This is directed to the Board of Directors, the top most management organ of SACCOs. The board is responsible for resource planning, forecasting as well as monitoring and control of the actions of the agents. The board also offers financial incentives to agents to make them reduce shirking and act in the best interest of the principals. Agency theory suggests that due to the separation of ownership and control in modern firms, agents are less likely to always work in the interests of principals. Shareholders thus, need to use internal corporate governance mechanisms to monitor managers' activities to induce them fulfill their contractual obligations. The extent in which SACCOs corporate governance mechanisms reduce agency problems is what is hereafter being investigated.

## IV. Corporate Governance Mechanisms

Corporate governance is an integral part of the strategic management and is an essential element of modern business and management approach with differing definitions. This study uses Oguz and Dincer's (2017) definition that corporate governance is a set of mechanisms that induce the self-interested controllers of a company to make decisions that maximize the



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value of the company to its owners. Rwegasira (2000) shows that good corporate governance prevents the expropriation of company resources by managers, ensuring better decision making and efficient management. In Kenyan SACCOs, Makai and Olweny (2017) find a great importance of corporate leadership in survival of cooperatives.

Zunaidah & Nor's (2015) paper examines the effects of governance mechanisms of dividend, types of ownership structure, and board governance on firm value. Their paper utilizes a panel data analysis of 403 firms listed on the Bursa Malaysia over a four-year period from years 2002 to 2005. A hierarchical regression analysis is used to test the hypotheses and the data is analyzed using the generalized least square (GLS) estimation technique. Overall, their results highlight the importance of moderating role played by board governance variables with types of ownership structure to influence firm value. However, the benefits of better corporate governance through enhanced board governance are not the same across all firms since their incentives vary with respect to dividend and different types of ownership structure mechanisms.

Within a firm, there can be different corporate governance mechanisms and Anyanga (2014) shows that such mechanisms can help reduce agency problems. These include: Non-Executive Directors NEDS-board independence, Board size, CEO duality, director's remuneration and presence of an audit committee.

*a) Non-Executive Directors NEDS-board independence*

Agency theory proposes that when the board of directors is independent from executives, proper monitoring and supervising executives happens. This is because the independent board is more concerned about their own reputations. The primary role of the Non-Executive Directors NEDs is to ensure managerial compliance. That is to monitor and if necessary control the behavior of management to ensure it acts in the shareholders' best interests. Therefore, agency theory predicts a causal, negative relationship between agency conflicts and the presence of NEDs. This prediction is supported by empirical findings (Oguz & Dincer, 2017; Summon, 2017; Marashdeh, 2014, Mudashiru *et al.,* 2014).

*b) Board size*

This is one of the highly researched about corporate governance mechanism. The outcome on agency problems has mixed results. For example, Oguz and Dincer (2017) find a positive relation between board size and agency problems to the extent that as board size increases, the problems of coordination and communication also increase. However, Mudashiru *et al.,* (2014), Mbu-Ogar, Effiong and Abang (2017) and Summon (2017) find a negative relationship between board size and agency problems. Larger boards are found to improve quality of monitoring and reduce agency problems.

*c) CEO duality*

Good corporate governance suggests that the chairman board and general manager of the company should be different (CEO duality). When this happens, agency problems reduce. Syriopoulos et al., (2012) emphasize that the primary considerations of the chairman board include remunerating the CEO and overseeing the board while the CED is mandated to mind about daily activities of the organization. Thus, joining of these roles in one person can result in increasing agency problems by diluting the effectiveness of monitoring the managers' activities and efforts. This suggests that CEO duality (rather than separation of powers) raises agency problems.

*d) Board Remuneration*

When directors are well remunerated, their morale is raised to perform and do their primal role. This is expected to reduce agency problems. However, higher remuneration shoots up overall agency costs resulting into agency problems. To empirically test this, Zunaidah and Nor (2015 measure director's remuneration as a ratio of their remuneration to profit and loss of the firm. They find positive and weak relationship.

*e) Presence of an audit committee*

Theoretically, audit committees are a sub-committee of the board of directors mandated to provide a formal communication between the board, the internal monitoring system, and the external auditor. This committee is supposed to do trouble shooting and inform relevant stakeholders in time. In Nigeria, Mudashiru *et al.,* (2014) find a negative relationship between audit committee and agency problems. This is similar with Effiong and Abang's (2017) finding in Nigerian manufacturing industry. The purpose of this study is to investigate whether SACCOs have this committee and how this affects agency problems.

*f) Age of the organization*

Economics theory posits that old companies have more experience and skills in tackling agency problems.

This is supported by Zunaidah and Nor (2015).

*g) Firm size*

Economics theory posits presence of well-established management structure by large than small companies. Thus, large firms are expected to have a well-established corporate management including the board. Zunaidah and Nor (2015) finds that lager firms better comply with the advice of the board and other stakeholders compared to young and small firms.



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However, agency theory postulates that the probability of facing agency problems (increased monitoring costs) is higher for large firms because of diseconomies of scale compared to smaller firms.

## V. Methodology

To test the relevance of the agency theory in corporate governance of SACCOs in Uganda, a mixed research design is used. The dependent variable-presence of agency problems is binary measured: presence/absence of problems which is gauged from comparing the level of perceived utility of the principle (owners) and that of agents (management) given the respondents' response indices. Corporate governance mechanisms are assessed using 5 components: board size, CEO/chairman duality, independence of the board (non-executive directors), board remuneration, and presence of an audit committee. Respondents' perceptions on the asked questions are analyzed using the 5-point Likert scale (Strongly agree, agree, neutral, disagree and strongly disagree).

Using self-administered questionnaire (both open-ended and closed questions) and personal interviews, data is collected from key informants (Corporate management: board members, directors, and top and middle-level managers) and randomly selected principles (shareholders).To make the study so representative of all SACCOs in Uganda, a stratified sampling design is used given the 4 main regions in the country and stratum sample is based on regional population of SACCOs. Thus, 4 strata are formed by region (Western 97=38.5%; Central 68=26.9%; Eastern 51=20.2%; and Northern 36=14.3%). Purposive sampling is used in data collection because some technical questions about corporate governance mechanisms could only be answered by top management of the SACCO-personnel with some years of experience in the same position. Random sampling was only used on shareholders in the SACCOs. For accuracy and validity of responses, some questions that are asked to management are also asked to owners. Because the response variable is binary categorical, following Green (2011), a probit/logit regression can be used in estimation of the effects. Both yield the same results.

Econometric model for estimation appears as in equation 1 below:

$$Prob\ Ag_Probl = \alpha + \beta_1 B_Rem + \beta_2 B_Size + \beta_3 NEDs + \beta_4 AUDT + \beta_5 DUAL + \beta_6 Age + \beta_7 logsize + \varepsilon \ldots\ldots\ldots\

*a) Welfare of management*

The study uses 9 constructs to measure welfare of the agents. The average response obtained is 2.72.This implies a general agreement by respondents that welfare of management is appeasing (table 2).

*Table 2:* Responses on welfare of management

| Questions | Response frequencies | | | | | Majority |
|---|---|---|---|---|---|---|
| | Strongly agree | Agree | Not sure | Disagree | Strongly disagree | |
| Management members are paid a monthly salary | 2 | 5 | 15 | 209 | 21 | 4 |
| Manager is given allowance for extra duties done outside the SACCO premises | 219 | 12 | 8 | 11 | 2 | 1 |
| The SACCO recently purchased executive furniture | 187 | 31 | 2 | 28 | 4 | 1 |
| The SACCO usually spends on staff annual parties | 2 | 28 | 0 | 174 | 48 | 4 |
| The SACCO gives her staff free accommodation | 3 | 12 | 0 | 213 | 24 | 4 |
| The SACCO often spends on staff training for upgrading | 14 | 29 | 0 | 175 | 34 | 4 |
| Management often incurs heavy expenditures on luxury projects for their own interests | 3 | 18 | 9 | 201 | 21 | 4 |
| The board is well remunerated | 186 | 65 | 0 | 1 | 0 | 1 |
| The board remuneration-allowances-takes more than 5% of total profits/losses per year | 108 | 111 | 11 | 18 | 4 | 1.5 |
| Average index | | | | | | 2.72 |
| Strongly agree = 1<br>Agree = 2<br>Not sure = 3<br>Disagree = 4<br>Strongly disagree = 5<br>Total observations =252 | | | | | | |

*Source: Field data; June, 2018*

*b) Welfare of shareholders*

On welfare of shareholders, the average index of 4.00 implies that their welfare within the SACCO is not well met. This is because majority respondents generally disagree on having shareholder welfare being met-dividends, transport refund, lunch and refreshments on attending annual general meetings AGM (table 3).

*Table 3:* Responses on welfare of shareholders

| Questions | Response frequencies | | | | | Majority |
|---|---|---|---|---|---|---|
| | Strongly agree | Agree | Not sure | Disagree | Strongly disagree | |
| SACCO members get transport refund on Annual General Meeting AGM | 5 | 10 | 0 | 2 | 235 | 5 |
| SACCO members get lunch and refreshments on AGM | 1 | 251 | 0 | 0 | 0 | 2 |
| Shareholders are given dividends annually | 2 | 23 | 0 | 197 | 20 | 4 |
| shareholders annually get cash dividends | 0 | 18 | 0 | 26 | 208 | 5 |
| We usually put dividends on members' share capital | 1 | 62 | 4 | 184 | 1 | 4 |
| Average index | | | | | | 4.00 |
| Strongly agree = 1 | | | | | | |



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Agree = 2
Not sure = 3
Disagree = 4
Strongly disagree = 5
Total observations =252

*Source: Field data; June, 2018*

*c) Governance mechanisms*

Several questions on various governance mechanisms used by SACCOs were asked. About CED Duality: the question of whether the chairman board simultaneously works as the SACCO general manager had a majority response of 5 implying that majority respondents strongly disagree on presence of board duality. Size of the Board: the question on whether the Board is composed of more than 6 members had a majority response of 2 implying that majority respondents agreed that their SACCOs had a big size: more than 6 members. Non-executive directors NEDS: the question on whether the BoG is composed of more members who are full time employees in this SACCO (independence of the board) had best response of 5. Majority disagreed with the statement about board independence. This implies that most SACCOs in Uganda have majority Board members who are full time employees within their firms. Presence of an audit committee: the question on whether the SACCO has an audit committee yielded an overall response of 1 implying that majority respondents strongly agree (5) that their SACCOs have an audit committee ( table 4).

*Table 4:* Extent of governance mechanisms within SACCOs

| Questions | Response frequencies | | | | | Majority response |
|---|---|---|---|---|---|---|
| | Strongly agree | Agree | Not sure | Disagree | Strongly disagree | |
| 1. The chairman board is also the general manager of this SACCO | 0 | 1 | 0 | 8 | 243 | 5 |
| 2. The number of Board members is more than 6 | 0 | 245 | 0 | 7 | 0 | 2 |
| 3. The BoG is composed of more members who are full time employees in this SACCO. | 0 | 0 | | 2 | 250 | 5 |
| 4. The board BoG takes at least 5% of annual profits in remuneration | 247 | 4 | 0 | 0 | 0 | 1 |
| 5. The SACCO has an audit committee | 282 | 09 | 0 | 12 | 0 | 1 |
| 6. Some members who own 5% or more, of the total share capital in this SACCO are part of management | 4 | 98 | 7 | 142 | | 4 |
| 7. Management is compelled to own shares in the SACCO | 23 | 211 | 0 | 15 | 3 | 2 |
| 8. Some members in this SACCO who own at least 5% and above share capital are group registered as: | 0 | 0 | 0 | 11 | 240 | 5 |
| i. Companies | | | | | | 5 |
| ii. NGOs/CBOs | 0 | 8 | 12 | 211 | 21 | 4 |
| iii. Religious bodies | 9 | 12 | 01 | 98 | 132 | 5 |
| iv. Schools | 184 | 12 | 0 | 48 | 8 | 1 |
| 9. Majority shares in this SACCO are concentrated in hands of few shareholders | 20 | 24 | 1 | 203 | 4 | 4 |
| Average index | | | | | | 3.2 |

Strongly agree = 1
Agree = 2
Not sure = 3
Disagree = 4
Strongly disagree = 5
Total observations =252

*Source: Field data; June, 2018*

*d) Financial challenges*

On financial challenges of the SACCO, the average index of 1.8 implies that majority respondents agree that there are financial challenges within SACCOs: loss of funds due to financial mismanagement, and legal battles which have culminated into expulsion or disappearance of SACCO executives (table 5). This is partly a cause and manifestation of agency problems.



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*Table 5:* Responses on SACCOs Financial Challenges

| Questions | Response frequencies | | | | | Majority response |
|---|---|---|---|---|---|---|
| | Strongly agree | Agree | Not sure | Disagree | Strongly disagree | |
| In its life time, the SACCO has ever:<br>a) had instances of funds mismanagement | 6 | 213 | 0 | 15 | 18 | 2 |
| b) expelled a manager due to financial mismanagement | 14 | 132 | 0 | 93 | 13 | 2 |
| c) changed executive directors due to financial mismanagement | 64 | 101 | 0 | 55 | 32 | 2 |
| d) had legal battles due to financial mismanagement | 21 | 185 | 2 | 39 | 5 | 2 |
| e) lost most of the mismanaged money | 32 | 187 | 1 | 32 | 0 | 2 |
| f) had the manager disappear due to financial mismanagement | 141 | 96 | 1 | 14 | 0 | 1 |
| Average index | | | | | | 1.8 |
| Strongly agree = 1<br>Agree = 2<br>Not sure = 3<br>Disagree = 4<br>Strongly disagree = 5<br>Total observations =252 | | | | | | |

*Source: Field data; June, 2018*

*e) Adverse selection and moral hazard*

Problems of information asymmetry with in SACCOs can result into adverse selection and moral hazard. Empirical results from the field survey give an average index of 2.00. This suggests that majority respondents agree that within SACCOs, problems of adverse section and moral hazard are common. Nepotism and shirking is evident (table 6).

*Table 6:* Responses on Adverse selection and Moral hazard

| Questions | Response frequencies | | | | | Majority response |
|---|---|---|---|---|---|---|
| | Strongly agree | Agree | Not Sure | Disagree | Strongly disagree | |
| There are instances when recruitment of workers has been through 'relations' but not 'qualifications' | 39 | 137 | 8 | 50 | 18 | 2 |
| Sometimes, managers don't put in enough of the required effort to run the SACCO | 71 | 160 | 2 | 9 | 2 | 2 |
| Average index | | | | | | 2.00 |
| Strongly agree = 1<br>Agree = 2<br>Not sure = 3<br>Disagree = 4<br>Strongly disagree = 5<br>Total observations =252 | | | | | | |

*Source: Field data; June, 2018*

*f) Corporate governance mechanisms and agency problems in SACCOs*

i. *Model fit*

Results on whether corporate governance mechanisms impact on agency problems start with variable selection. A stepwise probit regression at pr(0.05) is used to link governance mechanisms (structure of the Board of directors)with probability of having agency problems. Model selection sieves the best explanatory variables (table 7).



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*Table 7:* Variables describing agency problems in SACCOs

| *Age_Probl* | Coefficient | Std. Err. | Z | P>\|z\| |
|---|---|---|---|---|
| *B_REM* | -0.189 | 0.038 | -4.78 | 0.006 |
| *NEDs* | -5.807 | 0.086 | 9.32 | 0.002 |
| *B_Size* | -0.129 | 0.082 | 3.01 | 0.004 |
| *AUDT* | 6.122 | 0.052 | 2.35 | 0.019 |
| *DUAL* | -0.090 | 0.042 | -2.14 | 0.032 |
| *Age* | 0.231 | 0.009 | 0.011 | 0.000 |
| *Size* | 18.113 | 0.123 | 0.072 | 0.008 |
| Number of observations = 252<br>LR chi2(10) = 2908.92<br>Prob > $chi^2$ = 0.00012<br>Log likelihood = -2251.1659<br>Pseudo $R^2$ = 0.6925 | | | | |

*Source: Field data; June, 2018*

Given the values of the probabilities for the respective computed variable's Z-score at 95% confidence level (.05), all the 7 variables (table 11) are adequate and independent enough to explain agency problems within SACCOs in Uganda.

*Table 7:* How governance mechanisms affect agency problems in SACCOs

| Ag_prob | Marginal effects | P>\|z\| |
|---|---|---|
| B_Rem | -0.870 | 0.0021** |
| NEDs | -0.132 | 0.000* |
| B_Size | -0.321 | 0.021** |
| AUDT | 0.436 | 0.000** |
| DUAL | -0.504 | 0.006** |
| Age | 0.419 | 0.004* |
| Size | 0.714 | 0.033*** |
| Constant | 0.021 | 0.000 |
| Number of obs = 252<br>LR chi2(10) = 2949.20<br>Prob > $chi^2$ = 0.0000<br>Log likelihood = -2230.0381<br>Pseudo $R^2$ = 0.7980 | | |
| *significant at (1)%<br>**significant at (5)%<br>***significant at (10)% | | |

*Source: Field data; June, 2018*

Results in table 8 can be summarized into an econometric model expressing the impact of corporate governance mechanisms on having agency problems (equation 2):

$$Ag_{_Probl} = 0.021 - 0.870B_{_Rem} - 0.321B_{_Size} - 0.132NEDs - 0.436AUDT + 0.504DUAL - 0.419\,Age + 0.714size \quad \ldots\ldots(2)$$

Accordingly, all the variable coefficients are statistically significant (significant levels: 1, 5 and 10%).

## VII. Discussion of Results

All other factors held constant, SACCOs in Uganda have a 2% probability of developing agency problems. This is the message from the value of the coefficient constant (0.021). Qualitative finding on board remuneration reveal that majority respondents strongly agreed that SACCO board members take at least 5% of SACCO profits in remuneration (Table 4, question4). To empirically test how this affects agency problems, the computed marginal effect (coefficient)for board remuneration suggests that an infinitesimal raise in Board remuneration *B_Rem* will likely reduce agency problems by 87%.The coefficient of -0.870 is statistically significant at 5% (95% confidence level). It was expected that those SACCOs that remunerate their board members highly were affecting shareholders wealth so much to the extent of causing conflicts. However, the result in this study is contrary. Those SACCOs that showed a positive response to board remuneration manifest a low likelihood of having agency problems. This implies that a well remunerated board is



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more efficient at monitoring agents' activities and reduces agency problems than the board that is not well facilitated. When SACCO money is used to remunerate board members, they will exclusively conduct their important role of monitoring management dubious activities and agency problems will reduce. This finding concurs with Zunaidah and Nor (2015).

Results further show a negative relationship between board size and agency problems(-0.321). This suggests that reduction in board size*B_Size* raises the probability of having agency problems. Likewise, an increase in board size reduces chances of having agency problems by about 32%. Qualitative findings in table 4; question 2 reveal that majority respondents strongly agreed that their SACCOs have more than 6 board members. The Regulatory Act of SACCOs in Uganda provides board membership to between 6 and 9 members. This implies that for SACCOs to reduce agency problems, they should have board membership above the minimum number. Indeed, cases of documented failed SACCOs in Masaka (central region) and Lira (Nothern region)are partly attributed to absence of the Board(Obara, 2012).Though previous studies show a positive relation (Oguz & Dincer (2017) between board size and agency problems, the situation is different in SACCOs in Uganda. This is partly attributed to SACCO regulatory authority that limits Board membership to 9 members. This helps to reduce excesses that chip in into SACCO finances. This finding concurs with Mohamed's (2009) finding that larger boards improve quality of monitoring and reduce agency problems.

According to agency theory, the prime role of the Non-Executive Directors NEDs is to ensure agent's compliance through constant monitoring. Result here indicates that: other factors held constant, having more independent executive directors *NEDs* reduces the probability of having agency problems by 13%.SACCOs in Uganda that presented higher level of NEDs (outside directors) had fewer reported agency problems. This finding concurs with Oguz and Dincer (2017) who show that NEDs can add value to firms due to their external knowledge and expertise as well as their monitoring function. The study also finds that majority respondents showed presence of audit committees in their SACCOs (table 4; question 5) and the regression of audit committee *AUDT* on agency problems yields a positive relationship. This means that, despite of presence of audit committees, SACCOs have consistently had agency problems.

## VIII. Summary and Conclusion

Conflicts, misunderstandings, fraudulent practices, appointment of unqualified staff, shirking by workers…are all a manifestation of agency problems within SACCOs in Uganda. Various corporate governance mechanisms (board size, remuneration, NEDS and CE Duality) have been tasted and have showed a high likelihood of reducing principal-agent problems. Audit committee presence that showed unexpected sign can be due to other factors not explained by this study. Thus, this study recommends adoption of good corporate governance practices to minimize likelihood of having agency problems. Suggested around the1970's, agency theory is still a relevant theory for identifying, analyzing and mitigating a firm's challenges including SACCOs in Uganda.

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# The Effectual use of Customer Retention as a Tool of Customer Relations Management Strategy: A Study of MTN, Airtel, Glo and Etisalat Communication Customers in UYO Metropolis

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*Abstract-* This study was carried out to investigate Customer Relations Management (CRM) strategy on customer retention in four (4) telecommunication service providers (MTN, Airtel, Globacom and Etisalat) within Uyo metropolis in Akwa Ibom State. The objectives of this study were to identify if there was an existing/significant relationship between CRM and customer retention, and to identify the various customer relation tools used in enhancing customer retention in these telecommunication companies in Uyo metropolis. To achieve these objectives, three hypotheses were formed and tested. Relevant data for this work were collected from both primary and secondary sources. A survey research design method was used and the instrument used in collecting data was the questionnaire.

*Keywords: customer relationships management (CRM), CRM tools, customer service, customer retention, patronage, loyalty, telecommunication companies, MTN, airtel, globacom and etisalat, e-CRM.*

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*Keywords: customer relationships management (CRM), CRM tools, customer service, customer retention, patronage, loyalty, telecommunication companies, MTN, airtel, globacom and etisalat, e-CRM.*

## I. Introduction

### a) Background to the Study

The relationship among people or living organisms is the essence of life. It is difficult to think of any society or organization that survives without relationships. The relationship is the invisible thread, which builds a unique bond between an individual and an organization. A relationship may be sustained as long as it lasts. Managing relationships is very difficult and complex. Organizations have begun to realize the importance of relationships in achieving and maintaining their numerous customers for survival. The success of any organization primarily, depends upon the sustained relationship with its customers and that retaining the customers for the lifetime of the business has to be a priority. Growing complexities and uncertainties at the market place along with intensifying global competition are forcing the business organizations to invest in building customer relationships.

In today's competitive and turbulent environment the number of competitors and the intensity of competition cannot be over-emphasized. As a result, attention is focused on the customer. Customers are becoming the focal point of businesses and organizations are trying to satisfy the needs of their customers through customized services with the aim of retaining the customers and sustaining the long term and flourishing relationships with their customers. As the competitive environment becomes more turbulent, the most important issue organizations face is not only to provide excellent, good quality products or services but also to keep loyal customers who will contribute long-term profit to organizations (Tseng, 2007). To compete in such a competitive and interactive marketplace, marketers are forced to look beyond the traditional 4Ps of the marketing strategy for achieving competitive advantage. Therefore, relationship marketing among other marketing strategies has become an alternative means for organizations to build strong, ongoing associations with their customers (Andaleeb, 2006).

All company revenue is achieved from two groups of customers namely the new and the repeated customers. It is substantially more cost-effective to retain existing customers than to attract new ones.

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Existing customers have been known and their preferred needs identified so as to satisfy them with the organization's products or services. By focusing the organizations marketing strategy on the profitable segments of their customer base, an organization will normally produce most of the required revenue and increase their market share without investing in new customers. In any case, the cost of creating a new customer has been estimated to be five times the cost of retaining existing customers, (Reichheld, 1996). A retained customer will always show resistance to competitors' enticement and will be able to give both solicited and unsolicited referral (Omotayo and Jachim, 2008). Loyal customers not only repurchase, but also advocate products and services to their friends pay less attention to competitive brands and often buy product and service line extensions (Baumeister, 2002). To develop effective retention strategies, an organization has to have an in-depth knowledge of customers' behaviour and needs. Loyalty is a physical and emotional commitment given by customers in exchange for their needs being met (Stone et al., 2002). Customer loyalty that leads to retention will develop over time if the parameters for the relationship are planned and implemented correctly. In a democratized market, it is the quality and depth of the customers' relationships, both physically and psychologically that ultimately differentiates between brands (Burnett, 2004). Reichheld, 1996; Jackson, 1994; and Levine, 1993 also opined, that managing customer relationships effectively and efficiently boosts customer satisfaction and retention rates.

Customer relationships management (CRM) is a strategy for retaining customers and earning high profits. To survive in this competitive environment, companies need to analyze customers' needs and wants and fulfil them so that customer loyalty and satisfaction can be created (Wu et al., 2009). The ultimate objective of customer relationship management is to better and cater to the lots of customers by knowing them and creating customer loyalty. Ryals and Knox (2001) emphasized that "CRM is a relationship orientation, customer retention and superior customer value created through process management". Customer retention is an essential part of customer relationship management and organizations must take this into account (Watkins, 1999). The longer a customer stays with an organization the more utility the customer generates to the organization. The development of relationship marketing has received a lot of attention in both academic and real-world practice in the last few decades. It was during the last decade of the 20th century that relationship marketing began to dominate the marketing field (Egan, 2001). Buyers and sellers in markets achieve mutual benefits through developing relationships. Relationship marketing tactics thus approach to apply relationship marketing in practice (Tseng, 2007). Effective customer-oriented relationship marketing tactics may help marketers to acquire customers, keep customers, and maximize customer profitability, and finally build up customer loyalty.

Today, CRM is said to play a pivotal role in the strategic position of an organization. CRM focuses on the integration of customer information, knowledge for finding and keeping the customer to grow customer lifetime value. It also has an important role to help organizations to keep their customers and to make them loyal. Organizations should know the reasons of leaving customers and finding ways of keeping them (Raghu Ramakrishnan, 2005). Therefore CRM role is more important in customer retention and by regarding the importance of CRM, the analysis of CRM seems to be necessary.

The telecommunication industry is one of the most important industries in the world since it delivers voice communications, data, graphics, and video at ever increasing speeds. Confronted with the fierce competition in today telecommunication marketplace, there have been many marketing strategies for service providers to plan and implement. In order to obtain a sustainable competitive advantage, telecommunication firms are forced to make innovation and do the best for customer satisfaction. Due to this, customer relationship marketing plays an important role in the telecommunication industry since it demands a relationship-oriented strategy in marketing (Gronroos, 2004).

This study aims to discuss customer relationship management, its significance and the impact of customer retention among telecommunication networks. It also explores the components of customer relationship management which are strategies of Customer retention in a highly competitive telecommunication market, establishing the relationship between customer relations and a customer.

*b) Statement of the Problem*

In the light of intense competition among telecommunication companies, the major challenge confronting all the mobile operators in Nigeria is the determination and execution of various marketing initiatives that would not only lead to the attraction of new subscribers but also retention of the existing ones who would then become loyal customers. There are arguments that it is more expensive to win new customers than to keep existing ones (Reichheld and Sasser, 1990; Ennew and Binks, 1996; Harmozi and Giles, 2004; Pfeifer, 2005). Others argue that managing customer relationship effectively boosts customer satisfaction and retention rates. For most business, CRM is emerging as an important tool and innovative way to add to their products and services. The question is, does CRM actually bring innovation and add value to companies? Companies are moving closer to their

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customers, expanding efforts in finding new ways to create value for their customers and transform the customer relationship into one solution finding and partnering rather than only selling and order taking. Managing customer relationship effectively boosts customer satisfaction and retention rates.

Therefore this study is aimed at investigating the impact of Customer Relation Management in enhancing customer retention in telecommunication industries in order to obtain more efficiency in customer relationship.

*c) Objectives of the Study*

This study aimed at investigating customer relations management strategies of MTN, AIRTEL, GLO, and ETISALAT on customer retention.

Other specific objectives include:

a. To ascertain Customer Relations management towards customer retention in MTN, Airtel, Glo and Etisalat telecommunication companies in Uyo metropolis.
b. To identify if there is truly an existing relationship between customer relations management and customer retention in these telecommunication companies in Uyo
c. To identify the various customer relations tools used in enhancing customer retention in these telecommunication companies in Uyo metropolis.
d. To ascertain if there is a relationship between telecommunication companies and customers in MTN, AIRTEL, GLO and ETISALAT in Uyo.

*d) Research Questions*

The following questions were raised to help address the problems and objectives of this study.

i. Is there a significant relationship between CRM and Customer retention?
ii. Are there any CRM strategies/tools used in customer retention?
iii. Are there any existing CRM practices in the telecommunication companies with customers?

*e) Statement of the Hypotheses*

To achieve the above objectives, the study adopted the following hypotheses:

i. *H0:* There is no customer relations management towards customer retention in MTN, Airtel, Glo and Etisalat telecommunication companies in Uyo.

   *H1:* There is customer relation management toward customer retention in MTN, Airtel, Glo and Etisalat telecommunication companies in Uyo.

ii. *H0:* There is no relationship between telecommunication companies and customers in MTN, Airtel, Glo and Etisalat in Uyo.

   *H1:* There is a relationship between telecommunication companies and customers in MTN, Airtel, Glo and Etisalat in Uyo.

iii. *H0:* There are no customer relations tools used by MTN, Airtel, Glo and Etisalat in retaining customers in Uyo metropolis.

   *H1.-* There are customer relation tools used by MTN, Airtel, Glo and Etisalat in retaining customers in Uyo metropolis.

*f) Definitions of Terms*

i. *Customer Relation Management (CRM):* Is the consolidation of customer information, analysing data, understanding customer's behaviour and creating interactive and highly personalized relationships (Swift, 2001).
ii. *e-CRM:* This is a combined process of hardware, software technology process, its useful applications in enhancing technology for customer services and organization committed to improve deficiency in customer service and to retain customers (Norton, 2007).
iii. *Customer Retention:* The activity that a selling organization uses to reduce customer defections (Wang and Spiegel, 1994). Customer retention is also an effort carried out by companies to ensure that its customers do not switch over to competitors products and services.
iv. *Customer service:* Customer service refers to the activities and programs a seller provides to make relationship satisfying for his/her customer. (Futrell, 2005). Customer: An individual who is in the habit of buying or using goods or services from a certain manufacturer or service provider. For the purpose of this study, a customer is one who subscribes to any four of the aforementioned telecommunication service providers.
v. *Telecommunication:* Any form of communication by electronic means (Hartzell, 2006).

## II. Literature Review and Theoretical Framework

*a) Historical Background*

The world is fast becoming a global village and a necessary tool for this process is a communication of which telecommunication is a key player. The quantum development in the telecommunications industry all over the world is very rapid as one innovation replaces another in a matter of weeks. A major breakthrough is the wireless telephone system which comes in either fixed wireless telephone lines or the Global System of Mobile Communications (GSM). Communication without a doubt is a major driver of any economy. Emerging trends in socio-economic growth show a high premium being placed on information and communication



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technology (ICT) by homes, organizations, and nations. Nigeria is not left out in this race for rapid development as the nation's economy has been subjected to years of economic reversal via mismanagement and bad leadership.

The Nigerian telecommunications sector was grossly underdeveloped before it was deregulated under the military regime of General Ibrahim Babangida with the establishment of a regulatory body, the Nigerian Communication Commission (NCC). So far the NCC has issued various licenses to private telecommunication operators. These include 7 fixed telephony providers that have activated 90,000 lines, 35 Internet service providers with a customer base of about 17,000. Several VSAT service providers are in operation and have improved financial intermediation by providing online banking services to most banks in Nigeria. These licenses allowed private telephone operators (PTOs), to roll out both fixed wireless telephone lines and analogue mobile phones. The return of democracy in 1999 paved the way for the granting of GSM license to 3 service providers: MTN Nigeria, ECONET Wireless Nigeria was later called ZAIN and subsequently changed to Celtel and currently Airtel, respectively, and NITEL Pic which was later called ZOOM in 2001 and now GLO (Retrieved from ITP Online Ltd).

The Global Systems for Mobile Communications (GSM) is approximately 17 years and nine months in Nigeria as at May 2019. The mobile system was introduced into the Nigerian market and society precisely on 6th August 2001. That was in the third year of former President Olusegun Obasanjo's first term. Kudos to President Olusegun Obasanjo's first term.

The arrival of GSM in the country brought an abrupt or progressive end to the problematic and highly criticized services of the Nigerian Telecommunications Limited (NITEL), that they maintained a monopoly over Nigeria's telecommunications and data services. Right from inception, it was apparent that the new wave of wireless communications held better services, opportunities and promises for Nigerians who were already soaked in complaints of poor services typical of Nigeria's public utility, corruption and lack of functional modalities to reverse the situation. The introduction of GSM in Nigeria was therefore consequent upon the deregulation of the telecom sector, against all manner of controversies, bureaucratic red-tapism, politics, fears and expectations.

Despite the discourses and cynicism, it was not long when the overwhelmingly positive effect of the GSM was felt across the country, with chain-value variables that accelerated businesses and changed the tempo of small and medium-scale enterprises, hence injecting fresh impetus into the socio-economic complexion of the country in a way that left no room for further debates or apprehension. The market was rapidly expanded beyond imaginations to herald healthy competition amongst Nigerians and foreigners alike.

Arguably, ECONET Wireless is said to be the first network provider that made the first live call using GSM in the country on June 8, 2001. It was shortly followed by MTN that came on May 16, 2001, but began operations in August of the same year. Only three companies were initially licensed by the Nigerian government, namely Econet (now Airtel) Wireless, MTN, and MTEL. Lagos first enjoyed gsm services, followed by Abuja, then Port Harcourt. The new calletworks were launched under the 900 and 1800 MHZ spectrum, which was made at N50 per minute as there was no per second billing system until when Mike Adenuga's Globacom Nigeria Limited (Glo) ventured into the market in 2003. Glo introduced per second billing.

As expected, to own a cell phone then became a status symbol or an indication of one's exposure and compliance with the 21st century IT craze. Of course, owning a cell phone then made one a front-seat global citizen. But it came at a price so high that the poor had no hope of such luxury. The price of a cell phone then was as comparatively dear as that for a SIM. As at 2002, to buy a SIM (Subscriber Identity Module) was about between Forty to Fifty Thousand Naira; while NOKIA 3310 and Samsung series, the trendy brands then, were upwards of Eighty to over One Hundred Thousand naira. They thus automatically became exclusive convenience and liability of the super-rich, as some middle-class families could only afford one for the whole house-whole. Dealers on this new wave of telecom craze almost instantly realized how much they could make and shops were seen opening up by the day with different and identical products and services.

For Nigerians of which the Chief Researcher is one could remember when I had my first phone Samsung flipping cover. I could remember other model names of freaky phones like Nokia 3310, Nokia 1200, Nokia 1208, Motorola XT1032, Samsung C140 and other competitive models that introduced the dual SIM convenience. One way or the other, the leading researcher was part of the frenetic genesis and a testimony of the present.

The Nigerian telecommunications industry recently crossed the 160-million subscriber mark. Latest figures from the Nigerian Communications Commission show that as of the end of August 2018, the number of active telephone subscribers in Nigeria stood at 160,520,993, with a tele-density of 114.92 per cent as at Oct 9, 2018.

*MTN*

The founder of MTN is Raymond Sifiso Ndlovu Dabengwa who is a Zimbabwean telecommunication executive based in South Africa. He stood behind the creation of the MTN group. MTN Group is multinational mobile telecommunications company, operating in

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many African, European and Asian countries that operate with the M-Cell as a GSM- related products (Internet services and was founded in 1994 at Johannesburg in South Africa, having visafone as its subsidiary company (ProQuest, 2013). It has a total asset of US$13.762 billion (2015), total equity of US$12.433 billion (2015), net income of US$3.345 billion (2015), an operating income of US$5.22 billion (2015), with annual revenue of US$15.432 billion (2015). MTN has in its employment 17,510 (2010) persons, with Rob Shuter (Chief Executive Officer) in March 2016 and Phuthuma Nhleko as Non-Executive chairman following the resignation of the chief executive officer, Sifiso Dabengwa. Also, the Head of Nigeria Operation, Micheal Ikpoki and the Head of Cooperate Affairs, Akinwale Goodluck resigned their appointments and were being replaced with Ferdi Moolman and Amina Oyegbola as Managing Director and Head of Corporate and Regulation respectively (Bakare, 2015).

As of 30 June 2016, MTN recorded 232.6 million subscribers across its operations making it the twelfth largest mobile network operator in the world and the largest in Africa. Although MTN operates in over 20 countries, one-third of its revenues come from Nigeria, where it holds about 35% market share (MTN GROUP website).

MTN Nigeria is the largest member of the MTN Group, with many subsidiaries spread across the world in 21 countries in Africa and the Middle East. MTN communications Ltd was one of the three initial GSM companies licensed by the NCC (Nigerian Communication Commission) to provide telecoms services to the Nigerian public. It commenced operations in August 2001 and has ever been the biggest telecommunication company and one of the largest in Nigeria with over 35 million subscribers (retrieved from MTN official website and Wikipedia).

*AIRTEL*

Bharti Airtel Limited is a leading global telecommunications company with operations in 17 countries across Asia and Africa. Its Headquarters is in New Delhi, India. Bharti Airtel ranks amongst the top 3 mobile service providers globally in terms of subscribers. The founder was one of the first Indian entrepreneurs to identify the mobile telecom business as a major growth area. His plans were finally approved by the Government in 1994 and he launched services in Delhi in 1995, when Bharti Cellular Limited (BCL) was formed to offer cellular services. Its network in Nigeria was under the brand name Econet Wireless Nigeria Ltd. Although the telecommunication network started on 7th July 1995 in India, it came to Nigeria as the first network call on the 8th June 2001. It changed its name to Celtel then to Zain and presently, Airtel (Nigeria).

Airtel (Nigeria) was established in 2000, by a group of institutional and private investors. It made history on August 5, 2001, by becoming the first telecom operator to launch commercial GSM services in Nigeria. In 2006, following Celtel's international acquisition of majority stake in the company, it was rebranded Celtel and became an important part of Celtel's Pan-African operations spanning 14 countries. On August 1, 2008, Celtel Nigeria hasrebranded to Airtel Nigeria following the global acquisition of Celtel International by Airtel. Airtel Nigeria, which had a customer base of about 26,193,336 as at February 2014 (retrieved from the official website of NCC), scored a series of many other "first" in the highly competitive Nigerian telecommunications market including the first to introduce toll-free 24-hour customer care line-111; first to launch service in all six geopolitical zones in the country; first to introduce N500 recharge card; first to commence emergency service (Celtel 199); first to introduce monthly free SMS and first to introduce monthly airtime bonus (retrieved from Airtel official website).

*Globacom Limited (Glo)*

Globacom Limited (GLO) is a privately owned Nigerian multinational telecommunication company that started operations on the 29th August 2003 in Nigeria with its headquarters in Lagos. Globacom is privately owned by Mike Adenuga (GCON, CSG, CLH), the 2nd richest black man in the world (Forbes) and the founder of Mike Adenuga Group which consists of Equatorial Trust Bank, Cobblestone Properties and Estates, is a real estate and property development company, Conoil Plc, a petroleum marketing company and Conoil Producing being a crude exploration and production company. The sole aim of introducing and launching Globacom in Nigeria on the 29th of August 2003 was to provide telecommunication service to the people of Nigeria as a means of solving the problem of inadequate communication flow. Although Glo mobile was the fourth telecommunication operator in Nigeria, within seven years of the company's operation, its subscriber's base has grown to over 25 million. It has a reputation as one of the fastest growing multinational carrier in the world and the vision for Glo is to be the biggest and best carrier in Africa and it is currently operating in four countries in West Africa, namely Nigeria, Republic of Benin, Ghana and Côte d'Ivoire. As of June 2018, the company has employed more than 3,500 people worldwide.

GLO has over 45 million subscribers as of December 2018, making it the second largest network operator in Nigeria according to Ogunfuwa (2018).

Globacom has the following strategic business units: Glo mobile, Glo Broad Access, Glo Gateway and Glo-1.

*Glo Mobile*

Glo Mobile, a subsidiary of Globacom, is Nigeria's second largest Mobile Network Operator. In the



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first year of operation, it had one million subscribers in over 87 towns in Nigeria and has over 120 billion Naira as revenues realized in a year. Glo Mobile has now spread to other African countries, namely Benin and Ghana (Nkanga, 2008 and Nweke, 2008). Glo Mobile's subscriber base in Nigeria stood at over 45 million by December 2018.

*Glo Gateway*

Glo Gateway is Globacom's International Wholesale Voice and Data Exchange Trading Business Unit, having Postpaid relationships with 532 networks in 196 countries, Prepaid connections with 219 networks in 99 countries and Data roaming relationship with 405 networks in 148 countries. GLO has the largest roaming coverage for voice and data in Africa.

Glo Gateway Carrier Business is connected to over 150 operators and Carriers in all the continents, trading in billions of minutes annually. Glo Gateway has a Point of Presence (POP) in London with virtual POPs in Frankfurt, New York and Hong Kong through which seamless connectivity is provided. Glo Gateway is the biggest wholesale voice trader in West Africa with a 24/7 Network operating centre to ensure customer satisfaction at all times.

*Broadband access*

Glo Broad Access launched on 24 November 2009, is the unit responsible for laying the optic fibre network for Globacom and for offering Fixed Line services. It offers landline telephone and unlimited broadband internet, all on a single digital wireline. Glo Broad Access being a part of Glo's ever-increasing service offering continually expands her metro fibre rings and pan-Nigeria fibre backbone network. It has already rolled out over 13,500 kilometres of active fibre.

*Glo 1 submarine cable*

In 2011, GLO became the first individual African telecommunication company to build $800 million high-capacity fiber-optic cables known as Glo-1, a submarine cable laid from the United Kingdom to Nigeria according to IT News Africa of 8th September 2009. It is the first successful submarine cable laid from the United Kingdom to Nigeria.

Glo-1 has the potential to provide high-speed internet services, faster, more reliable and cheaper telecom services (Eribake, 2009). Glo-1 is said to have the potentiality to facilitate foreign investment and employment opportunities, especially to Africans.

The 9,800 km long cable originates from Bude in the UK and is laid from this origin to Alpha Beach in Lagos, where it has its Landing Station (Nigeria GLO-1 Berths in Accra, 2009). Glo-1 will also improve teleconferencing, distance learning, disaster recovery and telemedicine among several other benefits for Nigerians and the people of West Africa according to The Nation Newspaper of 27th December 2016.

In 2005, Glo mobile introduced Glo fleet manager which is the most comprehensive vehicle tracking solution offered to save time and money. They also introduced the Glo mobile internet service which provides subscribers with speed access to all popular internet sites which have been customized for mobile phone browsing.

*Glo In Nigeria*

In August 2003, Glo Mobile was launched in Nigeria. Glo Mobile introduced lower tariffs, pay per second billing and alongside other value-added services. Although Glo Mobile was the fourth GSM operator to launch in Nigeria, within seven years of the company's operation, its subscriber base has grown to over 25 million (Nkanga, 2006).

In June 2008, Glo Mobile was launched in Benin. Glo Mobile showed unprecedented growth through the sale of 600,000 SIM cards in the first ten days of operation (Cellular News). Glo Mobile offered Per Second Billing, which charges subscribers for the exact airtime used. They also offered other value added services such as MMS (Multimedia Messaging Service), Glo Magic Plus news and information, vehicle tracking, musical ring-back tones and mobile banking.

*Etisalat*

Emerging Markets Telecommunication Services (EMTS), trading as Etisalat, is a Nigerian company duly incorporated under the law of Nigeria in partnership with Mubadala Development Company, an investment vehicle owned by the Government of the Emirate of Abu Dhabi and Etisalat of the Limited Arab Emirates Incorporated in Nigeria as a private company; it acquired the unified access license from the federal government in January 2007. The license includes a mobile license and spectrum in the GSM 1800 and 900MHz bands. In Nigeria, Etisalat made the first official call on its network on 13th March 2008 in the presence of officials from the Nigeria communications commission (NCC).

In 1991, the UAE central government issued Federal Law No. 1, which gave the corporation the right to provide the telecommunications wired and wireless services in the country and between UAE and other countries. It also gave the firm the right to issue licenses for owning, importing and manufacturing, using or operating telecommunication equipment. This practically gave Etisalat both regulatory and control powers, which completed the monopoly of the telecom giant in the UAE. In order to safeguard the country's economic development, the law made provisions for the development of the telecommunication sector in the country.

The increase of exchange lines from 36,000 in 1976 to more than 737,000 in 1998 was one of the important indicators of Etisalat network's growth and development. Today Etisalat stands 140th among the



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Financial Times Top 500 Corporations in the world in terms of market capitalisation and is ranked by The Middle East magazine as the 6th largest company in the Middle East in terms of capitalization and revenues. The Corporation is the largest contributor outside the oil sector to development programmes of the UAE Federal Government. Etisalat has also won accolades from across the region for its nationalization programme as pointed out by its corporate profile on 10th October 2010.

Some of the Internet services for home users that Etisalat offers to include:

i. 3G Mobile Internet access.
ii. 4G Mobile Internet access.
iii. Broadband Internet services (Al Shamil and eLife reports).
iv. Prepaid and post-paid dialup Internet access.

Etisalat International Investments was the business unit of Etisalat that operated telecom operations outside the UAE and managed the corporation's stakes in telecommunications carriers in Afghanistan, Egypt, Niger, Nigeria, Saudi Arabia, Sri Lanka and Pakistan. The International Investments unit and its management team were re-structured into Etisalat Group, and Ahmad Abdulkarim Julfar was appointed as Group CEO in 2011(as reported in Etisalat Group 2012 Annual Report), followed by Saleh Al Abdooli in 2016. As of December 2018, Etisalat has presence and operations in 14 countries outside the United Arab Emirates.

*Etisalat Nigeria*

Etisalat Nigeria launched one of the first major broadband services in the country called EasyBlaze. The company is known for its innovative products and services such as the Eco Sim and the first network to offer special numbers to Nigerians as their mobile numbers via the 0809uchoose campaign.

From 2012 to 2015, Etisalat Nigeria hosted the Etisalat Prize for Innovation, established to promote African Internet expansion.

In April 2013, Etisalat Nigeria announced it would invest $500 million to expand its network, enabling further potential market growth of 17%. In June 2013, it launched the Etisalat Prize for Literature the first pan-African prize for debut published writers.

In October 2016, Etisalat Nigeria announced 4G LTE with a frequency band 3 (1800 MHz). Speed test results indicate 28Mbit/s download and 11Mbit/s upload. This LTE network currently covers some part of Lagos and Abuja.

In March 2017, Nigeria telecoms regulator pushed for talks to halt takeover attempts by Etisalat creditors and reschedule its outstanding $1.2 bln loans. In July 2017, Etisalat withdrew from the market after its debt was not repaid or rescheduled. The local operator has renamed itself 9mobile (Reuters. 16th October 2009).

9mobile is a Nigerian private limited liability company. EMTS acquired a Unified Access Service License from the Nigerian Communications Commission in 2007. The License enables EMTs to provide Fixed Telephony (wired or wireless), Digital Mobile Services, International Gateway Services and National/Regional Long Distance Services in addition to spectrum assignments in the 900 and 1800 MHz bands. The Current Managing Director and Chief Executive Officer of 9mobile is Mr Bode Olusanya (Daily News of 24th August 2011)

*b) Conceptual Framework*

i. *Customer Relationship Management (CRM)*

With the advent of time and technology, marketing practices are also changing. The new and modern marketing is based on acquiring knowledge regarding customers and knowing their experiences (McKenna, 1991, Payne et. al., 2005, Payne et. al., 2006). The term CRM is being used widely these days. Customer relationship management is a two-way process, also known as an interactive process that utilizes the information of customers got by management to maintain relationships with their customers. CRM is considered as a cycle consisting of important activities like finding knowledge, market planning, enhancing the interaction with the customers and analysis refinement (Buckinx et al., 2007 and Swift, 2001). Ryals and Knox (2001) are of the view that the fundamental aspects of CRM are strong relationships, customer retention, and delivering superior and high-quality services to customers with the help of process management. Those companies that want to implement the CRM strategy should create integration between different departments of the organization. The walls between every unit should be broken down, especially marketing department should closely work with the I.T (Information Technology) department so that customer information can be retained and utilized for the purpose of customized production and relationship management.

Since the late 1980s, the trend of database marketing has been amplifying which shows the influence of I.T on marketing. It helps the firms to maintain long term propitious relationships (McKenna, 1991). Customer relationship management (CRM) is the latest idea in all forms of businesses that have shown its importance quickly over the preceding last years and will be expected to prolong in upcoming future with the addition of latest technologies and value-added services. CRM focuses on the concept of marketing mix variables including the 'four Ps' of marketing (product, price, place and promotion) (Xevelonaki, 2005). CRM provides the organization with the chance to employ relationship marketing on a company ample basis



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successfully. CRM is basically a technique of relationship marketing and process that enables a firm to identify, evaluate, analyse and serve customers to improve customer relationship, so the organization may be able to retain market share through existing customers, and may help to provide retaining capabilities of existing customers (Dimitriades, 2006).

With the initiation of the internet and new technology advancement, the idea of CRM has been transformed into electronic CRM (e-CRM). E-CRM is a combined process of hardware, software technology process, its useful applications in enhancing technology for customer services and organization committed to improving deficiency in customer service-customer retention (Norton, 2007). Ab Hamid's (2005), focus on the Electronic Customer Relationship Management as a procedure to maintain its customer relations by using the Internet and the advantages which are obtained by using the idea and successful implementation of e-CRM in an organization. The Internet technology has changed CRM into electronic CRM (e- CRM) because now organizations can use Internet technologies to attract new consumers, analyse their preferences and behaviours, and customize support and services by providing customized services (Chan and Lam, 2009). The focus of e- CRM systems is to increase customer service, retain consumers, increase customer value benefits and use the proper strategies to encourage customers to remain loyal (Zineldin, 2006). E-CRM is intended forpeople at all levels in businesses that are willing to build up interaction with consumers by electronic and technological means. It is significant to realize the main role that e-CRM plays within contemporary and dynamic marketing organizations. Implementing CRM successfully can provide a lot of benefits and profits to the companies and help to get mutual benefits for customers and service provider (Almotairi, 2008). This indicates that CRM could bring many benefits for companies to enhance their ability in the competitive market, increase profits and profit rate, reduce costs, reduce times of implementation of new sales activities, and increase awareness of small-sized target marketing and increase knowledge about customers. As there is the dynamic environment and often changing technology, mobile telecommunication service provider thinks about the importance of customer loyalty and customer retention as considerable management decision and attempt to broaden the concept of e-CRM by keeping in focus CRM. With the help of e-CRM, the information can significantly flow into the organization and would be used to retain strong customers' relationship through extraordinary services. The crucial reason for the surfacing of CRM exhibits the changing nature of the markets and environment. Organizations are now shifting from product-oriented strategy to customer-oriented strategy and that is becoming the reason for their success.

Customer profile and customer participation have a major influence on CRM. Companies develop customer profiles. They collect all the necessary information about the customer that assists them in knowing their customers and also helps them to determine which customers they should invest more. Companies also get benefit through the process of customer participation. Customers participate through a number of different ways like interacting with the company, sharing their experiences and information (Wu et al, 2009).

ii. *Customer Retention*

In previous times no proper attention was given to customers and customers were neglected. Customers were unable to find any replacement of their current seller/producer or maybe their suppliers. Others were also deprived of quality and service aspects and the rapid growing market did not bother their customers and the utmost satisfaction of needs and wants of customers. Increasing competitions and an increase in competitive trends in today's market environment increase the likelihood to retain customers as to safeguard the company against the raising competitions. To achieve this goal customer retention is required.

Ramakrishnan, (2006) defines customer retention as the marketing goal of preventing customers from going to the competitor. Organizations make existing customers their focal point in order to put efforts to retain them and to carry on their business relationship with them through customer retention. (Mostert et al.2009). However, the number of customers who continue their relationship with the service provider in the specific time duration such as a year is also referred to as customer retention (Dawes, 2009). The success of businesses in today's competitive environment is mainly based on customer retention. Fluss (2010) observed that competitors are always looking for ways to capture customers by offering them better deals. Retention is the process of having a close and long relationship of customers with a service provider. Many studies report that it is more expensive for the organization to attract new customers as compared to adopting a strategy to retain existing customers (Gilbert and Mannicom, 2003).

Customer retention directly influences extended lifetime values and benefits which is a more beneficial opportunity for organizations that look for enhancement and prolong business activities and those that are looking for ways to protect them from market decline which is the consequence of reducing economy (Gee et al 2008). In support of this argument, Lombard (2009) states that the companies are pushed by the market to retain customers where the possession of customers is low. When loyalty of the customer is diminishing and

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sales are worsening in the business environment, customer retention becomes the most essential part of that business environment. In such scenarios, if a key customer is shifted towards the competitor's organization, profitability and growth would be considerably affected.

iii. *Objectives of Customer Relation Management (CRM)*

It is considered that CRM is not a product or service, but an overall business strategy that enables companies to effectively manage relationships with their customers. It provides an integrated view of a company's customers to everyone in the organization. The reasons for CRM coming into existence are the changes and developments in the marketing environment and technology. The goal of an efficient Customer Relationship Management (CRM) strategy is to develop, keep and retain profitable customers. Therefore, the objectives of CRM are presented as:

a. *Improve the Communication Process with Customers*

CRM itself is a learning process in which information is regularly updated and communicated with customers so that customer demand can be analysed and appropriate responses to the customer can be carried out (Alehojat, Chirani and Delafrooz, 2013). It helps organizations to maintain stable market demand for the product offered by them.

b. *To Identify the Key Elements of CRM*

CRM is important for an organization for the sustainable growth of its profitability. Identification of CRM determinants relates to the nature of the organization. CRM determinants can be used to promote service quality for making the customer satisfied. The elements are the power indicators that directly influence CRM's overall studies. People, culture, relationship management process, knowledge management, I.T, organization, customer and value are the valuable elements of CRM. These elements also affect the factors of CRM (Shamsuddoha. Tasnuba and Alamgir, 2011).

c. *To Identify the Factors Related to CRM Effectiveness*

According to Karakostas, Kardaras and Papathanassiou (2005), the factors that influence the CRM implementation are new customer attraction, consumer buying behaviour, competitive advantage, customer satisfaction, customer retention, acquisition, long-term relationship, knowledge management, web-enabled customer service and customer value. Tekin (2013) argues that I.T, long-term relationship, higher profitability and significant investment in technology are the main influencing factors of CRM. CRM factors relate to I.T, human resources, organizational structures, and reward systems (Rigby, Reichheld and Schefter, 2002). Multiple CRM factors approach by different researchers includes reliability, customization, customer attraction, customer retention, information technology (I-T), responsiveness, commitment, and customer orientation.

iv. *Benefits of Customer Relation Management*

CRM is an essential way to understand what motivates customers. Customer relationships are becoming even more important as market conditions get more adverse. Due to increasing competition in the marketplace, demand patterns of customers are changing, as well as the life cycle of products and services. CRM can be used to investigate what the customers expect, what channel of distribution they prefer, and what attributes should be incorporated in product and services. Understanding the customer through CRM allows organizations to offer the desired service to the customer. CRM benefits to customers may include:

a. *Increase in Customer Retention and Loyalty*

Basically, a customer is loyal when he is committed to repurchasing a preferred service or product even when there are marketing efforts and situational influences having the potential to cause switching behaviour (Oliver, 1999). It is suggested to the companies to invest in relationship building and customer intimacy with loyal customers as it will, in turn, lead to stronger loyalty (Oly, 2004). The customers who regularly purchase a company's product over a long period of time tend to generate more revenues and are relatively cheaper to serve than other customers (Reichheld and Aspinall, 1993). Higher customer profitability is ensured by CRM. CRM creates more value for the customer and undoubtedly builds profitable customer relationships.

b. *Customization of Products and Services*

The main concentration of CRM is on two major areas: To create a closer and deeper relationship with customers and to increase the organizational capability to coordinate its behaviour with individual customers based on customer needs, or what the organization knows about his/her requirements and interests. This is because existing customers are always more profitable than new ones, and selling more products to existing customers is less costly. Coordinating the products and services with consumer's needs and expectations, result in attracting more customers. Consequently, attracting new customers is much more costly. Indeed, the main goal of CRM is to maximize the value of customer life cycles for the organization (Payne and Frow, 2004). The recent marketing procedures are approaching towards providing a unique service; this is why acquiring large volumes of customer information and details has become a pivotal requirement. In order to predict the probability of repeat purchase, or buying additional products and individual marketing programs, the organization has to collect the customer's information



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based on their interactions with the organization (Peppard, 2000).

c. *Maintenance of Lower Process and Higher Quality of Products and Services*

The activities of CRM directly influence products and services and also internal processing systems. It can help reduce operational costs by the effective relationship with customers and minimizes the size of overall processes. On the other hand, an effective CRM can help increase qualitative products and services by customer interactions.

d. *Meet Customer Expectations*

The key to customer loyalty is customer satisfaction, which largely depends on the service quality offered by service providing firms (Rahman, 2014). Service quality and customer expectations have been identified as key elements of the service-profit chain (Heskett, Sasser, and Schlesinger, 1997). Better service quality results in satisfied customers, which in turn leads to strong customer loyalty. It can be stated that customers, when satisfied with the services they have experienced, are more likely to establish loyalty (Taylor, Sharland, Cronin, and Bullard, 1993), resulting in repeat purchases (Fornell, 1992) and favourable word-of-mouth (Halstead and Page, 1992). Customer service quality is a significant source of distinctive competence and often considered a key success factor in sustaining competitive advantage in service industries (Palmer, 2001). Therefore, a Firm can be able to meet customer expectations through effective CRM.

e. *Improvement in Customer Satisfaction and Loyalty*

Feliks and Panjaitan (2012) suggested that companies implementing CRM in a proper way will enjoy increased customer satisfaction. Kusanagi's research results (2008) also showed that the CRM application helps companies to gain customer knowledge that helps them improve customer satisfaction. This is also supported by the study of Wetsch and Lyle (2006) who found that the potential impacts caused by the customer involvement in the CRM implementation are trust, satisfaction and customer loyalty. Munandar and Dadang (2011) suggested that CRM has positive and significant effects on customer loyalty and that changes in the company's customer loyalty are directly related to changes in the implementation of CRM. This means that to increase customer loyalty, CRM needs to be implemented first. Better CRM implementation links to customer satisfaction and loyalty. This indicates that customer loyalty needs more companies' attention because loyalty will ultimately affect the performance of the company.

v. *Factors Affecting Customer Relationship Management (CRM) (a) Reliability*

Reliability is one of the most common factors of CRM. The activity of CRM is to identify reliable customers and to communicate with them. On the other hand, CRM reliability largely depends on the reliability of I.T systems in which customer relations are managed. Customer relationship management activities always try to till a customer's expectations and provide better customer service, which isn't always possible without reliability. Reliability is defined as performing the task dependably and accurately (Parasuraman, Zeithaml and Berry, 2004). This is achieved through keeping promises to do something, providing the right service, consistency of performance and dependability, service is performed at the right time, the company keeps accurate billing and keeps records correctly, and transactions and records are error-free. Reliability also consists of accurate order fulfilment, accuracy records, accurate quotes, accurate billing, accurate calculation of commissions and keeping any promises regarding services.

a. *Customization*

The core of customization is based on acceptable delivery times and prices, and providing customers with personalized products. CRM offers the customization of products and services so that the existing and potential needs of customers are met. CRM provides a variety of useful information to customers. CRM allows mutual connectivity between customer and organization in order to allow customization in products and services delivered.

b. *Customer Attraction*

Valued customers are always providing good feedback. Customer attraction acts as a driver of customer commitment. CRM is a systematic marketing effort of understanding customers, especially what they expect, to what extent, and what should be incorporated into products and services.

c. *Customer Retention*

Customer retention is one of the most important indicators of customer satisfaction. The more satisfied the customers are, the greater their retention. Customer retention is becoming an important managerial issue, especially in the context of a saturated market, when the growth of the number of new customers is declining. It has been acknowledged as a key objective of relationship marketing primarily because of its potential in delivering superior relationship economies, that is, it costs less to retain than to acquire new customers.

d. *Information Technology (I.T)*

The role of I.T is to help redesign CRM processes, to facilitate changes to work practices, and to establish innovative methods to link a company with customers, suppliers and internal stakeholders. CRM applications take full advantage of technology innovations with their ability to collect and analyse data on customer patterns, interpret customer behaviour, develop predictive models, respond with timely and effective customized communications and deliver product and service value to individual customers.



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(Chen and Popovich, 2003). By using IT, CRM can optimize interactions with customers based on historical data.

e. *Responsiveness*

Responsiveness is the determinant that defines the willingness to help customers and to provide prompt service. CRM has been always responsible to provide information to the customer. Service propositions like "what can I do for you" clearly underline the importance of customers. It is also involved in understanding the needs and wants of the customers, convenient operating hours, individual attention given by the staff, attention to problems and customers safety (Arun et al., 2010).

f. *Customer Orientation*

Customer relationship management is a customer oriented, organized managerial effort to ensure the perceived value of customers in order to make them satisfied and loyal. Customer relationship management cares about suggestions and preferences given by customers. CRM allows customers to share the post-consumption experience; therefore, management can effectively take care of customer inquiries.

g. *Commitment*

Commitment is an essential prerequisite for ensuring the efficient delivery of customer value having approval to the CRM project. CRM should set the stage of leadership and commitment throughout the CRM implementation. Management support and involvement reinforce the commitment as a key success factor of CRM implementation. CRM effectiveness without a commitment is like throwing money into a black hole. The effectiveness of CRM commitment is determined by the extent to which customers are satisfied and loyal.

vi. *Customer Relation Management Effects on Customer Satisfaction*

Customer satisfaction is the extent to which customers are satisfied with their purchased goods and services (Boone and Kurtz, 2013). Customer satisfaction is a statement to the buyer about the appropriateness of the reward, received in exchange for the service experience. Every firm tries to fulfil customers' needs, desires, wants, aims and expectations. Therefore, production and marketing department collaboratively produce economic utility for customers. Customer satisfaction is generally understood as the pleasure of using product and service. Customer satisfaction is the voice of the customer that will differ from person to person. It is an appraisal of how products and services of a company meet up or exceed customer anticipation. Jeong and Lee (2010) defined customer satisfaction as:

i. Customers' satisfaction is an emotional (sentimental) reaction or a manner of interactive recognition and perception.
ii. Customers' satisfaction is a response to the specific concentration on the expectations of production and the experience of using services and consumption.
iii. Customers' satisfaction is a judgmental reflection of customers about a product or service during the time period of its usefulness.
iv. Customers' satisfaction is a summary of the psychological manner in which a composite of customers' feeling about the unexplained expectations and his/her previous consumption experiences are encompassed.

A satisfied customer always connects with a service provider. CRM is a formation that ensures customer satisfaction. CRM is a systematic process of building long-term relationships with its customer by providing optimum satisfaction. The organization actively takes the necessary steps in order to promote satisfaction. Maintaining the desired level of customer satisfaction requires proactive corporate responsiveness in accessing, building and retaining satisfied customers for sustainable competitive advantages in the market place (Rahman et al., 2014). CRM effects have a positive impact on customer satisfaction. If an organization has a good CRM strategy, then customer satisfaction will automatically be increased. On the other hand, the absence of a good CRM strategy will result in customer dissatisfaction. Sound, reliable and customized information technologies positively affect customer satisfaction. By using modern communication media, CRM can easily communicate with customers while fulfilling their expectations. The fulfilment of customer expectations will help enhance customer satisfaction. A highly satisfied customer:

a. Continues his shopping for a long time,
b. Buys more as long as the firm produces new products and the existing products are improved,
c. Speaks of the firm and its products with praise,
d. Keeps indifferent to the trademarks that are in competition with the products of the firm and does not place the emphasis on price,
e. And offers the firm suggestions and ideas about products and services.

Nowadays, most organizations have adapted customer-centred philosophy to fulfil customer needs and to enhance the perceived values of the customer. Hence, adopting customer-centric strategies aimed at maintaining and enhancing relationships with existing customers is important for survival (Krishnamoorthy and Srinivasan, 2013). Highly satisfied customers of a firm are likely to purchase more frequently, in greater volume and buy other goods and services offered by the same service provider. Many companies focus on finding new customers instead of retaining and satisfying the existing customer base. However, since competition among companies is tough, the retention of customers has become more important than the acquisition of new customers. In recent years, companies have realized



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that a critical success factor is not a single transaction, but the creation of a long-term relationship with the method of CRM (Ampoful, 2012).

vii. *Effects of Customer Relationship Management on Customer Loyalty*

Customer loyalty can be seen as a customer commitment to deal with a particular firm, and buy their products and services. A loyal customer encourages others to do business with the firm. Loyal customers are also considered to be the most important assets of a company and it is thus essential to keep loyal customers who will contribute long-term profit to the organization. In a business context, loyalty is a psychological awareness process or the observable reaction of a consumer, where intentional and factual retention or intensification of the relationship is based on specific reasons (Keaveney, 1995). Loyalty requires a positive attitude of the consumer towards a company and its services; retention, on the other side, can also exist with a negative attitude towards a company (Bruhn, 2009).

Customer loyalty is related to a service provider's ability to maintain its customers' loyalty and persuade them to recommend its services to potential customers (Zeithaml, Berry and Parasuraman, 1996). Six indicators were used to measure customer loyalty: share information, say positive things, recommend for a friend, and continue purchasing, purchase additional service and test new service (Brodie, Roberts and Varki, 2003). Customer loyalty can be achieved through a successful CRM implementation. An effective customer relationship management is positively related to the loyalty of customers.

viii. *Top management Commitments and Customer Relationship Management*

Top management commitment is an essential prerequisite for bringing innovation to bear on practices and ensuring the efficient delivery of customer value. Top management commitment, however, goes beyond having a CEO given his or her approval to the CRM project (Chen and Popovich, 2003). Customer-centric management requires top management support and commitment to CRM throughout the entire CRM implementation since momentum quickly dies down without it. Furthermore, top management should set the stage in CRM initiatives for leadership, strategic direction and alignment of vision and business goals (Herington and Peterson, 2000). A recent study by Anabila et al. (2012) noted that for CRM to succeed, top management must demonstrate genuine commitment and active involvement in relationship marketing issues. As in most major change efforts, objections and disagreement among various functional departments are bound to come up in the process of business re-engineering resulting from CRM implementation and this can best be resolved through direct intervention by top management, often resulting in changes to corporate culture. Hence, when top management is keenly involved in relationship building efforts by way of galvanising and championing the entire process through effective supervision, shaping of values, and re-engineering customer-centric focus, the net effect is increased customer loyalty and retention. Dickie (1999) also warns against starting a CRM project if senior management does not fundamentally believe in re-engineering a customer-centric business model.

ix. *CRM Implementation Strategy*

Using information technology as an enabler, CRM strategy leverages key functional areas to maximize the profitability of customer interaction (Chen and Popovich, 2003). It has been recognized that technological advancement and innovation, keen competitive marketing environment, coupled with the internet are the main drivers that promote the one-to-one initiative. Even more, promising are developments on the internet where sophisticated software allows marketers to address individuals by name and respond to enquiries with custom tailored solutions. Through CRM firms are able to understand the drivers of present and future customer profitability which makes it possible to appropriately and proportionately allocate the firm's resources to all functional areas that affect customer relationship (Chou et al., 2003).

x. *Customer Loss Rate*

The loss rate is also sometimes called attrition rate or customer churn rate. It is one of two primary factors that determine the steady-state level of customers a business will support. In its broadest sense, the churn rate is a measure of the number of individuals or items moving into or out of a collection over a specific period of time. The term is used in many contexts, but its most widely applied in business with respect to a contractual customer base. In a business context, the churn rate is defined as "the percentage of customers who stopped doing business with a company in a period divided by the average number of customer existing in that period". It is a possible indicator of customer dissatisfaction.

Dissatisfied customers tell far more people about their experience than do routinely satisfied customers. Problem-solving and complaint management have a direct correlation with the overall satisfaction of a customer. In order to compete for customers' satisfaction and consequently decreasing churn rate, companies must be able to identify problem areas and establish improvement processes before these have a broad impact on customer (Masroujeh, 2009). A companywide total customer experience program with senior management support can help retain the top customers, grow revenues and profits. When you have loyal customers, it is more likely they will be the company's evangelist (Chennai, 2007). Therefore, any organization who seeks to implement a successful

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CRM strategy needs to monitor its churn rate and prepare a proper plan to reduce it. Kotler (2009), illustrates five steps organization can follow in order to reduce the loss rate.

a. The company must define and measure its retention rate.
b. The company must distinguish the cause of customer attrition and identify those that can be managed better.
c. The company needs to estimate how much profit it loses when it loses customers.
d. The company needs to figure out how much it would cost to reduce the defection rate.
e. Finally, listening to customers.

The main ingredient in Kotler's plan to reduce organization loss rate is to concentrate on customer retention plans and always put the customer first. Applying the resource of the organization in order to satisfy customers, ensuring that all their requirements are met within an appropriate time and cost and maintaining a good relationship with the customers, are the key steps for reducing the loss rate and ensuring the development of the organization (Kotler, 2009).

*c) Theoretical Framework*

The theoretical basis to be applied in this study is the relationship of marketing theory to customer relations management.

i. *Relationship Marketing Theory*

A theoretical basis that explains the effect of customer relationship management and customer retention was drawn from the Relationship Marketing Theory. The theory attempts to explain the importance of establishing and maintaining relationships with customers in order to ensure their retention. Relationship marketing was first introduced by Berry in 1983. This concept is an expansion of the marketing concept in order to take into account the evolution of the markets, where the notion of punctual transaction began to give the way to a more relational approach. This new approach comes from the interest of exchange parties to continue the relationship in time (Damperat 2007). There is no agreement among researchers on the definition of relationship marketing (Copulsky and Wolf, 1990). However, there is a consensus on the willing to set up and preserve a valued relationship (Weitz and Jap, 1995). Accordingly, Morgan and Hunt (1994) defined relationship marketing by the maintenance and development of successful relationships with clients in the long run (Matri Ben Jemaa, 2011).

Several models have been developed to enrich the knowledge inherent to this concept. For example, Hutt and Speh (1998), presented a continuum from pure transaction to a strategic alliance. In this continuum, pure transactional exchange refers to the exchange of commodities according to market prices while the pure collaborative exchange refers to the process where a client and a supplier form economic, social and technical bonds over years, in order to reduce costs and increase the value and mutual benefits (Anderson and Narus, 1991).

The challenge for most companies today is to thrive in a relationship economy (Cap Gemini Ernst and Young, 2005). Competition for the most profitable customer relationships is extremely tough and companies need to know who their customers are. This includes aspects like their preferences, their habits, and their experiences with companies and very importantly, their value. Customers have become very demanding and their expectations have increased to new heights. The environment has evolved into a complex landscape, which has resulted in the high value placed on relationship marketing today. Relationship marketing has evolved from a primary focus on consumer goods in the 1950s, industrial marketing in the 1960s, non-profit and societal marketing in the 1970s, services marketing in the 1980s and finally, relationship marketing in the 1990s (Christopher, Payne and Ballantyne, 1991). Gronroos (1994) stated that a paradigm shift is evolving in marketing from the focus on the four P"s of marketing - product, price, place and promotion - to a new approach based on building and management of relationships. Relationship marketing, as part of marketing, involves the relationships and interactions between customers, suppliers, competitors, and others. This, however, does not mean that the four P"s are less valuable, but that the focus has moved to a new paradigm where a more market-oriented drive and the customer as the focal point are suggested as the marketing concept. Relationship building can be seen as the cornerstone of marketing (Gronroos, 1994). Relationship marketing has focused on customer retention, service, and product benefits, a long-term scale, service emphasis, high customer commitment, customer contact, quality, and finally customer loyalty (Cheese, 1994; Gummesson, 1998; Abratt and Russell, 1999). The focus of Relationship marketing is to move customers up the ladder of loyalty (Voss and Voss, 1997). The relationship marketing strategy also seeks to change the market demands in favour of a particular company by providing unique value, which must be sustainable over time. It is seen as a combination of quality, customer service, and marketing. The key relationship is based on the relationship between the supplier and the customer. All of this reflects the notion that the centre of the relationship marketing philosophy is to make the most of existing customers (retention) to enable the company to make long-term profits.

Relationship marketing is similar to the concept of one-to-one marketing. One-to-one marketing means "to be willing and able to change your behaviour toward an individual customer based on what the customer tells you and what else you know about that customer"



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(Peppers, Rogers and Dorf, 1999). It is grounded in the principle of establishing a learning relationship with each customer, with the focus on your most valuable ones. The marketing concept sees customer satisfaction as the highway to profits (Perreault and McCarthy, 2002). However, although it seems logical, it is not automatic, as satisfaction does not by itself lead to profits (Gummesson, 1998). The customer relationship must be maintained to sustain repurchase loyalty and retention, which will lead to profitability. Providing continuous value to customers underpins the relationship (Cram, 2001).

The advantage of this theory is that it helps to build loyal and profitable long-term relationships with each customer. Relationship-based marketing can result in long-term retention, which leads to improved financial and market performance and an increased competitive edge. Telecommunication industries that embrace the marketing concept see customer relationship as the way to promote the building of bonds with customers to ensure long-term relationships of mutual advantage. This theory will guide us in examining the effectiveness of Customer relationship management on customer retention in MTN and Airtel telecommunication companies in Uyo metropolis.

*d) Empirical Review*

This section aims to provide a review of the empirical literature on the effect of customer relationship management on customer retention in organizations.

Khedkar (2015), in his study on the "Effect of customer relationship management on customer satisfaction and loyalty", found that CRM is needed in any organization and this will result in optimizing profitability, income and meeting the needs of customers. The utmost thing that CRM provides is customer satisfaction. An effective CRM will lead to customer satisfaction and if the customer is satisfied, it drives towards the positive word of mouth and loyalty. This, in fact, helps in leveraging the business as well as generating more revenues and profits.

Reichheld, 1996 in his research on the "The Loyalty Effect" opined that managing customer relationships effectively and efficiently boosts customer satisfaction and retention rates. A similar trend was also reported by Levine, 1993 in his work on "Relations marketing".

In consonance to the contributions made by the above-mentioned researchers, Kassanoff (2000) in his research on "Building loyalty into your e-business" elucidated that CRM applications help organizations assess customer loyalty and profitability on measures such as repeat purchases and longevity. According to the researcher, CRM applications help answer questions such as "What products or services are important to our customers? How should we communicate with our customers? What are my customer's favourite colours or what is my customer's size?" In particular, customers benefit from the belief that they are saving time and money as well as receiving better information and special treatment (Kassanoff, 2000).

Nwankwo and Ajemunigbohun (2013) in their quest for knowledge to study the "Customer Relationship Management and Customer Retention: Empirical Assessment from Nigeria's Insurance Industry" reported that a significant and indeed a positive relationship existed between CRM and customer retention. From their surveyed respondents, they found out that CRM, indeed, creates values to the insuring public in Nigeria.

In the study of Kotler and Armstrong (2008), it was reported that the goal of any organization should go beyond attracting new customers and creating transactions but should also include retaining existing customers. Also, a long-term relationship leads to lower relationship costs and higher profits.

A research carried out by Day (2008) on "Managing Market Relationships" had proven that customers who are loyal not only improve an organization's profit but also strengthen its competitiveness

Rust and Zahorik (1993) on their investigation on "Customer Satisfaction, Customer Retention and Market Share" reported that the cost of customer retention activities is less than the cost of acquiring a new customer. In today's highly competitive business environment, while gaining new customers is good news, the flip side is the loss of customers through defection.

In the words of Omotayo et al. (2008), all successful companies must learn how to retain customers even when the customer appeared satisfied. According to Reichheld (1996), some unsatisfied customers may choose not to defect, because they do not expect to receive that better service delivery elsewhere and vice versa. Therefore, customer satisfaction is viewed as an important indicator of customer retention, but customer satisfaction is not always an assurance of customer retention. Retained customer is a function of a number of variables; choices, conveniences, price and income (Gan et al, 2006). It has been proved in the literature that there is a link between customer loyalty and organizational profitability (Reichheld, 1996). This is, as a consequence of the reduced cost of retaining a customer and achievement of a zero defection of profitable customers. However, retention should not be taken for loyalty. Loyalty is valid when customers have options to choose from. As such, service providers should understand why customers choose to stay and should not assume that it is a positive conscious choice (Colgate et al., 1996). This is because; they may be lured away by attractive offers made by competitors when they experience dissatisfaction incidents (Jones and Farquher, 2003).



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In the views of Kassim and Abdullah (2010), the success in achieving customers' retention begins with the identification of the need, the level of satisfaction which continues throughout the entire lifetime of a relationship (Kandampully and Suhartanto, 2000). They further explained that the ability of every establishment or organization to entice, retain current customers and attract new customers is not only connected to its item for consumption or services but essentially associated with the image and reputation it creates within and across the marketplace. Customer retention goes beyond satisfying the present expectations of the customers instead it is helpful in anticipating their expectations so that they become loyal supporters and promoters for the company's brand.

Finally, Ehigie (2006) asserted that customers' retention will become a distant dream if the following are not taken into consideration:

i. Relieving customers from anxiety and fears (Naeem and Saif, 2009),
ii. Demonstration by actions that the organization cares for them (Lucas, 2005),
iii. Paying urgent attention to customers' needs and requirements (Oyeniyi and Abiodun, 2008),
iv. Proving that the organization values, recognizes and respect them (Petasis and Opoku-Mensah, 2009).
v. Maintaining a consistent contact and paying quick attention to their complaints (Saunders and Petzer, 2010),
vi. Acknowledging them and keeping them informed (Patterson, 2004),
vii. Commitment to customer fulfilment by every member of staff (Lee and Hwan, 2005),
viii. Dependable on-time delivery, error-free-delivery process and employing exceptional persons to deliver better customer service (Kassim and Abdullah, 2010).

## III. Method of Study

*a) Brief Outline*

We discussed the blueprint for the collection, measurement and analysis of data under this section. The procedures and techniques that were used in the collection, processing and analysis of data were discussed below as, research design, target population, sampling design, data collection instruments, data collection procedures and finally data analysis.

*b) Research Design*

Research design is the plan and structure of investigation so as to obtain answers to our pertinent questions. The Research design structures the research problem and the plan of investigation in order to obtain empirical evidence in relation to the problem under study. The method used for data collection is Survey Research, which is Exploratory in nature. Surveys are useful in describing the characteristics of a large population. Additionally, high reliability is easy to obtain by presenting all subjects with a standardized stimulus which ensures that observer subjectivity is greatly eliminated (Mugenda and Mugenda, 1999). Surveys according to Robson (2002), is the collection of information from a group through interviews or the application of questionnaires to a representative sample of that group. This design is preferred because very large samples are feasible, making the results statistically significant even when analysing multiple variables.

*c) Characteristics of the Study Population*

The population of this study is confined to the customers and staff of telecommunication industries within Uyo metropolis in Akwa Ibom State. In Uyo, there are four major organizations that are providing telecommunication services to the customers namely, MTN, Airtel, Globacom and Etisalat. The study focused on staff that directly deals with customers since they are the ones conversant with the customers' needs and manages the customers' relationships. Mugenda and Mugenda. (2003), explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. This definition assumes that the population is not homogeneous. So the researchers examined a sample of staff and customers drawn from the population of staff and users of the four (4) telecommunication networks in Uyo metropolis.

*d) Sampling Design and Procedures*

The study employed a random sampling technique. Random sampling was chosen as it gives the objects equal opportunity of being sampled (Bryman. 2008). The sampling points were the companies' offices and other telecommunication users found within and outside the companies' premises. The researchers distributed self-designed questionnaires among the staff and customers of MTN, Airtel Globacom and Etisalat in Uyo.

*e) Data Instruments*

The researchers used a questionnaire as an instrument of the survey method. This questionnaire had two parts; one for the customers and the other part for the staff of these companies. The first part consisted of demographic questions regarding the gender, age, level of education, telecom network which they use and duration of usage. The second part of the questionnaire comprised of research questions to assess the customers' and staff's perception of customer relationship management. The items of the questionnaire were assessed by using the 5-point Likert Scale. The items are graded from 1 - 5 and arranged from 1 - strongly agree, 2 - agree, 3 - undecided 4 - disagree and 5 - strongly disagree.



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*f) Data Administration and Collection*

The researchers sought permission from the management of the network companies and distributed the questionnaires to the staff respondents. These questionnaires were personally administered by the researcher to ensure that they were properly filling and returned, and ensured that clarity of content and instructions in filling the questionnaires were correctly stated. This led to the majority of the questionnaires being filled and returned. 1000 out of 1200 questionnaires for both customers and staff were correctly filled and returned, resulting in 83.33 per cent response rate.

*g) Procedures for Processing Collected Data*

Before processing the responses, the completed questionnaires were edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories.

*h) Method of Data Analysis*

In analysing the data collected, the percentages method of data analysis was used. The data was presented in a tabular form for easy understanding. Chi-square was used as a statistical tool for testing data based on independent random samples.

The formula is as follows:

$$\chi_c^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

Where O = Observed frequency

$E_i$ = Expected frequency

i. *Decision Rule*

Reject null Hypothesis if calculated value (X ) is greater than critical value and accept the null Hypothesis if the calculated value of (X ) is less than the critical value.

The degree of freedom = (n-1) (K-l)

Where df = degree of freedom

N = number of rows

K = number of columns

## IV. Data Presentation and Analysis

*a) Data Presentation*

We present in this section, our analysis and findings. The findings were presented on the bases of the effect of Customer Relationship Management (CRM) on customer retention in telecommunication companies within Uyo metropolis. The data were gathered exclusively from the administered and collected questionnaires as research instruments which were designed in line with the objectives of the study.

*b) Presentation and Analysis of Data*

*Table 4.2.1:* Analysis of Respondents' Demography

| Demographic attributes of respondents | Number of respondents | Percentage (%) |
|---|---|---|
| **Gender** | | |
| Male | 455 | 45.50 |
| Female | 545 | 54.50 |
| **Total** | **1000** | **100** |
| **Age** | | |
| 15 years and below | 14 | 1.4 |
| 16 - 24 years | 359 | 35.90 |
| 25 -35 years | 482 | 48.20 |
| 36 - 50 years | 101 | 10.10 |
| 51 -65 years | 27 | 2.70 |
| 66 years and above | 17 | 1.70 |
| **Total** | **1000** | **100** |
| **Educational qualification** | | |
| SSCE/GCE/NECO | 330 | 33.00 |
| Diploma/NCE/OND | 77 | 7.70 |
| HND/B.Sc/B.A | 488 | 48.80 |
| Post graduate and professional qualification | 105 | 10.50 |
| **Total** | **1000** | **100** |

*Source: From Field Survey*

Table 4.2.1 above shows the result of the analysis of the respondents' demography, showing that, 455 (45.50%) of the respondents were males while 545(54.50%) were females.

As regards the age of the respondents, 14 (1.4%) of the respondents were between the ages of 15 years and below, 359 (35.90%) were' between the ages of 16 - 24years, 482 (48.20%) were between the ages of 25 - 35 years, 101(10.10%) were between the ages of 36 - 50 years, 27(2.70%) were between the ages of 51 - 65 years and 17 (1.70%) of the respondents were between the ages of 66 years and above.

In terms of educational qualification of the respondents, 330 of the respondents (33%) had O' Level



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certificate, 77 (7.70%) had an Ordinary National Diploma (OND) and its equivalent; 488 (48.80%) had HND, B.Sc. or B.A., while the remaining respondents of 105 (10.50%) had post-graduate and professional qualifications. Therefore, a large number of the respondents of about 670 representing 67 % are well educated to participate meaningfully in the study.

*c) Network Usage by Population*

*Table 4.2.2:* GSM Network Usage

| GSM Network | Network Usage | Percentage |
|---|---|---|
| Airtel | 401 | 40.10 |
| MTN | 332 | 33.2 |
| Glo | 77 | 7.7 |
| Etisalat | 190 | 19.00 |
| Total | 1000 | 100 |
| **Duration of usage GSM Network** | | |
| Below one year | 141 | 14.10 |
| 1-5 years | 297 | 29.70 |
| 5 - 1 0 years | 396 | 39.60 |
| 10 years and above | 166 | 16.60 |
| Total | 1000 | 100 |

*Source: From Field Survey*

As regards the GSM network used by the respondents, we observed that majority of the respondents uses Airtel i.e. 401 respondents (40.10%) while, 332 of them (33.2%) uses MTN network, and 77 respondents (7.7%) are users of Glo network and 190 representing 19% of the respondents are subscribers of Etisalat.

With regards to the number of years of usage, we found that, 141 of them representing 14.10% have been connected to their networks for less than one year, 297 of them (29.70%) have been on their networks ranging from 1 to 5 years, 396 respondents (39.60%) have been connected to their GSM network for 5 to 10 years while 166 respondents (16.60%) have been patronizing their respective GSM networks for 10 years and above. In all, 562 respondents (56.20%) have really stayed long on their various networks and are able to respond to various issues raised on the questionnaires. This also indicates that a large number of respondents are loyal to their respective networks.

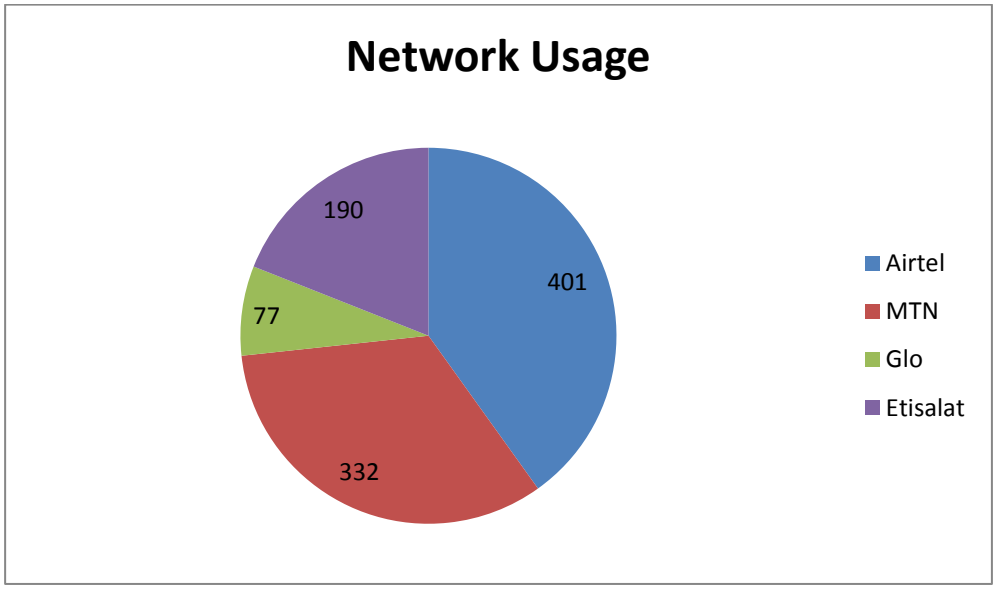



*Figure 1A:* A Pie chart showing numerical demography of Network users



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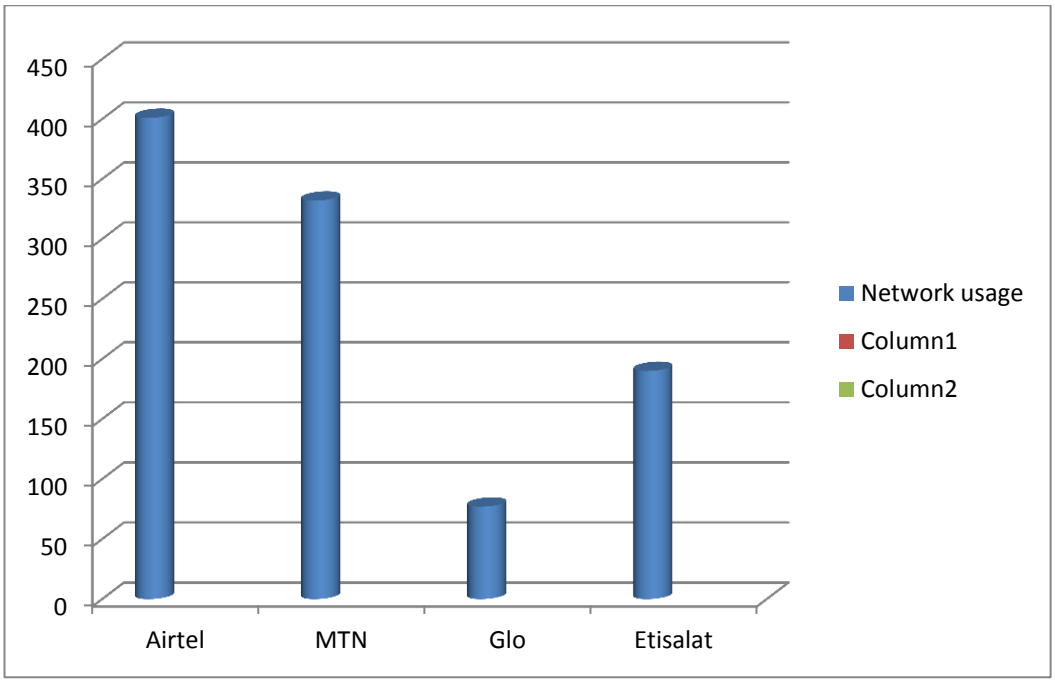



*Figure 1B:* A Bar Chart showing numerical demography of Network users

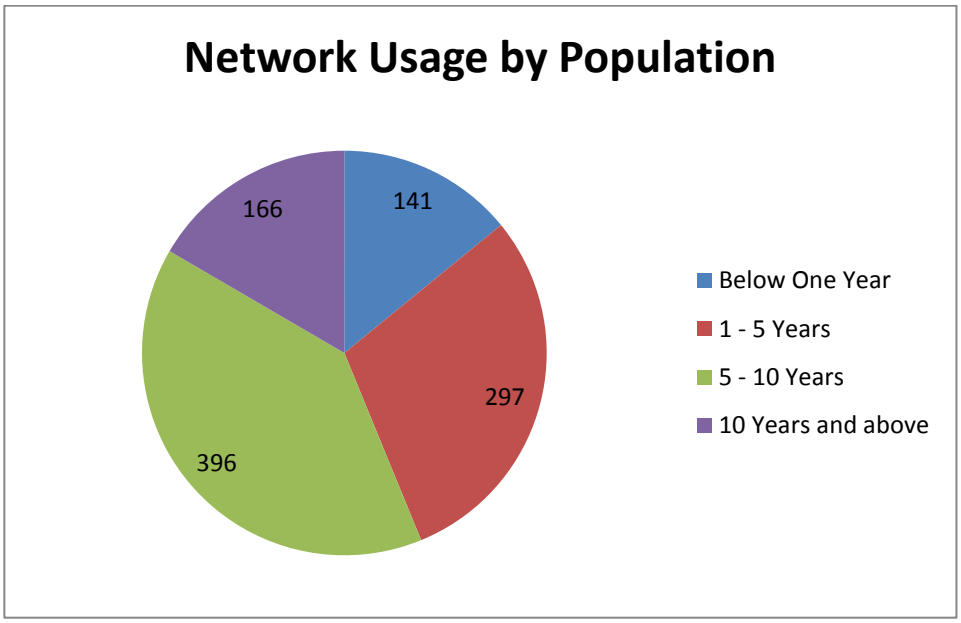



*Figure 2:* A Pie Chart of Network Usage by Population



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*d) Presentation of CRM*

*Table 4.3.1:* Question one: What are the significant impacts of CRM on customer retention?

| Options | MTN | Airtel | Glo | Etisalat | Number of respondents | Percentage (%) |
|---|---|---|---|---|---|---|
| Network satisfaction | 188 | 211 | 51 | 102 | 552 | 55.20 |
| It ensures quick and reliable customer service response | 35 | 66 | 5 | 25 | 131 | 13.10 |
| Reduces the cost and stress of my switchin to other networks | 61 | 46 | 6 | 21 | 134 | 13.40 |
| It provides customer friendly/quality services | 48 | 78 | 15 | 42 | 183 | 18.30 |
| Total | 332 | 401 | 77 | 190 | 1000 | 100 |

*Source: From Field Survey*

From the above table, 552 (55.20%) respondents stated that CRM enhances satisfaction, 131 (13.10%) agreed that CRM ensures quick and reliable customer service response, 134 (13.40%) of the respondent said CRM reduces the cost and stress of switching to other networks while 183(18.30%) of the respondent stood on the grounds that CRM provides customer friendly/quality services.

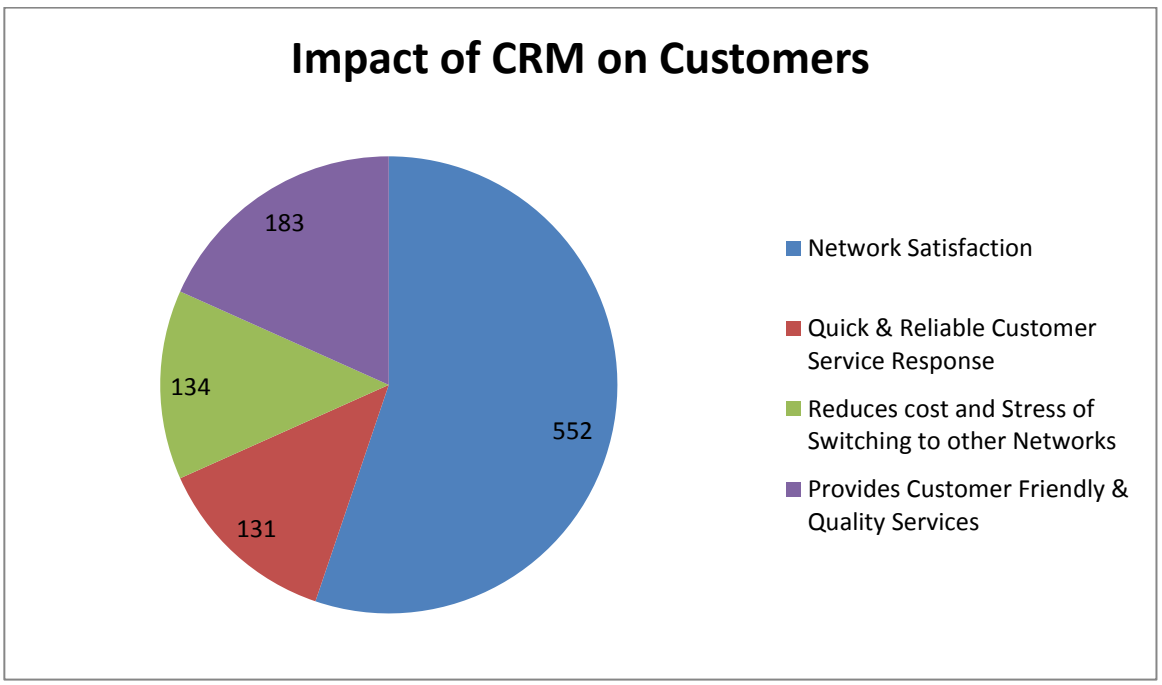



*Figure 3:* Impact of CRM on Customers



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*Table 4.3.2:* Research Question Two

*Table 4.3.2:* What are the CRM strategies/tools used in customer retention?

| Options | MTN | Airtel | Glo | Etisalat | Number of respondents | Percentage (%) |
|---|---|---|---|---|---|---|
| Friendly customer service response/prompt solution to network problems | 156 | 194 | 45 | 110 | 505 | 50.50 |
| Promotions provided by service providers/free gift items to customers | 30 | 44 | 8 | 4 | 86 | 8.60 |
| Cheap and affordable call rates/good networks/internet service | 131 | 153 | 19 | 73 | 376 | 37.60 |
| Free Text messages by service providers & free Recharge Cards | 15 | 10 | 5 | 3 | 33 | 3.30 |
| Total | 332 | 401 | 77 | 190 | 1000 | 100 |

From the above table, we observed that 505 respondents representing 50.50% opted for friendly customer service response/prompt solution to network problems, 86 (8.60%) went for promotions by service providers/free gift items to customers, 376 (37.60%) opted for cheap and affordable call rates/ good networks and internet service and finally 33 (3.30%) represented the respondents who chose text messages by service providers and free recharge cards.

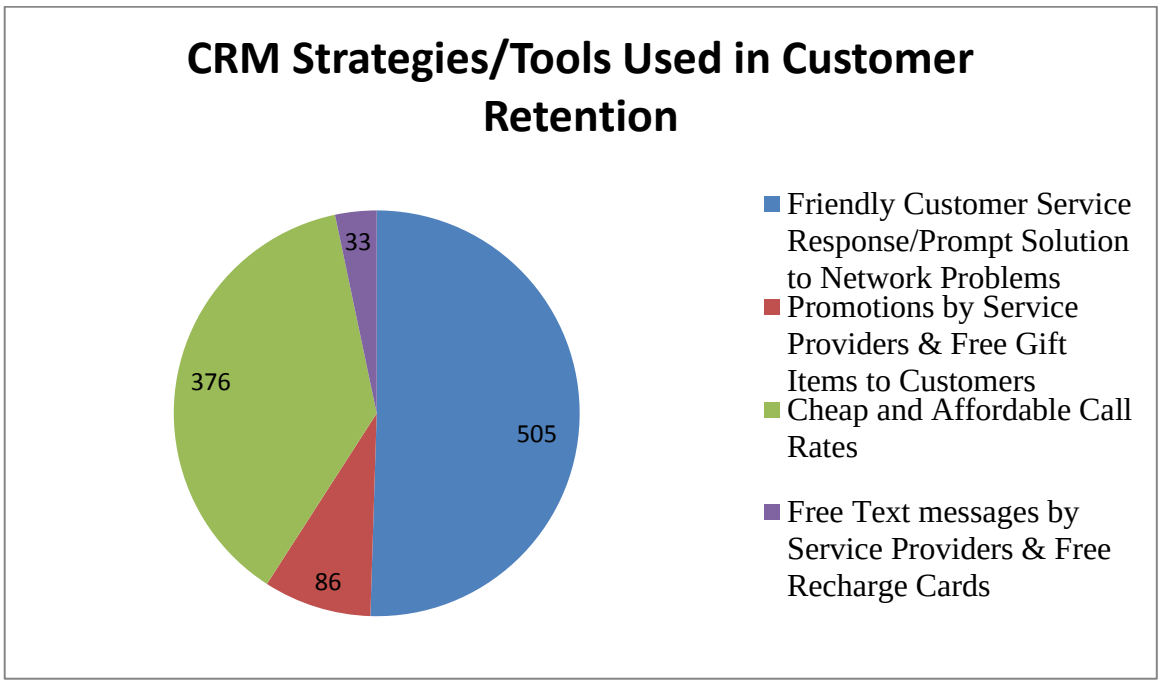



*Figure 4:* Pie Chart showing the various CRM Strategies & Tools used in Customer Retention



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*Table 4.3.3:* Research Question Three: Are there any existing CRM in telecommunication companies?

| Options | MTN | Airtel | Glo | Etisalat | Number of Respondents | Percentage (%) |
|---|---|---|---|---|---|---|
| Yes | 254 | 291 | 45 | 130 | 720 | 72.00 |
| No | 42 | 50 | 20 | 26 | 138 | 13.80 |
| Undecided | 36 | 60 | 12 | 34 | 142 | 14.20 |
| Total | 332 | 401 | 77 | 190 | 1000 | 100 |

*Source: Answers from Field Survey.*

With regards to Research Question 3, whether there were any existing CRM practices in telecommunication Companies, We observed that 720 users of all the networks representing 72.00% of the respondents went for yes, 138 (i.e. 13.80%) went for No, while the remaining 142 (14.20%) respondents were undecided as regards the existence of CRM.

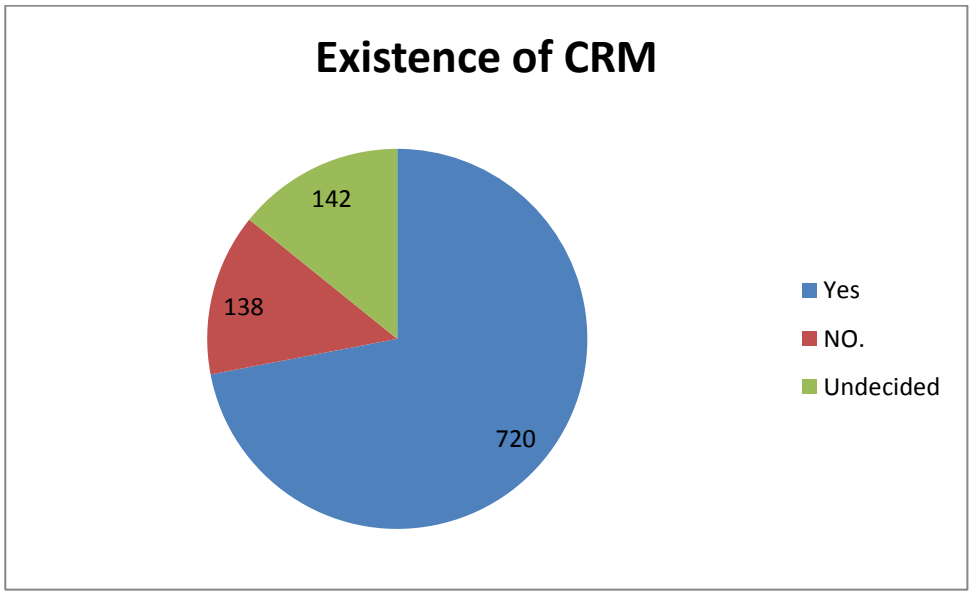



*Figure 5:* A Pie Chart showing the Existence of RCM in Telecommunication Network

*e) Presentation According to Customers' Perception of CRM*

*Table 4.4.1:* What is your perception of the use of CRM strategies by service providers?

| Options | MTN | Airtel | Glo | Etisalat | Number of respondents | Percentage (%) |
|---|---|---|---|---|---|---|
| It is a good strategy by Service Providers | 94 | 103 | 31 | 85 | 313 | 31.30 |
| It is an exploitative strategy | 5 | 9 | 1 | 6 | 21 | 2.10 |
| It is a tool used in increasing profit for the firms | 162 | 214 | 35 | 75 | 486 | 48.60 |
| It is not necessary as it does not influence patronage | 3 | 5 | 3 | 4 | 15 | 1.50 |
| It is a welcomed development | 68 | 70 | 7 | 20 | 165 | 16.50 |
| **Total** | **332** | **401** | **77** | **190** | **1000** | **100** |

*Source: From Field Survey*



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With respect to the customers' perception towards the use of CRM strategies by service providers, 313 (31.30%) respondent are in total agreement that CRM is a good strategy introduced by service providers, while 21 (i.e. 2.10%) of the respondents are of the view that CRM is an exploitative strategy, 48.60% representing 486 respondents maintained that CRM is a tool used in increasing profit for the firms, whereas 15 representing 1.50% of the respondents were of affirming support that CRM is not necessary as it does not influence patronage and 165 of the respondents (16.50%) maintained that CRM is a welcome development.

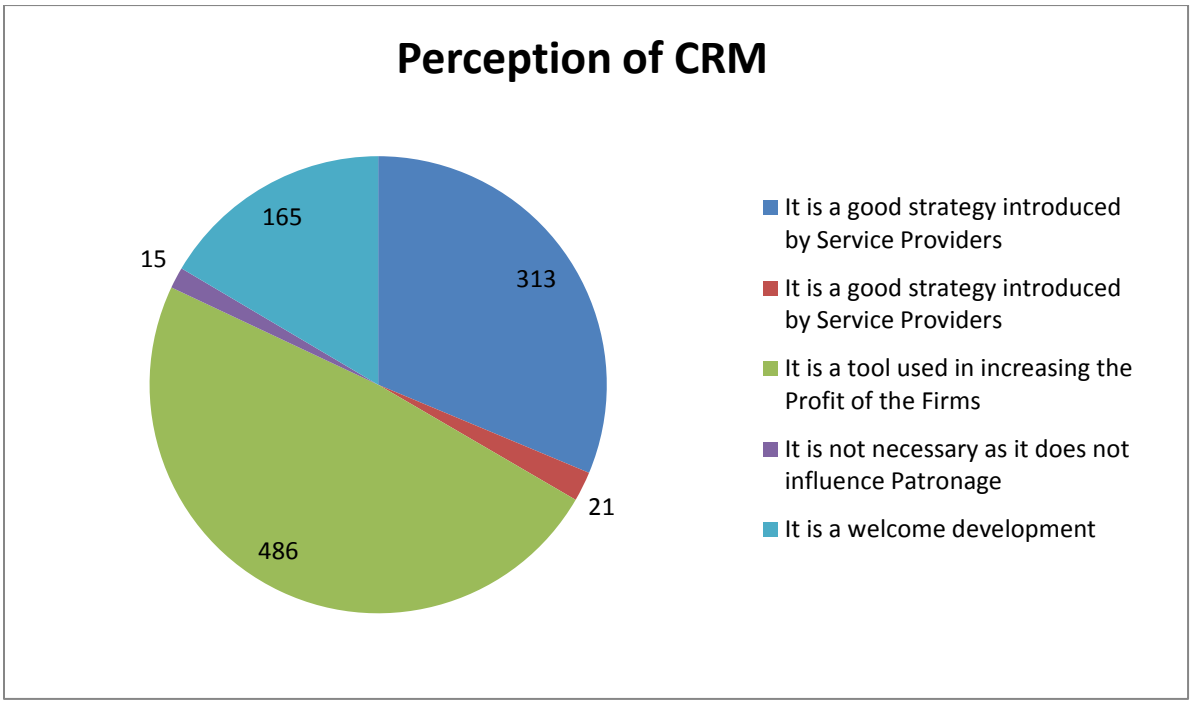



*Figure 6:* The Perception of Customers over CRM

*Table 4.4.2:* Have CRM strategies adopted by your network service provider influenced your continued patronage?

| **Options** | MTN | **Airtel** | **Glo** | **Etisalat** | **Number of respondents** | **Percentage** (%) |
|---|---|---|---|---|---|---|
| Strongly agree | 119 | 141 | 28 | 51 | 339 | 33.90 |
| Agree | 161 | 186 | 33 | 88 | 468 | 46.80 |
| Undecided | 40 | 52 | 6 | 39 | 137 | 13.70 |
| Disagree | 10 | 15 | 4 | 9 | 38 | 3.80 |
| Strongly disagree | 2 | 7 | 6 | 3 | 18 | 1.80 |
| Total | 332 | 401 | 77 | 190 | 1000 | 100 |

*Source: From Field Survey*

From the above table, 339 of the respondents representing 33.90% strongly agreed that CRM strategies by network service providers influence their continued patronage, 468 (46.80%) of the respondents agreed that they were influenced in the continued patronage as a result of CRM strategy; 137 (13.70%) were undecided on the question, 38 (3.80%) of the respondents disagreed while the remaining 18 respondents (1.80%) strongly disagreed on the raised question.



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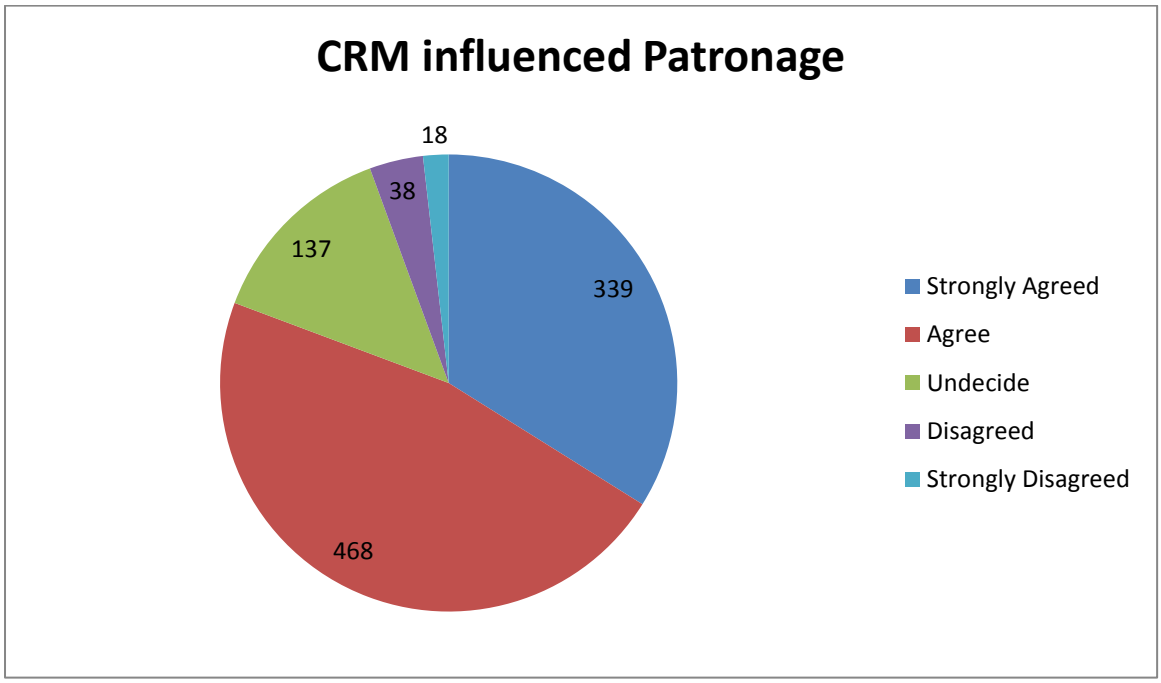



*Figure 7:* Pie Chart showing the Influence and Non Influence of CRM on Customers continued Patronage.

By adding the all agreed as well as the un-agreement over the influence of CRM on continued customer's patronage, we have the following table and figures:

| Options | MTN | Airtel | Glo | Etisalat | Number of respondents | Percentage (%) |
|---|---|---|---|---|---|---|
| Agreed | 280 | 372 | 61 | 139 | 807 | 80.70 |
| Undecided | 40 | 52 | 6 | 39 | 137 | 13.70 |
| Disagreed | 12 | 22 | 10 | 12 | 56 | 5.60 |
| **Total** | **332** | **401** | **77** | **190** | **1000** | **100** |

CRM Influence on Customers Continued Patronage.

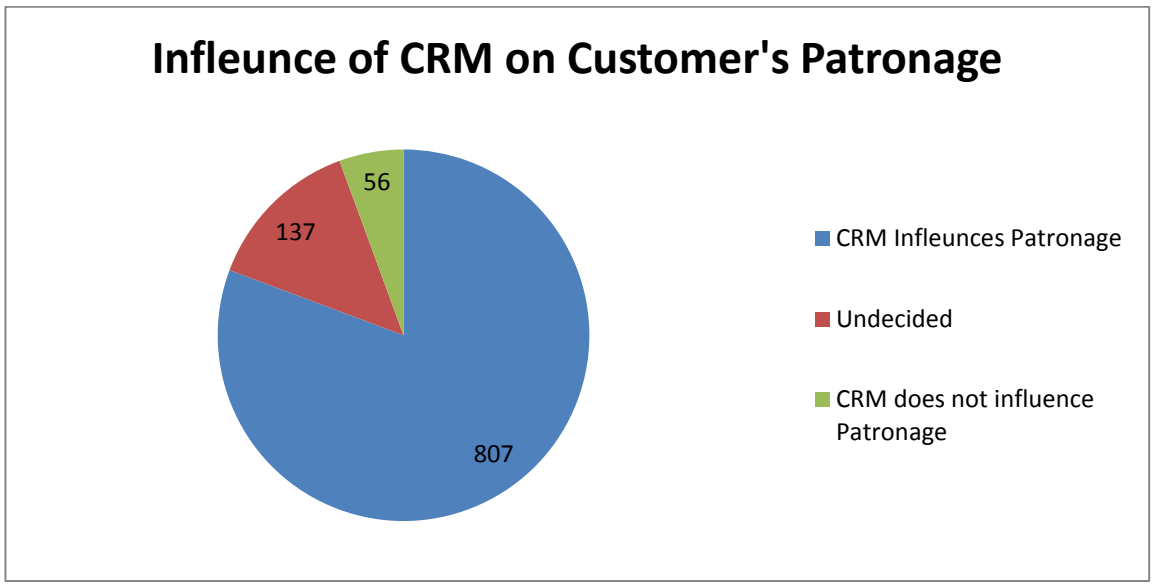



*Figure 8:* Pie Chart showing the Influence of CRM on Customer's Continued Patronage.



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*f) Network Users Decision as a Result of CRM*

*Table 4.4.3:* Will you remain loyal to your network service provider because of its CRM practices?

| Options | MTN | Airtel | Glo | Etisalat | Number of respondents | Percentage (%) |
|---|---|---|---|---|---|---|
| Strongly agree | 97 | 138 | 25 | 47 | 307 | 30.70 |
| Agree | 178 | 192 | 39 | 93 | 502 | 50.20 |
| Undecided | 38 | 50 | 9 | 30 | 127 | 12.70 |
| Disagree | 14 | 17 | 2 | 13 | 46 | 4.60 |
| Strongly disagree | 5 | 4 | 2 | 7 | 18 | 1.80 |
| Total | 332 | 401 | 77 | 190 | 1000 | 100 |

*Source: From Field Survey*

With regards to the customers remaining loyal to their network service provider because of CRM practices, 307 of the respondents representing 30.70% strongly agreed, 502 (50.20%) of the respondents agreed to the above-raised question, 127 (12.70%) were undecided on the question, 46 (4.60%) of the respondents disagreed while the remaining 18 respondents (1.80%) went for strongly disagreed.

Joining the Strongly Agreed and Agreed together we have total agreements as 809 (80.90%), Joining all the Strongly Disagree and the Disagree together, we have total disagreement as 127 (6.40%), whereas 64 (12.70%) are undecided. We, therefore, have the following pictorial presentation.

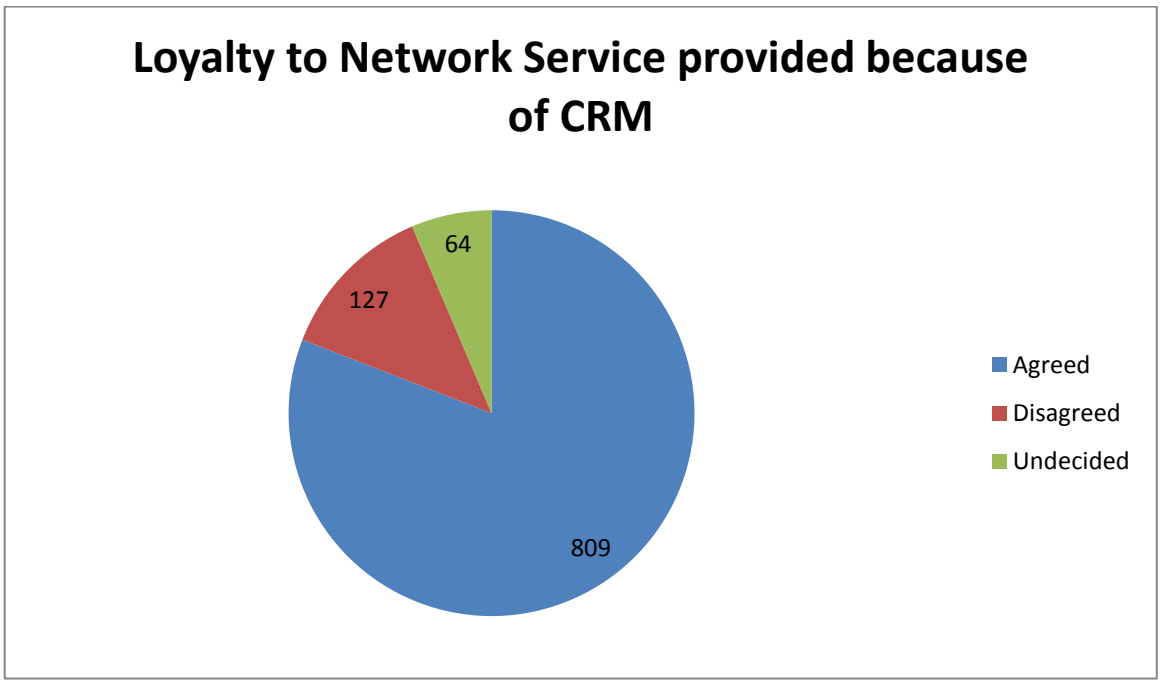



*Figure 9:* Pie chart showing loyalty to Customer's network service provider because of its CRM practices.



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*Table 4.4.4:* Is there a significant relationship between CRM and customer retention?

| Options | MTN | Airtel | Glo | Etisalat | Number of respondents | Percentage (%) |
|---|---|---|---|---|---|---|
| Strongly agree | 201 | 252 | 50 | 101 | 604 | 60.40 |
| Agree | 61 | 73 | 9 | 51 | 194 | 19.40 |
| Undecided | 32 | 45 | 11 | 29 | 117 | 11.70 |
| Disagree | 23 | 19 | 4 | 6 | 52 | 5.20 |
| Strongly disagree | 15 | 12 | 3 | 3 | 33 | 3.30 |
| **Total** | **332** | **401** | **77** | **190** | **1000** | **100** |

*Source: From Field Survey*

From the table above, 604 of the respondents (60.40%) went for strongly agreed to the raised question, 194 (19.40%) of the respondents agreed to the question, 117 (11.70%) were undecided on the question, 52 (5.20%) of the respondents disagreed while 33 (3.30%) of the respondents went for strongly disagreed.

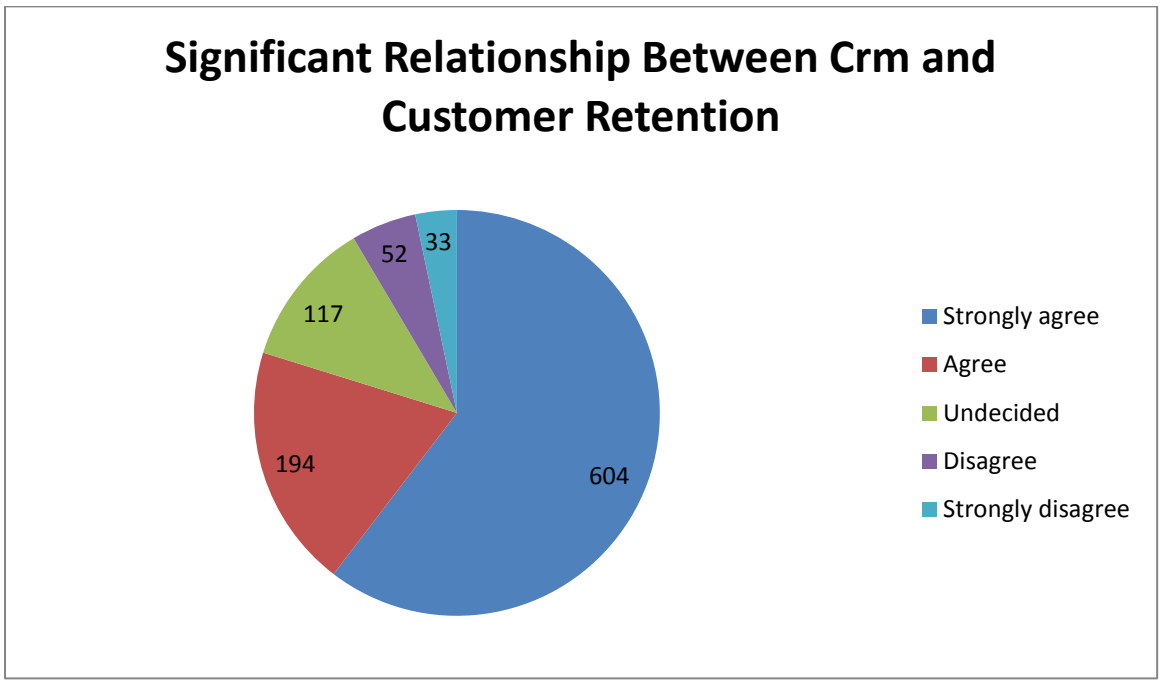



*Figure 10:* Pie Chart showing significant Relationship between CRM and Customer Retention.

*g) Likelihood of Switching over Network Providers for lack of CRM*

*Table 4.4.5:* Will you switch to another network if your network service provider stops customer relation management (CRM) practices?

| Options | MTN | Airtel | Glo | Etisalat | Number of respondents | Joint Total | Joint Percentage (%) |
|---|---|---|---|---|---|---|---|
| Strongly agree | 98 | 200 | 47 | 109 | 454 | 799 | 79.90 |
| Agree | 156 | 134 | 15 | 40 | 345 | | |
| Undecided | 58 | 25 | 6 | 21 | 110 | 110 | 11.00 |
| Disagree | 12 | 15 | 7 | 6 | 40 | 91 | 9.10 |
| Strongly disagree | 8 | 27 | 2 | 14 | 51 | | |
| **Total** | **332** | **401** | **77** | **190** | **1000** | **1000** | **100** |

*Source: From Field Data*



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With regards to switching to another if their network providers stopped customer relation management (CRM) practices, 454 (45.40%) of the respondents opted for strongly agreed, 345 (34.50%) agreed, 110 (11.0%) were undecided on the question, 40 respondents (4.0%) went for disagree while 51 respondents (5.10%) strongly disagreed.

We present the pictorial chart of the joint totality of the despondences as follows:

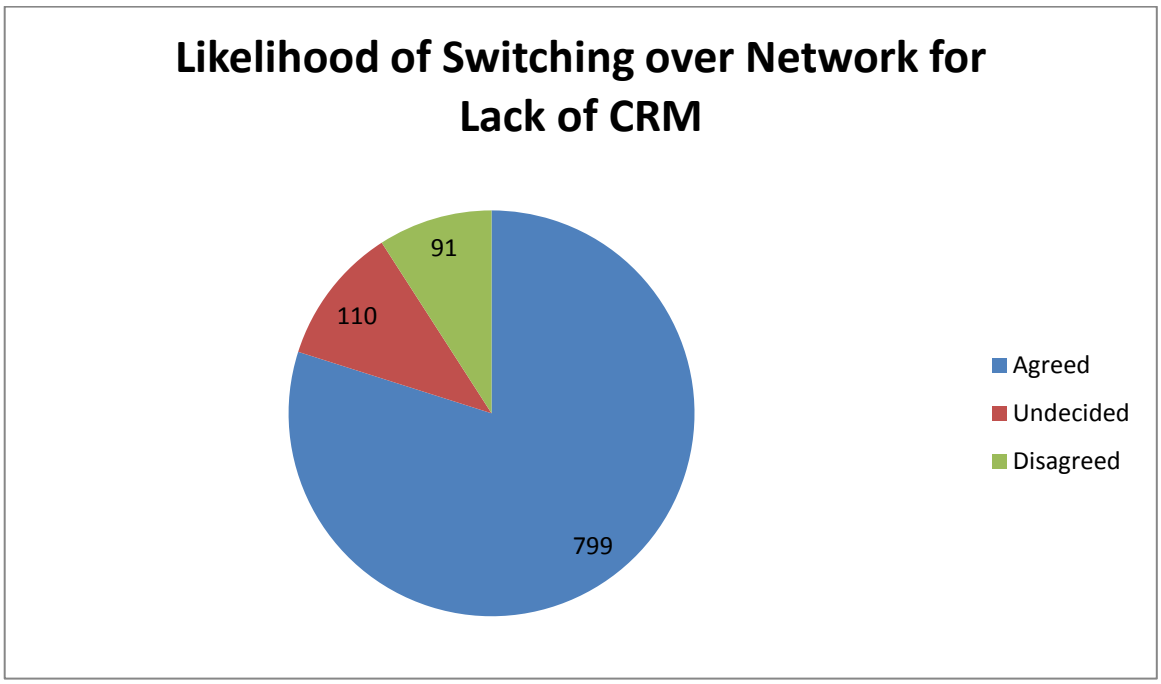



*Figure 11:* Pie chart showing all the likelihood of customers switching to another network for lack CRM practices.

*h) Test of Hypothesis*

The hypotheses which were stated in section one will be tested for acceptance or rejection. The hypothesis can either be null (H0) form only or the alternative hypothesis (H1) stated along. After testing, the Null hypothesis is accepted and the alternate rejected or verse versa. If we cannot reject the null hypothesis, we do not conclude that the null hypothesis is true but merely that it may be true.

i. *Test of Hypothesis One*

*H0:* There is no customer relations management (CRM) towards customer retention in MTN, Airtel, Glo and Etisalat telecommunication companies in Uyo metropolis.

*H1:* There is customer relations management (CRM) towards customer retention in MTN, Airtel, Glo and Etisalat telecommunication companies in Uyo metropolis.

Using Table 4.3.1

| Options | Mtn | Airtel | Glo | Etisalat | Number of respondents | Percentage (%) |
|---|---|---|---|---|---|---|
| Network satisfaction | 188 | 211 | 51 | 102 | 552 | 55.20 |
| It ensures quick and reliable customer service response | 35 | 66 | 5 | 25 | 131 | 13.10 |
| Reduces the cost and stress of my switching to other networks | 61 | 46 | 6 | **21** | 134 | 13.40 |
| It provides customer friendly/qualityservices | 48 | 78 | 15 | 42 | 183 | 18.30 |
| Total | 332 | 401 | 77 | 190 | 1000 | 100 |



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Using the Chi-Square formula:

$$\chi_c^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

Where $O_i$ = Observed frequency

$E_i$ = Expected frequency

$$\frac{1000}{4} = 250$$

$$E_i = 250$$

$$X^2 = \frac{(552-250)^2 + (131-250)^2 + (134-250)^2 + (183-25)^2}{250}$$

$$= \frac{91204+14161 + 13456 + 4489}{250}$$

$$= \frac{123310}{250}$$

$$X^2 = 493.24$$

Degree of freedom = (n-1) (K-l)
= (4-1) (4-1)
= 9

*Decision Rule*

Reject the null hypothesis if calculated value (X) is greater than the critical value and accept alternative hypothesis if calculated value (X2) is less than the critical value.

From the Chi-square values for 9 degrees of freedom at 5% level of significance, the tabulated X value is 16.919. This shows that the calculated value of X2 (493.24) is greater than the tabulated value of 16.919 (493.24 > 16.919).

Based on the above analysis, the null hypothesis (H0) is rejected and the alternative hypothesis (H1) accepted. This implies that there is an effect/impact of customer relationship management by telecommunication companies on customer retention.

ii. *Test of Hypothesis Two*

*H0:* There is no relationship between telecommunication companies and customers in MTN, Airtel, Glo and Etisalat in Uyo.

*H1:* There is relationship between telecommunication companies and customers in MTN, Airtel, Glo and Etisalat in Uyo.

Using Table 4.3.3 Responses

| Options | MTN | Airtel | Glo | Etisalat | Number of Respondents | Percentage (%) |
|---|---|---|---|---|---|---|
| Yes | 254 | 291 | 45 | 130 | 720 | 72.00 |
| No | 42 | 50 | 20 | 26 | 138 | 13.80 |
| Undecided | 36 | 60 | 12 | 34 | 142 | 14.20 |
| Total | 332 | 401 | 77 | 190 | 1000 | 100 |



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Using the Chi-Square formula:

$$\chi_c^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

Where $O_i$ = Observed frequency
$E_i$ = Expected frequency

$$\frac{1000}{4} = 250$$

$$E_i = 250$$

$$X^2 = \frac{(720-250)^2 + (138-250)^2 + (142-250)^2}{250}$$

$$= \frac{220900 + 12544 + 11664}{250}$$

$$= \frac{470826}{250}$$

$$X^2 = 980.43$$

Degree of freedom = (n-l)(k-l)
= (3 — 1) (4 — 1)
= 6

From the above analysis, the calculated value for X2 (980.43) is greater than the tabulated value for X2 being (12.592) for 6 degrees of freedom at 5% confident level. Therefore alternative hypothesis (H1) is accepted while the null hypothesis (H0) is rejected. The implication from the above analysis is that there is a relationship between customer relationship management and customer retention in telecommunication companies within Uyo metropolis.

Recalling Table 4.3.2 for use

iii. *Test of Hypothesis Three*

*H0:* There are no customer relations tools used by MTN, Airtel, Glo and Etisalat in retaining customers in Uyo metropolis.

*H1:* There are customer relations tools used by MTN, Airtel, Glo and Etisalat telecommunication companies in retaining customers in Uyo metropolis.

| Options | Mtn | Airtel | Glo | Etisalat | Number of respondents | Percentage (%) |
|---|---|---|---|---|---|---|
| Friendly customer service response/prompt solution to network problems | 156 | 194 | 45 | 110 | 505 | 50.50 |
| Promotions by service providers/free gift items to customers | 30 | 44 | 8 | 4 | 86 | 8.60 |
| Cheap and affordable call rates/good networks/internet service | 131 | 153 | 19 | 73 | 376 | 37.60 |
| Free Text messages by service providers/free recharge cards | 15 | 10 | 5 | 3 | 33 | 3.30 |
| **Total** | **332** | **401** | **77** | **190** | **1000** | **100** |



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Using the Chi-Square formula:

$$\chi_c^2 = \sum \frac{(O_i - E_i)^2}{E_i}$$

Where $O_i$ = Observed frequency
$E_i$ = Expected frequency

$$\frac{1000}{4} = 250$$

$$E_i = 250$$

$$= \frac{(505 - 250)^2 + (86 - 250)^2 + (376 - 250)^2 + (33 - 250)^2}{250}$$

$$= \frac{65025 + 26896 + 15876 + 47089}{250}$$

$$= \frac{154886}{250}$$

$$X^2 = 619.54$$

Degree of freedom = (n-1) (k-1)
= (4-1) (4-1)
= 9

From the above analysis, the calculated value for X2 (619.54) is greater than the tabulated value of X2 (16.919) for 9 degrees of freedom at 5% confident level. From the above result, we accept the alternative hypothesis (H1) and reject the null hypothesis (H0). The implication is that there are customer relationship management tools used by telecommunication companies in retaining customers in Uyo metropolis.

*i) Discussion of Results*

Based on the findings relating to the hypothetical submissions, the following observations were made:

The result obtained in hypothesis one shows clearly that CRM has a significant impact on the retention of customers as the calculated value for X2 (493.24) is greater than the tabulated value (16.919). The table also confirms, having a greater percentage (55.20) of the respondents who supported these results that the CRM practices by telecommunication network providers enhance customer satisfaction. This implies that customers' satisfaction is the driving force towards the retention of customers. This is inconsistent with the study carried out by Feliks and Panjaitan (2012) where they authenticated that companies implementing CRM in a proper way will enjoy increased customer satisfaction. This is also in line with the reports of Wetsch and Lyle (2006) who found that the potential impacts caused by CRM implementation are trust, satisfaction and customer loyalty. For customers to be retained they must be satisfied and this satisfaction is evidenced ineffective CRM practices and implementation among telecommunication companies. This view coincides with the report of Rahman (2014) that the key to customer loyalty is customer satisfaction, which largely depends on the quality of service offered by service providing firms. The low percentage of other options with regards to the effects/impact of CRM in customer retention may be attributed to the fact that it does not play a major role in motivating customers, as well as loyalty and retention processes of customers. This may be further explained to mean that if customers are satisfied with the company's services, they will be remaining loyal to such a company. Continued patronage and loyalty were also evidenced in the significant impacts of CRM in customer retention as succinctly pointed out by (Tables 4.4.2 and 4.4.3) having 80.70% of the respondents in total agreement that CRM strategies by their network service provider will influence their continued patronage and also, 80.90% of the respondents in Table 4.4.3 attested that they will remain loyal to their network service providers because of CRM practices. This further stresses the important role CRM plays in customer's patronage and loyalty. It is therefore imperative to say that, If CRM practices are lacking from network providers, it may cause a decline in customer retention. This was evidenced in table 4.4.5 as the majority of the



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respondents constituting 79.90% were in agreement that they will switch to another network if their network service providers stop customer relation management (CRM) practices. From the above-stated results, it is vital for telecommunication companies to ensure the continued practice of CRM to retain the loyalty and patronage of their customers.

(b) Our findings as regards Hypothesis two confirmed that there is a relationship between customer relations management and customer retention in telecommunication companies in Uyo metropolis. X2 calculated being 980.43 exceeded the tabulated value for X2 (12.592). In a relative dimension, 85.80% of the respondents were in agreement that there is a significant relationship between CRM and customer retention. This result was similarly corroborated by the result of table 4.4.4 which had 79.80% of the respondents in agreement that a significant relationship exists between CRM and customer retention. These results are in line with what Nwankwo and Ajemunigbohun (2013) reported for the Insurance industry. This may be interpreted to mean that ineffective practice of CRM may lead to a decline in the retention rates of customers, as customers tend to remain loyal to their network providers due to the good CRM practices that exist between the subscribers and the network providers. Therefore, it is pertinent to keep the practice of CRM effective even to a larger extent so as to ensure steady and continuous retention of customers in the future.

(C) Hypothesis three shows that there are various CRM strategies/tools employed by different telecommunication providers in attaining customer retention. This was established using the Chi-square analysis as X2 calculated was 619.54 which is higher than the tabulated value of X2 (16.919). These CRM tools are evidenced in various forms such as friendly customer services response/prompt solution to network problems, promotions granted by service providers as well as giving free gift items to customers, cheap and affordable call rates/good network and internet services and free text messages floated by service providers and free recharge cards issued. Friendly customer service response/prompt solution to network problems dominated out of the four CRM strategies/tools employed by service providers at 50.50% and this was followed by cheap and affordable call rates/good network and internet service of 37.60%. From the above, we deduced that these two CRM tools are conspicuous and primarily influenced by the decisions of customers in remaining loyal to their network providers. The low percentage of other CRM tools/strategies may be an indication that such tools and strategies are not effectively practised by the various telecommunication providers in the retention of customers. As such, telecommunication providers are enjoined to adopt more attractive means/tools to ensure further mass capture and retention of their subscribers.

## V. Summary, Conclusion and Recommendation

### a) *Summary*

This study examined customer relations management strategy as a tool for customer retention in telecommunication providers within Uyo metropolis. The study also investigated the CRM tools/strategies used by telecommunication companies in retaining customers as well as investigating if there is a relationship between CRM and customer retention. A population size of 1200 was chosen and questionnaires distributed evenly. 1000 out of 1200 questionnaires were returned. The returned questionnaires were collated and used to make inferences based on the responses each respondent provided in the questionnaire. This study had a good response from the sample size selected and provided great insight into the study area. Chi-square analysis was used to test the hypothetical statements in this study. Inferences from the analyses were drawn for the conclusion.

From the findings of this study using hypothetical statements, it was established that there is Customer Relations Management (CRM) towards customer retention in telecommunication providers in Uyo Metropolis. Our findings revealed that there exists a significant relationship between CRM and customer retention; having CRM tools/strategies which were employed by telecommunication providers in customer retention bid.

### b) *Summary of Major Findings*

Based on the data obtained and analysed, the followings were our major findings:

i. There is customer Relations Management towards customer retention in MTN, Airtel, Glo and Etisalat in Uyo metropolis as 55.20% of the sample respondents orated that CRM practised by these service providers enhance their satisfaction of which this study shows that satisfaction is a driving force towards the retention of customers.
ii. There is a significant relationship between CRM and customer retention as 85.80% of the respondents were in total agreement that there is a significant relationship between CRM and retention as confirmed from the testing of hypothesis.
iii. Telecommunication companies employ the use of various CRM tools in enhancing customer retention ranging from friendly customer service/prompt solution to network problems and from free gift items to bonuses offered to customers.

### c) *Conclusion*

Customer Relations Management (CRM) is a process that integrates the management of customer

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satisfaction by management heads of an organization and managing businesses in an effective way. CRM acts as a tool in facilitating the business and improving customer relationship with the organizations. Finally, after conducting this research and validating it through various data and quantitative analysis, it can be effectively stated that CRM is a determining factor towards customer retention and is required in any organization for profit maximization, accelerated income by meeting the needs of customers. The utmost thing that CRM provides is customer satisfaction. An effective CRM will lead to customer satisfaction which in turn drives the organization towards positive financial gains and loyalty of staff and customers. This, in fact, helps in leveraging the business as well as generating more revenues and profits. Nowadays, customer retention is becoming very flexible. Customers switch to products and services offered by other organizations when they are dissatisfied. Organizations should offer high-quality products and services with a competitive price in order to promote customer loyalty.

In conclusion, effective customer relations management is required as a useful mechanism to ensure and secure customers' satisfaction and loyalty.

*d) Recommendations*

Given the favourable effects of CRM practices on customer loyalty and retention, the logical question arises: at an individual level, how can companies, employees, especially people/organization who interact with customers daily, increase their contributions to successful CRM practices? This question can be answered effectively by recommending that:

i. Employees of these telecommunication providers should undergo training programs on Customer Relations Management (CRM) especially those in the Sales Department who regularly interact with customers. Of particular note, training programs are essential in conveying the importance and nature of a CRM orientation to the staff of Sales Department so that they acquire the requisite relationship and development skills; and be sensitive to changing customer needs and environment. Such training programs are crucial because customer expectations are also changing.
ii. Management should attend to the communication of CRM strategies and objectives to all employees. CRM responsibilities must be clearly defined, assigned, and understood by all staff via unequivocal communication. Therefore, management needs accurate and timely information to build effective and efficient customer relationship management.
iii. It is also important for the effective management of these telecommunication providers as a matter of urgency to communicate its CRM policies to both staff and customers. In addition the introduction of some loyalty programmes and the provision of concessionary rates to reward loyal customers be upheld which would help bolster customer loyalty.
iv. Telecommunication providers should also work on improving and validating the effectiveness of more CRM tools/strategies especially those which had low percentages in terms of response from the respondents so as to ensure the continuous retention of customers especially the popular ones.
v. Mobile operators should endeavour to improve the quality of mobile services offered to clients if they are interested in achieving brand loyalty. This is because service quality has been found to impact positively on Customer Loyalty.
vi. Mobile operators should invest more funds into network expansion and maintenance in order to ensure reliable mobile telecommunication services at all times instead of spending too many funds on advertisement and promotions.
vii. Telecommunications providers should do their business with the utmost fidelity towards customers.
viii. Telecommunications providers should not evade tax and ensure that they pay taxes regularly to the government.
ix. Telecommunications providers should not repatriate the whole gain made in the country but to embark on community development programmes.

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# The Political Instability and their Impact on Economy in Sub Saharan African Countries

By DiribsaTesfa Miressa

*Abstract-* This paper explores the relationship between political instability and economic growth in Sub-Saharan African nations. A more comprehensive measure of political instability than has previously been developed is used in combination with a simultaneous equations model and dynamic panel estimation approach to produce several interesting inferences. First, the statistically significant inverse relationship between political instability and economic growth identified by earlier studies is confirmed by the estimates presented here. Second, the estimated system of equations indicates that economic growth and political instability are jointly endogenous. Third, in addition to the direct impact that political instability has upon growth, estimates confirm the hypothesis that political instability indirectly decreases economic growth by decreasing long-run capital accumulation. Fourth, failure to account for the dynamic nature of growth equations as well as the endogeneity of explanatory variables may produce biased effects of political instability on growth.

Political instability has become endemic to Sub- Saharan Africa. Since the early 1960s, when most of the African countries began to achieve independence, more than fifty coups have taken place in the continent.

*GJMBR-B Classification:* *JEL Code: A10*




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Political instability has become endemic to Sub-Saharan Africa. Since the early 1960s, when most of the African countries began to achieve independence, more than fifty coups have taken place in the continent. This rise in political decay has significantly affected economic development. This study examines the relationship between elite political instability and economic development in Sub-Saharan Africa. It concludes that lack of political stability has contributed significantly to economic stagnation in the continent of Africa.

## I. Back Ground of the Study

Ethiopia is a nation with a long, venerable and complex history. Although located in the tropics its high altitudes give much of it a temperate climate. Although the ancient, aboriginal population of what is now Ethiopia was Cushitic language speakers, the culture that came to be identified with Ethiopia came from Arabia, probably as early as 1000 B.C. These Semitic language speakers adopted Christianity in the fourth century A.D. The particular version of Christianity adopted by the Ethiopians was called *Monophysite* because it maintained that Jesus of Nazareth was of a single nature rather than of two natures, divine and human, as maintained by the Roman Catholic and Greek Orthodox churches. The other Monophysite Christian organizations were the Coptic church of Egypt, the Syrian church and the Armenian Church. Now the Monophysite churches are accepted as orthodox but in the middle Ages these theological issues were considered vitally important. With the advent of Islam there was a political upheaval as well as a religious one in the region. The Christians of Ethiopia initially had good relations with the converts to the new religion of Islam. A party of converts to Islam in Arabia fled persecution across the Red Sea. They sought and received refuge from the Ethiopian Christians. Jesus is a revered figure in Islam, having the status of a Prophet. The Koran mandates tolerance for the People of the Book; i.e., Jews, Christians and Zoroastrians. So initially there was no friction between the Muslims and the Christians. But later political rivalries manifested themselves as religious conflicts.

The basic economy was agricultural. Upwards of eighty percent of the population is directly or indirectly dependent upon agriculture for their livelihood. Although an overwhelming proportion of the populations are engaged in agriculture, agricultural production accounts for only about 50 percent of Gross Domestic Product (GDP). Most of the farming (two thirds to three quarters) is for the subsistence of the rural population and consists primarily of subsistence crops such as grains and pulses.

## II. Objectives of the Study

*a) General Objectives of the study*

The objectives of the research project are to identify the political instability and their impact on Economy in sub Saharan African countries especially in Ethiopia.

*b) Specific objectives of the study*

- To identify the impact of political instability on peoples life standard.
- To identify the impact of political instability to generate educated generation.
- To identify the impact of political instability on reducing unemployment.
- To the impact of political instability on attracting foreigner investor.
- Their impact on county GDP.

## III. Scope of the Study

The study will concentrate on 'sub Saharan African countries especially in Ethiopia'.

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## IV. Methods of Data Analysis

In order to achieve the objectives of the study, a number of statistical techniques will be used in primary data analysis: In this study to analyses the primary data, descriptive data analysis method will be employed the justifications and rational reasons for using the statistical techniques in analyzing the data are now given below:

*a) Quantitative Data Analysis*

Quantitative Research is used to quantify the problem by way of generating numerical data or data that can be transformed into usable statistics. It is used to quantify attitudes, opinions, behaviors, and other defined variables – and generalize results from a larger Sample population. Quantitative Research uses measurable data to formulate facts and uncover patterns in research. Quantitative data collection methods are much more structured than Qualitative data collection methods. Quantitative data collection methods include various forms of surveys – online surveys, mobile surveys and kiosk surveys, face-to-face interviews, telephone interviews, longitudinal studies, website interceptors, online polls, and systematic observations.

*b) Qualitative Data Analysis*

Qualitative Research is primarily exploratory research. It is used to gain an understanding of underlying reasons, opinions, and motivations. It provides insights into the problem or helps to develop ideas or hypotheses for potential quantitative research. Qualitative Research is also used to uncover trends in thought and opinions, and dive deeper into the problem. Qualitative data collection methods vary using unstructured or semi-structured techniques. Some common methods include focus groups (group discussions), individual interviews, and participation/observations. The sample size is typically small, and respondents are selected to fulfill a given quota.

## V. Facilities to be used for this Project

All the material wanted for this study already exist except 4G network dongle; since there is the network interruption the 4G network access is mandatory so I will buy the 4GB network data from *Ethio-telecom* and the budget will planed by considering this materials.

## VI. Budget Frame Work

The total budget for this project will be 300,984.25 Ethiopian Birr and the source of this budget is the salary I gain from my work. To describe the detail budget:-

For paper: 25 pack = 25x143=3,575 ETB

For Interview: 102 peoples = 530x150 = 79,500 ETB

Pen: 46x3 =138 ETB

Transportation: 3620km x 1206= 30,166.67 ETB

Accommodation: 425 days x 410/day = 174,250 ETB

Data (Internet) cost: 13,354.58 ETB

NB: All the above costs are in terms of Ethiopian Birr.

- 3620 km to collect data from all nine regional states of Federal Democratic republic of Ethiopia and two cities Administration.

## VII. Deliverables and Program Schedule

The research will be conducted according to the work plan on table 1.

*Table 1:* Work plan of the study

| Sr. No. | Duration (2018 to 2020) | Duration | Final date | No. of days | |
|---|---|---|---|---|---|
| 1 | Preparation of project proposal Contact of advisor and discussion on title and proposal | September 01,2018 - November 05, 2018 | November05, 2018 | 95 | |
| 2 | Data Collection | November 06, 2018-August 30, 2019 | August 30, 2019 | 294 | |
| 3 | Data compilation & Analysis | August 31, 2019-January 30, 2020 | January 30, 2020 | 150 | |
| 4 | First draft submission | January 31, 2020 | January 31, 2020 | 1 | |
| 5 | Report writing | February 01, 2020- February 02, 2020 | February 02, 2020 | 2 | |
| 6 | Discussion with Advisors | February 03, 2020 - May 28, 2020 | May 28, 2020 | 120 | |
| 7 | Final Report Submission | May 29, 2020 | July 01, 2020 | 90 | |
| 8 | Project report defense & presentation | August 30, 2020 | August 30, 2020 | 1 | |
| | Total days | | | 753 | |

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# Tax Reforms in the Republic of Uzbekistan and their Impacts on Social and Economic Conditions of Citizens

By Elmurodov Shokhjahon
*Korea University*

*Abstract-* Needless to say taxes play a very important role in the economic development of a certain country, because they account for the majority share of national revenue. Therefore, all countries do pay a lot of attention to their tax system. Some governments try to get revenue through taxes as much as possible while other countries consider the influence of taxes or tax reforms in the life conditions of citizens. Because of taxes, there may be inequality among people. Thus tax reforms should be implemented taking into consideration of social and economic conditions of citizens. This paper studies the role and impact of current tax reforms in the economy and people's life in Uzbekistan.

*Keywords:* *tax, tax reforms, the personal income tax, budget, Uzbekistan.*

*GJMBR-B Classification:* *JEL Code: A14*




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# Tax Reforms in the Republic of Uzbekistan and their Impacts on Social and Economic Conditions of Citizens

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*Abstract-* **Needless to say taxes play a very important role in the economic development of a certain country, because they account for the majority share of national revenue. Therefore, all countries do pay a lot of attention to their tax system. Some governments try to get revenue through taxes as much as possible while other countries consider the influence of taxes or tax reforms in the life conditions of citizens. Because of taxes, there may be inequality among people. Thus tax reforms should be implemented taking into consideration of social and economic conditions of citizens. This paper studies the role and impact of current tax reforms in the economy and people's life in Uzbekistan.**

*Keywords: tax, tax reforms, the personal income tax, budget, uzbekistan.*

## I. Introduction

In the past, tax systems were used in developing countries to serve multiple objectives. These included, in addition to mobilization of resources to finance government expenditure, promoting savings and investment; inducing savings in particular forms to facilitate the process of channeling savings into investment; directing investment into desirable activities. (Islam June 2001)Although current tax systems seem developed and improved there is still a necessity for tax reforms, because the tax system that was very good 10 years ago may not give an expected result now. In the Republic of Uzbekistan for 27 years of independence there have been many changes and reforms in the tax system of the country. Especially in 2018, in Uzbekistan there were many discussions about future tax reforms in the country, policy-makers and economists argued a lot on different topics. Finally, current president of the Republic of Uzbekistan, Shavkat Mirzizoev signed a decree "The Concept of Improving the Tax Policy of the Republic of Uzbekistan" on June 29, 2018. The accepted concept of tax reform is a huge step forward in creating a favorable business climate in the country.

*Changes and their impacts*

In short, the essence of the changes is as follows. Five key tasks are solved:

1) The reduction of taxes on labor - they are very high, which is one of the important reasons for dropping the economy into a "shadow";
2) The elimination of a significant gap in the tax burden between the generally established and simplified tax regimes - this gap forces enterprises to disaggregate, makes it difficult to scale up production, often condemning the business to lack of competitiveness and going into the "shadow";
3) Eliminating (where possible) or reducing the scope of taxes from revenues (these are 3.2% of mandatory contributions to state trust funds for enterprises of a general regime and a single tax payment for enterprises of simplified regime), which kill the social division of labor and do not allow long value chains, condemning our economy to the role of a raw materials appendage of the world economy;
4) Reducing the overall tax burden on the economy (30–35% of GDP in recent years, not counting various forms of hidden taxation), which makes our products uncompetitive and the economy unattractive for investment;
5) Improving the system of tax administration, which is currently very inefficient and significantly increases the costs of doing business.

*For this purpose it is supposed:*(Mirziyoev June 29, 2018)

- The abolition of 8% of insurance contributions of citizens in the extra-budgetary Pension Fund, withheld from wages;
- The introduction of a "flat" income tax rate of 12% instead of a progressive scale with a maximum tax rate of 22.5%;
- Reduction of the unified social payment rate to 12% - instead of 15% for the simplified mode and 25% for the general tax regime (except for budget organizations and state enterprises - for them the rate is set at 25%);
- The abolition of mandatory contributions to state trust funds for enterprises of general regime (3.2% of revenue);
- Reduction of the corporate income tax rate from 14% to 12% (for commercial banks - from 22% to 20%, for cellular companies - increase from 14% to 20% with the abolition of excess profit tax, which they paid in excess of a certain level of profitability);

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- Reduction of the tax rate on dividends from 10% to 5%;
- A reduction in the tax rate on the property of legal entities from 5% to 2% with the introduction of the obligation to pay it, as well as the payment of tax for the use of water resources by all legal entities without exception;
- Granting the right to deduct the amount of value added tax (VAT) on the acquired fixed assets, construction in progress and intangible assets that are currently included in their value (which reduces the tax burden on VAT);
- Transfer of enterprises that have an annual turnover (revenue) at the end of the previous year more than 1 billion soums or reached the established threshold during the year to pay general taxes (at the end of 2017 it is about 10% of small businesses);
- Setting for taxpayers with an annual turnover (revenue) of up to 1 billion soums, the possibility of paying (instead of VAT and income tax) turnover tax with a rate of 4% (instead of 5% of the single tax payment now);

Where in:

- The current VAT rate is maintained at 20% with a subsequent reduction in the size of the rate in 2019;
- Taxation procedure is maintained for single land tax payers;
- It is planned to reduce the number of activities allowed for individual entrepreneurs;
- A program of measures should be developed to drastically improve tax administration;
- Measures should be developed to simplify tax reporting and ensure its integration with software products; on the introduction of automated accounting; to improve the skills of state tax service employees and taxpayers; on the introduction of a personalized accounting of the accrued wages necessary for calculating pensions;
- Before November 1, 2018, proposals should be prepared for the abolition of ineffective tax and customs privileges and preferences;
- Before December 1, 2018, a new draft Tax Code should be developed.

*What could not be implemented?*

In my opinion, the planned changes are a huge step forward in creating a favorable business climate in our country. The new model of taxation is more attractive than the tax systems of most of the former Soviet republics.

Although the approved concept retained the overwhelming majority of the principal provisions of its initial draft, it was still not possible to defend two important points of the original version of the concept during discussions and agreements.

1. *It was assumed reduction of VAT from 20% to 12%. Nevertheless, they decided to keep 20% (albeit with plans for reductions after 2019).* As far as I understand, the desire to protect the budget from the risk of budget revenue shortfall due to a sharp decrease in tax rates and the abolition of certain types of taxes has prevailed.

I am afraid that maintaining such a high VAT rate (our neighbors in Kazakhstan and Kyrgyzstan - 12%) will put a heavy burden on enterprises, which will switch from a simplified to a general regime. It is because of the 20% VAT rate for them that the tax burden may increase. This is especially true of service enterprises for the population, where the share of value added in revenue is very large. But it is not possible to significantly reduce the taxable base at the expense of offsets or shift some of the burden to the next link in the payment of VAT - the buyer of services (the population does not pay VAT). This will lead to a reduction in incentives for the voluntary transition of small enterprises to the general regime and disaggregation or concealment of the revenue of enterprises with an annual turnover of more than 1 billion soums. As a result:

- Legalization of the business and the transition to the general tax regime or the voluntary payment of VAT will not be as extensive as expected,
- Some types of our goods and services will be uncompetitive compared with neighboring countries,
- The budget may be short of income due to the reduction of the taxable base.

2. *In the initial draft of the concept, it was proposed to introduce a tax on distributable income instead of income taxes and dividends.* The objectives of this transition:

- Reduction of tax burden for enterprises of the general tax regime, and, therefore, for enterprises that will switch to general regime in the future (since not all profits are taxed, the taxable base decreases);
- Investment promotion (investment expenses are not subject to tax on distributable profits, therefore, it is beneficial for an entrepreneur not to “eat up”, but to invest his profit);
- (and most importantly!) A radical simplification of tax administration. The fact is that the income tax is the most controversial and difficult to calculate among all taxes. It is for him that the most controversy arises between business and tax specialists. For obvious reasons, tax officials do not want to recognize the “unjustified” expenses of a business and seek to include them in the taxable base, while the business has exactly the opposite tasks - to withdraw as much money as possible (by increasing expenses) from taxable income. As a result: a) tax authorities receive a powerful lever of administrative intervention in business affairs; b)



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enterprises sometimes artificially inflate their costs in order to reduce the taxable base. When switching to a tax on distributable profits, taxation business costs will not be of interest (with the exception of a small group of expenses for personal needs of entrepreneurs who, apart from dividends, include distributable profits), and the entrepreneurs themselves will significantly reduce the incentives to inflate these costs. Tax administration is extremely simplified for both parties.

## II. Comparative Analysis

But, in spite of everything, the planned reform is a breakthrough. As a result of its implementation, we will get a much better tax model than the one we have now. And it should be noted the courage of the government and the president who agreed to such drastic measures to reduce the tax burden and revise the existing tax rules. I think this is the second most important step in our economy after the liberalization of the foreign exchange market in 2017. The main thing is not to change your mind, not turn off the chosen path and realize the plan.

I will try to more clearly present the degree of radical change planned.

The most successful tax reform in the post-Soviet space is considered to be reform in Georgia in 2005–2009, during which the number of taxes was reduced (from 22 to 6), and tax rates were reduced for the remaining taxes.

Georgian way of tax reforms(Gvindadze 2017).

| | First stage | | | Second stage | | | Third stage | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Number of taxes | 22 | 7 | 7 | 7 | 6 | 6 | 6 | 6 |
| VAT (%) | 20 | 20 | 18 | 18 | 18 | 18 | 18 | 18 |
| Personal income tax (%) | 12-20 | 12 | 12 | 12 | | | | |
| Social payment (%) | 33 | 20 | 20 | 20 | 25 | 20 | 20 | 20 |
| Tax on profit (%) | 20 | 20 | 20 | 20 | 15 | 15 | 15 | 15 |
| Tax on dividends and other interest incomes (%) | 10 | 10 | 10 | 10 | 10 | 5 | 5 | 5 |

*Source: Ministry of Finance in Georgia*

*Figure 1:* Main indicators of tax system in Georgia (2004-2011)

At the same time, tax revenues to the budget began to grow as early as 2005–2006 on average by 30.61% per year. In the four years since the start of the reform, tax revenues increased 2.7 times in real terms. In 2009, the country ranked 4th in the world in the Forbes Tax Fear rating (Tax Misery & Reform Index) after Qatar, the United Arab Emirates and Hong Kong.

In 2017, reform was continued, and instead of taxes on profits and dividends, a tax was imposed on distributable profits.

The authors of the initial version of the concept were guided by the final taxation model of Georgia (2017). The parameters of the signed version were closer to the first year of the Georgian reform (2005). Moreover, in some positions we went further than the Georgian government in 2004–2005. In particular, in 2019, taxes on labor and income (including dividends) will be lower than similar taxes in Georgia in 2005.

| | Georgia | | | Uzbekistan | | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2017 | 2018 | Initial concept | Accepted concept |
| VAT, % | 20 | 20 | 18 | 20 | 12 | 20 |
| Personal income tax, % | 12-20 | 12 | | 7,5-22,5 | | 12 |
| Social tax/single social payment, % | | | 20 | 15-25 | 25 | 12 |
| Insurance payments, % | - | - | - | 8 | | |
| Tax on profit, % | 20 | 20 | 20 | 14 | | 12 |
| Tax on dividends and other interest incomes (%) | 10 | 10 | 10 | 10 | 25 | 5 |

*Source: Ministry of Finance in Georgia and Tax Committee of Uzbekistan*

*Figure 2:* Comparative analysis of the main taxes during the reform period in Georgia and Uzbekistan



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According to Figure 2 we can say that tax system of the Republic of Uzbekistan was simplified very much. Decreasing some tax rates is expected to increase government revenue by taxes. So there is a question

*a) Tax reform in Uzbekistan. What will it change?*

Economists and businessmen say that the implementation of a "revolutionary document" will make Uzbekistan a country with one of the best tax systems in the world.

*Will there be a "white" salary?*(Center 1 2018)

The project provides for a significant reduction in payroll taxes. Now employers are obliged to deduct up to 22.5% in the form of personal income tax (PIT), as much and even more - social and insurance payments.

High tax burden forces them to pay salaries in envelopes, and to indicate small amounts in tax returns.

The concept proposes to combine these payments into a single personal income tax with a flat tax rate of 25%. The amount of income will not affect the percentage. Now the country has a progressive tax system in which people with high salaries pay more taxes than people with low incomes.

*Will import become cheaper?*

Uzbekistan gradually abolishes or reduces excises and customs duties on goods not produced in the country. This, as one of the factors stimulating consumer demand, is stated in the draft concept of tax reform.

For example, in the first quarter of 2018, due to this, some food categories became cheaper. In particular, vegetable oil - by 3.2%, flour - by 2.2%, potatoes - by 6.2%.

Since May 1, duties on live fish, bananas, watches, precious metals, bicycles, printed books, ice cream and other goods are completely abolished. For example, now a kilogram of bananas in Uzbekistan costs 30 thousand soums (almost $ 4). For comparison: in Kazakhstan - twice or three times cheaper.

Excises on alcohol, tobacco, clothing, dishes will be reduced several times. At the same time, privileges will be abolished when importing certain categories of goods.

Bottom line: there is every reason to wait for the decline in prices for certain imported goods and services ... but with an eye on the dollar rate.

*b) The impact of reforms on people*

All working Uzbeks pay personal income tax - a tax on personal income. According to the current procedure, they are not subject to salary in the amount of up to 184,300 soums (1 Minimum wage from July 15, 2018). Further, the rate depends on the amount of income:

- From 1 to 5 Minimum wages - 7.5%;
- From 5 to 10 Minimum wages - 16.5%;
- Over 10 Minimum wage - 22.5%.(Tax Committee of Uzbekistan 2008)

PIT is not the only income tax. There are still compulsory insurance contributions to the Pension Fund and a single social payment, which the employer pays for employees from the total amount of all wages. This year, premiums are charged at the rate of 8%. A single social payment - at a rate of 25% on a general basis and 15% on preferential terms (small business, farms and others).

And there are mandatory deductions for individual savings pension accounts: 2% of the salary accrued. However, these deductions are in the composition of personal income tax and are listed on the "pension book" of citizens.

Imagine how salary would be taxed and compulsory payments if the new order had the same procedure and the same rates as in this:

| Salary Amount - accrual | PIT | Mandatory insurance premiums | Salary Amount - "on hand" | Tax burden |
|---|---|---|---|---|
| 600 000 | 31 178 | 48 000 | 520 823 | 13,2% |
| 1 300 000 | 117 743 | 104 000 | 1 078 258 | 17,1% |
| 2 400 000 | 332 663 | 192 000 | 1 875 338 | 21,9% |
| 4 500 000 | 805 163 | 360 000 | 3 334 838 | 25,9% |

*Source: Author's calculations*



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It turns out that salary is growing - the tax burden is growing. From 1,300,000 soums, the employee will pay 221,742 soums, and from 2,400,000 soums - 524,662 soums.

In Uzbekistan there are beneficiaries who pay personal income tax from the amount of wages minus 4 minimum wages. If the salary is less than 4 minimum wages, then it is fully exempt from the income tax of individuals.

*How workers will pay after tax reform*

From January 1, 2019:

The personal income tax rate is the same for all employees - 12%.

Pension deductions are equal to 0.1% and are also deducted from the personal income tax amount.

No more insurance premiums to the extra-budgetary Pension Fund.

The unified social payment is 25% for budgetary and state organizations.

The single social payment is 12% for private organizations.

Employees of budget and government organizations

| Salary Amount - accrual | PIT | Salary Amount - "on hand" | Tax burden | Growth in salary |
|---|---|---|---|---|
| 600 000 | 72 000 | 528 000 | 12% | +1,4% |
| 1 300 000 | 156 000 | 1 144 000 | 12% | +6,1% |
| 2 400 000 | 288 000 | 2 112 000 | 12% | +12,6% |
| 4 500 000 | 540 000 | 3 960 000 | 12% | +18,7% |

*Source: Author's calculations*

It turns out that the salary is growing - the tax burden is reduced. From 1,300,000 soums, a government employee will pay 156,000 soums, and from 2,400,000 soums - 288,000 soums.

*Possible Scenarios after reforms*

The concept of tax reform in Uzbekistan certainly has its advantages. However, in order to say for sure whether the incomes of the Uzbeks will increase, it will be necessary to answer the main question: will the money released from the introduction of the single personal income tax rate and the reduction of the CAP rate be used to increase their wages?

And here two scenarios are possible.

*Positive*

Considering the baseline scenario (examples of calculation for it are shown above), we can say: "Yes!", The released funds will be used to stimulate the remuneration of workers and employees, as the employer is more than interested in increasing the efficiency of work and the welfare of employees.

If the money saved as a result of a reduction in personal income tax and single social payment rates will be used to raise wages, consumer demand will probably be stimulated. People will buy more goods and services. This will positively affect the market equilibrium, and therefore, reduce inflation in the country.

*Negative*

What will happen if employers do otherwise? They will keep the wage amounts at the same level, and the money released from the introduction of the single rate of personal income tax and the reduction of the single social payment rate will be used for other needs (for example, they will build a new building) or increase their profits.

## III. Conclusion

Both scenarios have the right to exist in the current realities. And the way the business goes will determine the effectiveness of the implementation of the concept of tax reform relating to reducing the tax burden on the income of workers and employees. The development prospects of the national economy, which today is experiencing certain difficulties, both systemic and reputational, depend on this.

In our case, it remains to rely on the reasonableness and honesty of the business.



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# Global Journals Guidelines Handbook 2019

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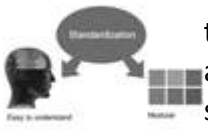
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Once you are designated as MARSBA, you may send us a scanned copy of all of your credentials. OARS will verify, grade and certify them. This will be based on your academic records, quality of research papers published by you, and some more criteria.

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The IFOARS institution is entitled to form a Board comprised of one Chairperson and three to five board members preferably from different streams. The Board will be recognized as "Institutional Board of Open Association of Research Society"-(IBOARS).

*The Institute will be entitled to following benefits:*

The IBOARS can initially review research papers of their institute and recommend them to publish with respective journal of Global Journals. It can also review the papers of other institutions after obtaining our consent. The second review will be done by peer reviewer of Global Journals Incorporation (USA) The Board is at liberty to appoint a peer reviewer with the approval of chairperson after consulting us.

The author fees of such paper may be waived off up to 40%.

The Global Journals Incorporation (USA) at its discretion can also refer double blind peer reviewed paper at their end to the board for the verification and to get recommendation for final stage of acceptance of publication.





The IBOARS can organize symposium/seminar/conference in their country on behalf of Global Journals Incorporation (USA)-OARS (USA). The terms and conditions can be discussed separately.

The Board can also play vital role by exploring and giving valuable suggestions regarding the Standards of "Open Association of Research Society, U.S.A (OARS)" so that proper amendment can take place for the benefit of entire research community. We shall provide details of particular standard only on receipt of request from the Board.




The board members can also join us as Individual Fellow with 40% discount on total fees applicable to Individual Fellow. They will be entitled to avail all the benefits as declared. Please visit Individual Fellow-sub menu of GlobalJournals.org to have more relevant details.

We shall provide you intimation regarding launching of e-version of journal of your stream time to time. This may be utilized in your library for the enrichment of knowledge of your students as well as it can also be helpful for the concerned faculty members.




After nomination of your institution as "Institutional Fellow" and constantly functioning successfully for one year, we can consider giving recognition to your institute to function as Regional/Zonal office on our behalf.
The board can also take up the additional allied activities for betterment after our consultation.

**The following entitlements are applicable to individual Fellows:**




Open Association of Research Society, U.S.A (OARS) By-laws states that an individual Fellow may use the designations as applicable, or the corresponding initials. The Credentials of individual Fellow and Associate designations signify that the individual has gained knowledge of the fundamental concepts. One is magnanimous and proficient in an expertise course covering the professional code of conduct, and follows recognized standards of practice.

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We shall provide print version of 12 issues of any three journals [as per your requirement] out of our 38 journals worth $ 2376 USD.

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**The individual Fellow and Associate designations accredited by Open Association of Research Society (US) credentials signify guarantees following achievements:**

- The professional accredited with Fellow honor, is entitled to various benefits viz. name, fame, honor, regular flow of income, secured bright future, social status etc.

- In addition to above, if one is single author, then entitled to 40% discount on publishing research paper and can get 10%discount if one is co-author or main author among group of authors.
- The Fellow can organize symposium/seminar/conference on behalf of Global Journals Incorporation (USA) and he/she can also attend the same organized by other institutes on behalf of Global Journals.
- The Fellow can become member of Editorial Board Member after completing 3yrs.
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- Fellow can also join as paid peer reviewer and earn 15% remuneration of author charges and can also get an opportunity to join as member of the Editorial Board of Global Journals Incorporation (USA)
- • This individual has learned the basic methods of applying those concepts and techniques to common challenging situations. This individual has further demonstrated an in–depth understanding of the application of suitable techniques to a particular area of research practice.

**Note :**

"

- In future, if the board feels the necessity to change any board member, the same can be done with the consent of the chairperson along with anyone board member without our approval.
- In case, the chairperson needs to be replaced then consent of 2/3rd board members are required and they are also required to jointly pass the resolution copy of which should be sent to us. In such case, it will be compulsory to obtain our approval before replacement.
- In case of "Difference of Opinion [if any]" among the Board members, our decision will be final and binding to everyone.

"

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4. Manuscript to be submitted must include keywords, an abstract, a paper title, co-author(s') names and details (email address, name, phone number, and institution), figures and illustrations in vector format including appropriate captions, tables, including titles and footnotes, a conclusion, results, acknowledgments and references.
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- Writings
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- Illustrations
- Lectures

- Printed material
- Graphic representations
- Computer programs
- Electronic material
- Any other original work

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2. Drafting the paper and revising it critically regarding important academic content.
3. Final approval of the version of the paper to be published.

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

***Manuscript Style Instruction (Optional)***

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

***Structure and Format of Manuscript***

The recommended size of an original research paper is under 15,000 words and review papers under 7,000 words. Research articles should be less than 10,000 words. Research papers are usually longer than review papers. Review papers are reports of significant research (typically less than 7,000 words, including tables, figures, and references)

A research paper must include:

a) A title which should be relevant to the theme of the paper.
b) A summary, known as an abstract (less than 150 words), containing the major results and conclusions.
c) Up to 10 keywords that precisely identify the paper's subject, purpose, and focus.
d) An introduction, giving fundamental background objectives.
e) Resources and techniques with sufficient complete experimental details (wherever possible by reference) to permit repetition, sources of information must be given, and numerical methods must be specified by reference.
f) Results which should be presented concisely by well-designed tables and figures.
g) Suitable statistical data should also be given.
h) All data must have been gathered with attention to numerical detail in the planning stage.

Design has been recognized to be essential to experiments for a considerable time, and the editor has decided that any paper that appears not to have adequate numerical treatments of the data will be returned unrefereed.

i) Discussion should cover implications and consequences and not just recapitulate the results; conclusions should also be summarized.
j) There should be brief acknowledgments.
k) There ought to be references in the conventional format. Global Journals recommends APA format.

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

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



## Format Structure

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

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

**Author details**

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

**Abstract**

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

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

**Keywords**

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

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

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

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

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

**Numerical Methods**

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

**Abbreviations**

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

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**Figures**

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

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

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## Tips for writing a good quality Management Research Paper

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

***1. Choosing the topic:*** In most cases, the topic is selected by the interests of the author, but it can also be suggested by the guides. You can have several topics, and then judge which you are most comfortable with. This may be done by asking several questions of yourself, like "Will I be able to carry out a search in this area? Will I find all necessary resources to accomplish the search? Will I be able to find all information in this field area?" If the answer to this type of question is "yes," then you ought to choose that topic. In most cases, you may have to conduct surveys and visit several places. Also, you might have to do a lot of work to find all the rises and falls of the various data on that subject. Sometimes, detailed information plays a vital role, instead of short information. Evaluators are human: The first thing to remember is that evaluators are also human beings. They are not only meant for rejecting a paper. They are here to evaluate your paper. So present your best aspect.

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

***3. Ask your guides:*** If you are having any difficulty with your research, then do not hesitate to share your difficulty with your guide (if you have one). They will surely help you out and resolve your doubts. If you can't clarify what exactly you require for your work, then ask your supervisor to help you with an alternative. He or she might also provide you with a list of essential readings.

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

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***6. Bookmarks are useful:*** When you read any book or magazine, you generally use bookmarks, right? It is a good habit which helps to not lose your continuity. You should always use bookmarks while searching on the internet also, which will make your search easier.

***7. Revise what you wrote:*** When you write anything, always read it, summarize it, and then finalize it.

***8. Make every effort:*** Make every effort to mention what you are going to write in your paper. That means always have a good start. Try to mention everything in the introduction—what is the need for a particular research paper. Polish your work with good writing skills and always give an evaluator what he wants. Make backups: When you are going to do any important thing like making a research paper, you should always have backup copies of it either on your computer or on paper. This protects you from losing any portion of your important data.

***9. Produce good diagrams of your own:*** Always try to include good charts or diagrams in your paper to improve quality. Using several unnecessary diagrams will degrade the quality of your paper by creating a hodgepodge. So always try to include diagrams which were made by you to improve the readability of your paper. Use of direct quotes: When you do research relevant to literature, history, or current affairs, then use of quotes becomes essential, but if the study is relevant to science, use of quotes is not preferable.

***10. Use proper verb tense:*** Use proper verb tenses in your paper. Use past tense to present those events that have happened. Use present tense to indicate events that are going on. Use future tense to indicate events that will happen in the future. Use of wrong tenses will confuse the evaluator. Avoid sentences that are incomplete.

***11. Pick a good study spot:*** Always try to pick a spot for your research which is quiet. Not every spot is good for studying.

***12. Know what you know:*** Always try to know what you know by making objectives, otherwise you will be confused and unable to achieve your target.

***13. Use good grammar:*** Always use good grammar and words that will have a positive impact on the evaluator; use of good vocabulary does not mean using tough words which the evaluator has to find in a dictionary. Do not fragment sentences. Eliminate one-word sentences. Do not ever use a big word when a smaller one would suffice.
Verbs have to be in agreement with their subjects. In a research paper, do not start sentences with conjunctions or finish them with prepositions. When writing formally, it is advisable to never split an infinitive because someone will (wrongly) complain. Avoid clichés like a disease. Always shun irritating alliteration. Use language which is simple and straightforward. Put together a neat summary.

***14. Arrangement of information:*** Each section of the main body should start with an opening sentence, and there should be a changeover at the end of the section. Give only valid and powerful arguments for your topic. You may also maintain your arguments with records.

***15. Never start at the last minute:*** Always allow enough time for research work. Leaving everything to the last minute will degrade your paper and spoil your work.

***16. Multitasking in research is not good:*** Doing several things at the same time is a bad habit in the case of research activity. Research is an area where everything has a particular time slot. Divide your research work into parts, and do a particular part in a particular time slot.

***17. Never copy others' work:*** Never copy others' work and give it your name because if the evaluator has seen it anywhere, you will be in trouble. Take proper rest and food: No matter how many hours you spend on your research activity, if you are not taking care of your health, then all your efforts will have been in vain. For quality research, take proper rest and food.

***18. Go to seminars:*** Attend seminars if the topic is relevant to your research area. Utilize all your resources.

***19. Refresh your mind after intervals:*** Try to give your mind a rest by listening to soft music or sleeping in intervals. This will also improve your memory. Acquire colleagues: Always try to acquire colleagues. No matter how sharp you are, if you acquire colleagues, they can give you ideas which will be helpful to your research.

***20. Think technically:*** Always think technically. If anything happens, search for its reasons, benefits, and demerits. Think and then print: When you go to print your paper, check that tables are not split, headings are not detached from their descriptions, and page sequence is maintained.

***21. Adding unnecessary information:*** Do not add unnecessary information like "I have used MS Excel to draw graphs." Irrelevant and inappropriate material is superfluous. Foreign terminology and phrases are not apropos. One should never take a broad view. Analogy is like feathers on a snake. Use words properly, regardless of how others use them. Remove quotations. Puns are for kids, not grunt readers. Never oversimplify: When adding material to your research paper, never go for oversimplification; this will definitely irritate the evaluator. Be specific. Never use rhythmic redundancies. Contractions shouldn't be used in a research paper. Comparisons are as terrible as clichés. Give up ampersands, abbreviations, and so on. Remove commas that are not necessary. Parenthetical words should be between brackets or commas. Understatement is always the best way to put forward earth-shaking thoughts. Give a detailed literary review.

***22. Report concluded results:*** Use concluded results. From raw data, filter the results, and then conclude your studies based on measurements and observations taken. An appropriate number of decimal places should be used. Parenthetical remarks are prohibited here. Proofread carefully at the final stage. At the end, give an outline to your arguments. Spot perspectives of further study of the subject. Justify your conclusion at the bottom sufficiently, which will probably include examples.

***23. Upon conclusion:*** Once you have concluded your research, the next most important step is to present your findings. Presentation is extremely important as it is the definite medium though which your research is going to be in print for the rest of the crowd. Care should be taken to categorize your thoughts well and present them in a logical and neat manner. A good quality research paper format is essential because it serves to highlight your research paper and bring to light all necessary aspects of your research.

## Informal Guidelines of Research Paper Writing

***Key points to remember:***

- Submit all work in its final form.
- Write your paper in the form which is presented in the guidelines using the template.
- Please note the criteria peer reviewers will use for grading the final paper.

**Final points:**

One purpose of organizing a research paper is to let people interpret your efforts selectively. The journal requires the following sections, submitted in the order listed, with each section starting on a new page:

*The introduction:* This will be compiled from reference matter and reflect the design processes or outline of basis that directed you to make a study. As you carry out the process of study, the method and process section will be constructed like that. The results segment will show related statistics in nearly sequential order and direct reviewers to similar intellectual paths throughout the data that you gathered to carry out your study.

**The discussion section:**

This will provide understanding of the data and projections as to the implications of the results. The use of good quality references throughout the paper will give the effort trustworthiness by representing an alertness to prior workings.

Writing a research paper is not an easy job, no matter how trouble-free the actual research or concept. Practice, excellent preparation, and controlled record-keeping are the only means to make straightforward progression.

**General style:**

Specific editorial column necessities for compliance of a manuscript will always take over from directions in these general guidelines.

**To make a paper clear:** Adhere to recommended page limits.

*Mistakes to avoid:*

- Insertion of a title at the foot of a page with subsequent text on the next page.
- Separating a table, chart, or figure—confine each to a single page.
- Submitting a manuscript with pages out of sequence.
- In every section of your document, use standard writing style, including articles ("a" and "the").
- Keep paying attention to the topic of the paper.



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- Use paragraphs to split each significant point (excluding the abstract).
- Align the primary line of each section.
- Present your points in sound order.
- Use present tense to report well-accepted matters.
- Use past tense to describe specific results.
- Do not use familiar wording; don't address the reviewer directly. Don't use slang or superlatives.
- Avoid use of extra pictures—include only those figures essential to presenting results.

**Title page:**

Choose a revealing title. It should be short and include the name(s) and address(es) of all authors. It should not have acronyms or abbreviations or exceed two printed lines.

**Abstract:** This summary should be two hundred words or less. It should clearly and briefly explain the key findings reported in the manuscript and must have precise statistics. It should not have acronyms or abbreviations. It should be logical in itself. Do not cite references at this point.

An abstract is a brief, distinct paragraph summary of finished work or work in development. In a minute or less, a reviewer can be taught the foundation behind the study, common approaches to the problem, relevant results, and significant conclusions or new questions.

Write your summary when your paper is completed because how can you write the summary of anything which is not yet written? Wealth of terminology is very essential in abstract. Use comprehensive sentences, and do not sacrifice readability for brevity; you can maintain it succinctly by phrasing sentences so that they provide more than a lone rationale. The author can at this moment go straight to shortening the outcome. Sum up the study with the subsequent elements in any summary. Try to limit the initial two items to no more than one line each.

*Reason for writing the article—theory, overall issue, purpose.*

- Fundamental goal.
- To-the-point depiction of the research.
- Consequences, including definite statistics—if the consequences are quantitative in nature, account for this; results of any numerical analysis should be reported. Significant conclusions or questions that emerge from the research.

**Approach:**

- Single section and succinct.
- An outline of the job done is always written in past tense.
- Concentrate on shortening results—limit background information to a verdict or two.
- Exact spelling, clarity of sentences and phrases, and appropriate reporting of quantities (proper units, important statistics) are just as significant in an abstract as they are anywhere else.

**Introduction:**

The introduction should "introduce" the manuscript. The reviewer should be presented with sufficient background information to be capable of comprehending and calculating the purpose of your study without having to refer to other works. The basis for the study should be offered. Give the most important references, but avoid making a comprehensive appraisal of the topic. Describe the problem visibly. If the problem is not acknowledged in a logical, reasonable way, the reviewer will give no attention to your results. Speak in common terms about techniques used to explain the problem, if needed, but do not present any particulars about the protocols here.

*The following approach can create a valuable beginning:*

- Explain the value (significance) of the study.
- Defend the model—why did you employ this particular system or method? What is its compensation? Remark upon its appropriateness from an abstract point of view as well as pointing out sensible reasons for using it.
- Present a justification. State your particular theory(-ies) or aim(s), and describe the logic that led you to choose them.
- Briefly explain the study's tentative purpose and how it meets the declared objectives.

**Approach:**

Use past tense except for when referring to recognized facts. After all, the manuscript will be submitted after the entire job is done. Sort out your thoughts; manufacture one key point for every section. If you make the four points listed above, you will need at least four paragraphs. Present surrounding information only when it is necessary to support a situation. The reviewer does not desire to read everything you know about a topic. Shape the theory specifically—do not take a broad view.

As always, give awareness to spelling, simplicity, and correctness of sentences and phrases.

**Procedures (methods and materials):**

This part is supposed to be the easiest to carve if you have good skills. A soundly written procedures segment allows a capable scientist to replicate your results. Present precise information about your supplies. The suppliers and clarity of reagents can be helpful bits of information. Present methods in sequential order, but linked methodologies can be grouped as a segment. Be concise when relating the protocols. Attempt to give the least amount of information that would permit another capable scientist to replicate your outcome, but be cautious that vital information is integrated. The use of subheadings is suggested and ought to be synchronized with the results section.

When a technique is used that has been well-described in another section, mention the specific item describing the way, but draw the basic principle while stating the situation. The purpose is to show all particular resources and broad procedures so that another person may use some or all of the methods in one more study or referee the scientific value of your work. It is not to be a step-by-step report of the whole thing you did, nor is a methods section a set of orders.

**Materials:**

*Materials may be reported in part of a section or else they may be recognized along with your measures.*

**Methods:**

- Report the method and not the particulars of each process that engaged the same methodology.
- Describe the method entirely.
- To be succinct, present methods under headings dedicated to specific dealings or groups of measures.
- Simplify—detail how procedures were completed, not how they were performed on a particular day.
- If well-known procedures were used, account for the procedure by name, possibly with a reference, and that's all.

**Approach:**

It is embarrassing to use vigorous voice when documenting methods without using first person, which would focus the reviewer's interest on the researcher rather than the job. As a result, when writing up the methods, most authors use third person passive voice.

Use standard style in this and every other part of the paper—avoid familiar lists, and use full sentences.

**What to keep away from:**

- Resources and methods are not a set of information.
- Skip all descriptive information and surroundings—save it for the argument.
- Leave out information that is immaterial to a third party.

**Results:**

The principle of a results segment is to present and demonstrate your conclusion. Create this part as entirely objective details of the outcome, and save all understanding for the discussion.

The page length of this segment is set by the sum and types of data to be reported. Use statistics and tables, if suitable, to present consequences most efficiently.

You must clearly differentiate material which would usually be incorporated in a study editorial from any unprocessed data or additional appendix matter that would not be available. In fact, such matters should not be submitted at all except if requested by the instructor.



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**Content:**

- Sum up your conclusions in text and demonstrate them, if suitable, with figures and tables.
- In the manuscript, explain each of your consequences, and point the reader to remarks that are most appropriate.
- Present a background, such as by describing the question that was addressed by creation of an exacting study.
- Explain results of control experiments and give remarks that are not accessible in a prescribed figure or table, if appropriate.
- Examine your data, then prepare the analyzed (transformed) data in the form of a figure (graph), table, or manuscript.

**What to stay away from:**

- Do not discuss or infer your outcome, report surrounding information, or try to explain anything.
- Do not include raw data or intermediate calculations in a research manuscript.
- Do not present similar data more than once.
- A manuscript should complement any figures or tables, not duplicate information.
- Never confuse figures with tables—there is a difference.

**Approach:**

As always, use past tense when you submit your results, and put the whole thing in a reasonable order.

Put figures and tables, appropriately numbered, in order at the end of the report.

If you desire, you may place your figures and tables properly within the text of your results section.

**Figures and tables:**

If you put figures and tables at the end of some details, make certain that they are visibly distinguished from any attached appendix materials, such as raw facts. Whatever the position, each table must be titled, numbered one after the other, and include a heading. All figures and tables must be divided from the text.

**Discussion:**

The discussion is expected to be the trickiest segment to write. A lot of papers submitted to the journal are discarded based on problems with the discussion. There is no rule for how long an argument should be.

Position your understanding of the outcome visibly to lead the reviewer through your conclusions, and then finish the paper with a summing up of the implications of the study. The purpose here is to offer an understanding of your results and support all of your conclusions, using facts from your research and generally accepted information, if suitable. The implication of results should be fully described.

Infer your data in the conversation in suitable depth. This means that when you clarify an observable fact, you must explain mechanisms that may account for the observation. If your results vary from your prospect, make clear why that may have happened. If your results agree, then explain the theory that the proof supported. It is never suitable to just state that the data approved the prospect, and let it drop at that. Make a decision as to whether each premise is supported or discarded or if you cannot make a conclusion with assurance. Do not just dismiss a study or part of a study as "uncertain."

Research papers are not acknowledged if the work is imperfect. Draw what conclusions you can based upon the results that you have, and take care of the study as a finished work.

- You may propose future guidelines, such as how an experiment might be personalized to accomplish a new idea.
- Give details of all of your remarks as much as possible, focusing on mechanisms.
- Make a decision as to whether the tentative design sufficiently addressed the theory and whether or not it was correctly restricted. Try to present substitute explanations if they are sensible alternatives.
- One piece of research will not counter an overall question, so maintain the large picture in mind. Where do you go next? The best studies unlock new avenues of study. What questions remain?
- Recommendations for detailed papers will offer supplementary suggestions.

**Approach:**

When you refer to information, differentiate data generated by your own studies from other available information. Present work done by specific persons (including you) in past tense.

Describe generally acknowledged facts and main beliefs in present tense.

## The Administration Rules

Administration Rules to Be Strictly Followed before Submitting Your Research Paper to Global Journals Inc.

*Please read the following rules and regulations carefully before submitting your research paper to Global Journals Inc. to avoid rejection*.

*Segment draft and final research paper:* You have to strictly follow the template of a research paper, failing which your paper may get rejected. You are expected to write each part of the paper wholly on your own. The peer reviewers need to identify your own perspective of the concepts in your own terms. Please do not extract straight from any other source, and do not rephrase someone else's analysis. Do not allow anyone else to proofread your manuscript.

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| Topics | Grades | | |
|---|---|---|---|
| | **A-B** | **C-D** | **E-F** |
| ***Abstract*** | Clear and concise with appropriate content, Correct format. 200 words or below | Unclear summary and no specific data, Incorrect form<br><br>Above 200 words | No specific data with ambiguous information<br><br>Above 250 words |
| ***Introduction*** | Containing all background details with clear goal and appropriate details, flow specification, no grammar and spelling mistake, well organized sentence and paragraph, reference cited | Unclear and confusing data, appropriate format, grammar and spelling errors with unorganized matter | Out of place depth and content, hazy format |
| ***Methods and Procedures*** | Clear and to the point with well arranged paragraph, precision and accuracy of facts and figures, well organized subheads | Difficult to comprehend with embarrassed text, too much explanation but completed | Incorrect and unorganized structure with hazy meaning |
| ***Result*** | Well organized, Clear and specific, Correct units with precision, correct data, well structuring of paragraph, no grammar and spelling mistake | Complete and embarrassed text, difficult to comprehend | Irregular format with wrong facts and figures |
| ***Discussion*** | Well organized, meaningful specification, sound conclusion, logical and concise explanation, highly structured paragraph reference cited | Wordy, unclear conclusion, spurious | Conclusion is not cited, unorganized, difficult to comprehend |
| ***References*** | Complete and correct format, well organized | Beside the point, Incomplete | Wrong format and structuring |

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