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# The Relationship between Strategic Management and Financial Performance of Non-Governmental Organizations (NGOs): Evidence from RDRS Bangladesh

By Md. Sadrul Islam Sarker & Md. Ataur Rahman

*Begum Rokeya University*

**Abstract-** The prime aim of the paper is to examine the relationship between strategic management and financial performance of Non-Governmental Organizations (NGOs) with special attention on RDRS Bangladesh. The research was a case study. The study adopted a self-administered questionnaire survey for assessing strategic management practices and financial performance of RDRS Bangladesh in the perception of RDRS Staffs. Strategic management assesses both the internal and external environments to formulate strategy, implement the strategy, and evaluate the success of the strategy. The study used census survey which involved the use of the entire population of seventy (70) as a sample. Primary data was collected using a questionnaire. The study made use of descriptive, correlation and regression statistics in analyzing the data that was collected with the aid of the Statistical Package for Social Sciences. The findings of the study demonstrated that strategy evaluation and control had the strongest effect on the financial performance of RDRS Bangladesh. The paper recommended for adopting effect strategic management practices to ensure competitiveness and gain sustainable financial performance of RDRS Bangladesh.

**Keywords:** strategy, management, NGOS, RDRS, bangladesh.

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Md. Sadrul Islam Sarker <sup>α</sup> & Md. Ataur Rahman <sup>ο</sup>

**Abstract-** The prime aim of the paper is to examine the relationship between strategic management and financial performance of Non-Governmental Organizations (NGOs) with special attention on RDRS Bangladesh. The research was a case study. The study adopted a self-administered questionnaire survey for assessing strategic management practices and financial performance of RDRS Bangladesh in the perception of RDRS Staffs. Strategic management assesses both the internal and external environments to formulate strategy, implement the strategy, and evaluate the success of the strategy. The study used census survey which involved the use of the entire population of seventy (70) as a sample. Primary data was collected using a questionnaire. The study made use of descriptive, correlation and regression statistics in analyzing the data that was collected with the aid of the Statistical Package for Social Sciences. The findings of the study demonstrated that strategy evaluation and control had the strongest effect on the financial performance of RDRS Bangladesh. The paper recommended for adopting effect strategic management practices to ensure competitiveness and gain sustainable financial performance of RDRS Bangladesh.

**Keywords:** strategy, management, NGOs, RDRS, bangladesh.

## 1. INTRODUCTION

Strategic management can be defined as a set of long-term managerial decisions and actions that help to determine the long-term performance of an organization (Wheelen and Hunger, 2006). Actually, strategic management is a process concerned with the analysis of environments, strategy formulation, strategy implementation and monitoring evaluation and control of its strategies and objectives (Allison & Kaye, 2005; David, 2009; Morden, 2007; Pitts & Lei, 2003; Thompson & Strickland, 2003; Wheelen & Hunger, 1998; Wheelen & Hunger, 2006; Wright et al., 1998). According to Bryson (1988) Strategic management is related to identifying of long-range targets, scanning of the organization's internal and external environments, appraising the organization's structures and resources,

matching these to the challenges that the organization face, identifying stakeholders and building alliances, prioritizing and developing actions plan, and making adjustments to fulfill long-run performance objectives. Each and every organization is engaged with strategic management for a number of factors (Porter, 1981; Stacey, 2007). Both for-profit organizations and Non-Governmental organizations (NGOs) can avail benefits from the application of strategic management (Allison & Kaye, 2005; Kaplan & Norton, 2001; Banuelas & Antony, 2002). Strategic management focuses on formulating formal policy for determining an organization's long-run objective, developing plans in the context of the internal and external environment, and undertaking appropriate action to reach those objectives (Goldsmith, 1997). Non-Governmental organizations (NGOs) are called as development organizations and it serves the community in a number of ways: health, education, poverty alleviation, environmental protection and community work, agriculture, culture, sport, democracy and human rights, economic development, social service and women (Shubair 2003). Strategic management of NGOs is more complex due to the organizational structure and culture and complexities associated with them. NGO strategy must focus on social development, long-term sustainability to beneficiaries and core competency. Lewis (2003) pointed out that NGOs work in contexts which are characterized by complexity, risks, and financial uncertainty. the key challenges for the NGO sector are reduced funding supports from donor agencies, inadequate corporate support to long-term development goals, lack of professionalism in NGO management practices, long-term institutional sustainability, competition for resources, organizational culture, inappropriate strategic management, poor decision making, lack of special skills needed, absence of criteria for staff selection, inexperience in managing relations with government and media competing for scarce resources (e.g., funds, human resources etc.), changes in the external environment, and resource constraints. (Fowler, 1997; Koteen, 1997). Mosley, Maronick & Katz (2012) contended that funding uncertainty of NGOs could be dealt by applying

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strategic management in the organizations. The application of strategic management in the field of NGOs can improve performance by building and boosting relationships with donors and partners and establish collaborations with external organizations (Abzug & Webb, 1999; Allison & Kaye, 2005; Balser & McClusky, 2005; Boyne & Walker, 2004; Brown, 2010; Bryson, 2011). Siciliano (1997) confirmed that NGOs with strategic management improve both social and financial performance. NGOs might be benefitted by Strategic management to efficiently use scarce resources and to support program and project effectiveness (Mara, 2000; Letts, Ryan & Grossman, 1999; Medley & Akan, 2008). In recent years, the number of Non-Governmental Organizations (NGOs) in Bangladesh has grown substantially. As the NGOs sector has expanded it also has experienced keen competition particularly due to scarce donor resources, their requirements distinct evidence of program impact and program efficiency. Therefore, the use of strategic management is very much necessary. Previous studies provided evidence of the importance of using strategic management (Acquaah, 2007; Abor & Biekpe, 2007). No research has been conducted on the context of the relationship between strategic management and NGO sector in Bangladesh. Therefore, this research has been undertaken to determine the relationship between strategic management and financial performance of NGOs using RDRS as a case. More precisely, the main objective of this study is to show the extent to which strategic management practices induce the financial performance of RDRS Bangladesh

## II. LITERATURE REVIEW

### a) *Concept of Strategic Management*

Strategic management is the analysis of business environment, formulation, implementation and monitoring, evaluation and review of the implementation process in order to ensure that long-run objectives of an organization are accomplished efficiently and effectively (Tapera, 2014). According to Wheelen and Hunger (1998), strategic management is a set of managerial decisions and actions that determine the long-term performance of an enterprise. This involves environmental scanning (both internal and external), strategy formulation (strategic or long-range planning), strategy implementation, and evaluation and control.

### b) *Strategic management practices*

Strategic management comprises of four stages: environmental scanning (awareness), strategy formulation, strategy implementation and strategy evaluation (Thomson & Strickland, 2003; Wheelen & Hunger, 2006).

### c) *Environmental Scanning*

According to Hunger and Wheelen (2003) environmental scanning is the monitoring, evaluating and disseminating of information from the external (opportunities and threats) and internal (strengths and weaknesses) environment to key people within the corporation. Environmental analysis is a process of studying the external and internal environments in which an organization operates (Analoui & Karami, 2003). So, environmental scanning is concerned with identifying economic, technological, political-legal and socio-cultural factors that affect the operations of an organization.

### d) *Strategy Formulation*

According to Machuki, Aosa, & Letting, (2012) formulation of a strategy involves the designing and developing a long-range course of action for the effective management of environmental opportunities and threats, in light of corporate strengths and weaknesses. It is concerned with defining the mission, determining objectives, developing strategies and setting policy.

### e) *Strategy Implementation*

Strategy implementation is the application of the intended strategy with a view to attaining the long-term objective of an organization (Murgor, 2014). Strategy implementation focuses on who, where, when and how of reaching desired goals and objectives. Wheelen and Hunger (2011) contended that strategy implementation is the execution of a strategic plan to accomplish the long-run objectives of an organization. According to Favaro (2015), strategy implementation is the making strategies and policies into effect with the help of programs, procedures, and budgets.

### f) *Strategy Evaluation and Control*

Strategy evaluation is the appraisal of strategy whether it works better or not. It is concerned with assessment, monitoring and taking corrective measures to the best serve of the strategy (Thomson & Strickland, 2003). According to Pearce and Robinson (2008), strategic control is concerned with tracking the strategy as it is being implemented, detecting problems or changes when deemed necessary and making the necessary adjustments.

### g) *Concept of Financial Performance*

Performance measures are tools used to manage and improve an organization's operations. Richard et al (2009) described the financial performance of an organization is measurable in profits, return on investments and return on assets. According to Herman and Renz (1997), financial performance indicators of yield rendered enterprises are return on investment (ROI), return on assets (ROA), return on equity (ROE), return on sales (ROS), market share, profitability, liabilities or profitability ratios. But performance

measurement of Non-governmental organizations (NGOs) is not similar to the performance criteria of profit-seeking organizations. Epstein and Buhovac, (2009) opined that financial performance of not-for-profit organizations means the financial health of that organization. Two broad areas of financial health of non-governmental organization are organizational efficiency and organizational capacity: organizational efficiency is studied in four performance indicators: (a) program efficiency (program expenses divided by total functional expenses) (b) administrative efficiency (administrative expenses divided by total functional expenses), (c) financial efficiency (fundraising expenses divided by total functional expenses), and (d) fundraising efficiency (the charity's fundraising expenses by the total contributions received as a result). Organizational capacity, on the other hand, is expressed by three performance indicators : (a) revenue growth over four years, (b) program expenses growth over four years, and (c) working capital ratio (working capital divided by total expenses) (Epstein and Buhovac, 2009). Epstein and Buhovac, (2009) also added that for evaluating the overall financial performance of NGOs, firstly NGOs are scored qualitatively and then assigned ratings organizational efficiency and organizational capability. According to Andreasen and Kotler (2008), Non-governmental organizations' (NGOs) Financial performance measures are fundraising efficiency, financial transparency, and financial efficiency. The financial performance of NGOs can be defined in terms of overall financial performance, effectiveness and accountability including access to funding, budgeting efficiency, expenses and costs (Mc Cathy, 2007; Speckbacher, 2003; Ritchie and Kolodinsky, 2003; Sowa, Selden and Sandfort, 2004). In this study financial performance (program efficiency, administrative efficiency, financial efficiency, and fundraising efficiency) of Non-governmental organization (NGOs) as a sample of RDRS Bangladesh has been undertaken due to strategic management.

#### *h) Non-Governmental Organizations in Bangladesh*

Non-Governmental organizations (NGOs) are the types of organizations that have no commercial purpose and serve the community in the respect of health, education, poverty alleviation, environmental protection and community work, agriculture, culture, sport, democracy and human rights, economic development, social service and women (Shubair 2003). Morris et al., (2010) described a not-for-profit organization as a type of organization typically serves the society and any profit realized by this type of organizations is reinvested back in the organization. According to Morris et al., (2008) not-for-profit organizations could be classified as philanthropic organizations (involved with organizing resources to support people in need and are motivated by the

humanitarian purposes); advocacy organizations (concerned with supporting different social causes or initiative such as care and protection of the environment or animals and so forth); and mutual benefit organizations (focus on providing services to a large clientele sometimes at a subsidized fee below the actual cost) . In socio-economic development of Bangladesh, Non-Governmental Organizations put undeniable contribution. NGO Affairs Bureau (NGO-AB) was founded in 1990 with a view to facilitating NGOs initiatives for the socio-economic development of underprivileged people through enhancement and proper utilization of foreign donations in Bangladesh. As of June 2016, the NGO Affairs Bureau (NAB) of the Government of Bangladesh (GOB) had a total registered number of 2495 NGO of which 2244 local and 251 international NGOs. After the independence of Bangladesh in 1971, Bangladesh became a site for Non-Governmental Organizations. Primarily NGOs stressed on relief and rehabilitation activities after the War of the liberation of Bangladesh and succeeding natural calamities after that international and local NGOs shifted their operations to long-term development activities where the govt. operations cannot reach (Lewis, 1997). Now, the main role of NGOs in Bangladesh is helping deprived rural mass through facilitating self -employment generation, education, health care, nutritional status, family planning, financing and so on (Siciliano, 1997). Currently, there are many prominent local and international NGOs in Bangladesh like BRAC, ASHA, Grameen Bank, Proshikha, CARE, Action Aid, World Vision, TMSS, SKS, and RDRS Bangladesh. But, most Non-Government organizations (NGOs) in Bangladesh is now facing challenges in respect of sustainable financial performance .without improving financial performance, NGOs cannot contribute to the socio-economic development of the people of Bangladesh. Therefore, in these circumstances, NGOs operations should be conducted in a manner that could maintain and retain financial performance and where strategic management could work best (Boyne & Walker, 2004)

#### *i) An overview of RDRS Bangladesh*

A Non-Governmental Organization (NGO) founded in 1972 for providing relief and rehabilitation assistance to the people of the greater Rangpur-Dinajpur region is known as RDRS (Rangpur, Dinajpur Rural Service) Bangladesh immediately It is listed under NGO affairs bureau and regulated by a trustee board consisting of leading players from the public-spirited sector in Bangladesh. The vision of RDRS core development program is to achieve meaningful political, social and economic empowerment of the rural and marginal people. RDRS is now a major multi-sectorial development agency focused on underprivileged and distressed people of 38 district of Bangladesh. RDRS

Bangladesh delivers different development opportunities and services to 3,720, 458 homeless and peripheral families in 15 districts, and work with 385 community-based organizations seeking to empower their grassroots members. It also maintains staffing of over 3,000, over 90% of who are field-based (RDRS Bangladesh, Annual report, 2016).

#### j) Empirical Review

A number of studies have been executed to determine the relationship between the utilization of formal planning and performance in NGOs. Jenster & Overstreet (1990) and Odom & Boxx (1988) claimed that embracing and practicing formal planning by NGOs was connected to organizational performance in terms of access to funding. According to Bartunek (1984) and Vogel & Patterson (1986) fluctuations of policy in the external environment yield important changes in the pattern of the NGO and it can affect strategy implementation of NGOs. The affects the values, leadership style and structure of the NGOs are influenced by the social environment (Martin & Gilsson, 1989). Studies such as Ahituv et al. (1998), Garg et al. (2003), Kohn (2005), Miller (1994), and Strandholm & Kumar (2003) found that environmental scanning is an influencing variable on an organization performance. Blackmon (2008) conducted a study on the impact of strategic planning on non-profits organizations using the balanced scorecard approach and he found a significant relationship between strategic planning and NGOs' financial performance. Besides, Lewis (2003) investigated a research on the management of Non-Governmental organizations in the developing a world where he found that strategic management excelled the competitiveness of NGOs. Moreover, the study result of Stone, Bigelow, & Crittenden (1999) concluded that

strategic management had a significant effect on the financial performance of NGOs. Strategic management practices in NGOs result in more productive outcomes in nonprofits' performance (Smith, 2008). Furthermore, Hu, Kapucu & O'Byrne (2014), found in a study that strategic management had an impact on the way NGOs serve community needs and deliver their programs and services. Conducting a survey on twenty small community-based organizations. Moreover, Lecy et al. (2012) investigated Non-governmental and not-for-profit organizational effectiveness in which they found NGO effectiveness is dominated by conceptual works. Schmid (1992) concluded that organizational change will affect strategy implementation. Reid, Brown, McNERNEY & Perri (2014) adopted a study to describe the relationship between strategic planning and strategic management practices and overall organizational success using large-scale survey and they found fully 93 percent of the most successful organizations had impact on their organization's overall success due to strategic management.

#### k) Conceptual Framework and Hypotheses Development

The conceptual framework of this study is based on the previous literature review. Indeed, this study hypothesizes that effective environmental analysis, strategy formulation strategy implementation and strategy evaluation and control can lead to increase financial performance of RDRS Bangladesh. The aspects of strategic management include environmental scanning, strategy formulation strategy implementation, and strategy evaluation and control and financial performance of RDRS include fundraising efficiency, financial transparency, program financial efficiency, and administrative efficiency.

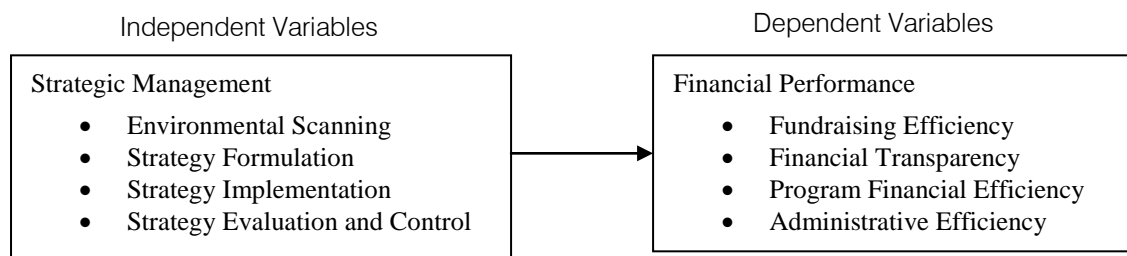


Figure 1: Conceptual Framework

Considering the previous literature the following a set of hypotheses has been developed. They are:

*Hypothesis 1:* Environment Scanning has a significant positive influence on the financial performance of RDRS Bangladesh.

*Hypothesis 2:* Strategy formulation has a significant positive influence on the financial performance of RDRS Bangladesh.

*Hypothesis 3:* Strategy implementation has a significant positive influence on the financial performance of RDRS Bangladesh.

*Hypothesis 4:* Strategy evaluation and control has a significant positive influence on the financial performance of RDRS Bangladesh.



### III. RESEARCH METHODOLOGY

#### a) Research design

Neuman (2006) described research design is a detailed plan of how a research study is to be conducted. The study used a descriptive design. Descriptive research interprets an accurate profile of people's events or situations (Robson, 2002). The key purpose of descriptive research is to provide information on the characteristics of a population. A descriptive study tries to discover answers to who, what, when, where and sometimes how questions (Cooper & Schindler, 2003).

#### b) Population and Sampling

The population of this research is all manpower employed at RDRS Bangladesh central office Rangpur. The census survey sampling technique was used for the study and it refers to the entire population as a sample. The study used census sampling procedure which will involve the population of seventy (70) as a sample. A census is attractive for small populations and eliminates sampling error and provides data on all the individuals in the population (Kothari, 2003).

#### c) Data Collection

Both primary and secondary data were collected. Primary data was collected through the use of a questionnaire; the questionnaires consist of three sections. Section (A) is intended to gather demographic information of respondents; Section (B) of the questionnaire consists of 21 items used to evaluate the extent to which four strategic management practices, including environmental scanning, strategy formulation, strategy implementation, and strategy evaluation and control, are applied in the operations of NGOs case as RDRS Bangladesh and rated anonymously by the respondents on a 5-point Likert scale of 1 = "strongly disagree" to 5 = "strongly agree". Section (C) of the questionnaire measures the financial performance of NGOs by the variables namely: program efficiency,

administrative efficiency, and fundraising efficiency. NGOs' financial performance was measured using a multi-item scale on program efficiency, administrative efficiency and fundraising efficiency adapted from previous studies (Analoui & Samour, 2012; Mosley et al., 2002). The questionnaire used for data collection was pre-checked to determine whether questions and directions are clear and understandable to respondents of RDRS Bangladesh or not. For this, a panel of experts having academic and practical experience and knowledge in NGOs were chosen to examine the justifications of the questions in the questionnaire for the subject. Secondary data was collected through reviewing records of the study relevant to the topic from journal, newspapers, books, magazines, website and any other relevant documentaries as well as publications.

#### d) Data analysis and presentation

Data in this study was presented and analyzed using descriptive statistics (mean, percentage, standard deviation, and coefficient variance) and inferential statistics (correlation test and regression). The regression analysis was also done with the aid of the Statistical Package for Social Sciences and Microsoft excels to determine the effect of strategic management on the financial performance of RDRS Bangladesh. In testing the hypotheses, correlation test and regression test were used.

### IV. DATA ANALYSIS, RESULTS, AND DISCUSSION

#### a) Response Rate

A self-administered questionnaire was used to collect data from the target population. The response rate is the number of questionnaires returned divided by sample size and the result multiplied by one hundred (De Vaus, 2002). A response rate Table 4.1 was developed.

Table 4.1: Study response rate

Item	Frequency	Percent
Valid questionnaires	70	87.5%
Invalid	10	12.5%
Total	80	100%

From the 80 respondents, 70 responded while 10 did not respond. This formed a response rate of 87.5%. This response rate was considered satisfactory to analyze the relationship between strategic management and financial performance of RDRS Bangladesh (A non-governmental organization). The response rate of 50% is adequate for data analysis while 60% is good and above 70% is considered a very good response rate for data analysis (Bryman & Bell, 2007; Mugenda & Mugenda, 2009).

#### b) Biographic Profile and Discussions

The biographic information of this study was gender, age, education level, experience and work department of the respondents. According to Nadkarni and Herrmann (2010), demographic variables such as age, education, and experience allow researchers to make effective decisions regarding the interest of the study.

### Gender Distribution

Descriptive statistical analysis was done on the data obtained from the field regarding the gender of the respondents as summarized in table 4.2

Table 4.2: Gender Distribution

	Gender	Frequency	Percent
Valid	Male	45	64.3
	Female	25	35.7
	Total	100	100

Table 4.2 shows information about the gender of the respondents and revealed that there were 64.3% male respondents and 35.7% female respondents. This means that opinion represented by respondents in relation to strategic management and financial performance of RDRS Bangladesh was from both male and female. Therefore, the results obtained could be attributed to either gender.

### Respondents Age

This study sought information about the age of the respondents. Data obtained from the field regarding the age of the respondents was statistically analyzed and the results summarized in Table 4.3

Table 4.3: Age Distribution

	Age	Frequency	Percent
Valid	21-30 Years	20	28.6
	31-40 Years	22	31.4
	41-50 Years	18	25.7
	Above 51 Years	10	14.3
	Total	70	100

The descriptive statistics on data about the gender distribution of the respondents showed that 20 (28.6%) of the respondents were aged between 21- 30 years while those aged between 31- 40 years were 22 (31.4%). These two age brackets represented 60 % of the total number of respondents implying that the most active age of employees comprised more than half of the population involved in this study. 18(25.7%)

respondents were aged 41-50 years while those aged above 50 years were 10representing 14.3 %.

### Respondents Academic Qualifications

This study also sought information about the respondents' academic qualification. Data obtained from the field on this question was statistically analyzed and the results summarized in Table 4.4 as follows:

Table 4.4: Educational Information

	Education level	Frequency	Percent
Valid	Bachelor's degree	15	21.4
	Master's degree	55	78.6
	Doctoral degree	0	0
	Total	70	100

In the context of the level of education, 21.4% (15) had a bachelor's degree while 78.6% (55) had a master's degree. Whereas it is appreciable that the majority of the corporations' employees have a master's degree education, this implies that organizations have the ability to make complex unstructured decisions in a rapidly changing and hypercompetitive business environment.

### Respondents' length of experience

This study also sought information about the length of service of respondents in RDRS Bangladesh. Data obtained from the field on this question was statistically analyzed and the results summarized in Table 4.5 as follows:

Table 4.5: Length of experience

	Experience	Frequency	Percent
Valid	Less than 5 years	15	21.4
	5-10 years	15	21.4
	11-15 years	20	28.6
	Above 15 years	20	28.6
	Total	70	100



The results in Table 4.5 indicate that on experience, 15 (21.4%) of the respondents had experience of fewer than 5 years, 15(21.4%) between 5-10 years, 20(28.6%) between 11-15 years, and 20 (28.6%) over 15 years of experience at the organization.

#### Respondents' worked department

This study also sought information about the distribution of respondents worked department. Data

obtained from the field on this question was statistically analyzed and the results summarized in Table 4.6 as follows:

Table 4.6: Worked department

	Worked department	Frequency	Percent
Valid	Social organization	10	14.3
	Women rights	7	10
	Health	8	11.4
	Education	15	21.4
	Agriculture	10	14.3
	Human resource	5	7.1
	Finance	3	4.3
	Microfinance	7	10
	Procurement	2	2.9
	Monitoring	3	4.3
	Total	70	100

From the descriptive statistic results in Table 4.6, it was established that majority of the respondents were under the education department. The results were that 10 (14.3%) of the respondents were under social organization department, while 7 (10%) were under women rights department, 8 (11.4%) were under the health department, 10 (14.3%) were under the agriculture department, 5(7.1%) were under the Human resource department, 3(4.3%) were under the finance department, 7(10%) were under the Microfinance department, 2(2.9%) were under the Procurement department and 3(4.3%) were under Monitoring department.

#### c) Statistical Tests and Discussions

Multiple linear regression analysis was performed to examine the relationship between the dependent variable (Financial Performance of RDRS Bangladesh) and the independent variable (Strategic management). Strategic management was defined as determining Environmental Scanning (ES), strategy

formulation (SF), strategy implementation (SI), strategy evaluation and control (SEC). This was done to examine whether if Strategic management variables predict financial performance of RDRS Bangladesh. The important values of discussion were the coefficient of determination R<sup>2</sup> and correlation coefficient r which in the case of the current study states the degree of association between strategic management variables and financial performance of RDRS Bangladesh.

The regression is calculated using the basic regression model as follows.

$$FP(Y) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon_i$$

The equation explains the relationship between FP(Y)= Financial Performance of RDRS Bangladesh,  $\beta_0$ = Model constant,  $\beta_{1,2,3}$ = the model regression coefficients,  $X_1$ = Environmental scanning(ES),  $X_2$ = Strategy Formulation (SF) (S,  $X_3$ =Strategy Implementation(SI),  $X_4$ = Strategy Evaluation and Control (SEC), and  $\epsilon_i$  = error term.

Table 4.7: Model fit Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712 <sup>a</sup>	.508	.477	.2515310

a. Predictors: (Constant), SM=SEC, SI, SF, ES

The results of the general model estimate on Strategic Management and Financial Performance are shown in Table 1. The correlation coefficient R and coefficient of determination R<sup>2</sup> value are shown in Table 1. The result of R = 0.712 and that of R<sup>2</sup> = 0.508. The

R value of 0.712 suggests that Strategic Management explains about 71 percent of the variation in RDRS Bangladesh Financial Performance. The R<sup>2</sup> value of 0.508 implies that 50.8 percent of the effect of RDRS Bangladesh Financial Performance can be explained by

Strategic Management while 49.2% can be explained by other variables. Hence considering that  $R^2$  can be at most 1, the regression line of this study is concluded that it fits the data very well. The value of adjusted  $R^2$  is also important. In this study, the value of the adjusted

$R^2 = 0.477$  is shown in Table 1. The rule of thumb on the value of adjusted  $R^2$  is that this value should be less than 0.8. On this basis as indicated in Table 1 the value of  $R^2$  is less than 0.8, hence it can be declared that it is significant.

Table 4.8: Coefficients

Model		Unstandardized	Coefficients	Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	.206	.584		.352	.726
	ES	.230	.074	.283	3.117	.003
	SF	.211	.084	.222	2.508	.015
	SI	.011	.063	.015	.168	.867
	SEC	.486	.064	.671	7.562	.000

a. Dependent Variable: Financial Performance (FP)

At 5% significant level the following strategic Management variables, namely ES, SF, SI and SEC had 0.003, 0.015 0.867 and 0.000 levels of significance respectively. Thus ES and SEC were found in this study to be more statistically significant while SF and SI were not. In addition, a multiple regression analysis was also conducted to determine the relationship between the financial performance of RDRS Bangladesh and the four variables of strategic management. The values give the following regression model:

$$Y = 0.206 + 0.230ES + 0.211SF + 0.011SI + 0.486SEC$$

Where: Y = Financial Performance, ES = Environmental Scanning, SF= Strategy Formulation, SI= Strategy Implementation, and SEC= Strategy Evaluation and Control.

The regression model indicates a positive relationship between Strategic Management variables:

Environmental Scanning, Strategy Formulation, Strategy Implementation, and Strategy Evaluation and Control. Therefore, a unit increase in analyzing environmental scanning, strategy formulation, strategy implementation, and strategy evaluation and Control causes a 20.6%, 23 %, 21.1%, and 48.6 % increase in RDRS Bangladesh financial performance respectively. Therefore RDRS Bangladesh is required to emphasize on analyzing environmental scanning, strategy formulation, strategy implementation and strategy evaluation and control for improving its financial performance.

This study also examines four hypotheses. For testing hypothesis, the regression result was used, with the significance level of  $\leq 0.05$ . The critical value for acceptance and rejection was to reject the null hypothesis if the p-value was  $\leq 0.05$ .

Table 4.9: Regression result

ANOVA						
	Model	Sum of Squares	df	Mean Square	F	Sig.
Environmental Scanning(ES)	Regression	.343	1	.343	2.913	.092 <sup>a</sup>
	Residual	8.008	68	.118		
	Total	8.351	69			
Strategy Formulation (SF)	Model	Sum of Squares	df	Mean Square	F	Sig.
	Regression	.339	1	.339	2.881	.094 <sup>a</sup>
	Residual	8.012	68	.118		
Strategy Implementation (SI)	Model	Sum of Squares	df	Mean Square	F	Sig.
	Regression	.007	1	.007	.053	.818 <sup>a</sup>
	Residual	8.345	68	.123		
Strategy Evaluation and Control(SEC)	Model	Sum of Squares	df	Mean Square	F	Sig.
	Regression	3.044	1	3.044	39.012	.000 <sup>a</sup>
	Residual	5.307	68	.078		
	Total	8.351	69			
Coefficients						
Model	B	Std. Error	Beta	t	Sig.	
(Constant)	3.277	.398		8.225	.000	
ES	.164	.096	.203	1.707	.092	

Model	B	Std. Error	Beta	t	Sig.
(Constant)	3.170	.463		6.840	.000
SF	.192	.113	.202	1.697	.094
Model	B	Std. Error	Beta	t	Sig.
(Constant)	3.879	.322		12.030	.000
SI	.020	.085	.028	.231	.818
Model	B	Std. Error	Beta	t	Sig.
(Constant)	2.243	.276		8.135	.000
SEC	.438	.070	.604	6.246	.000

a. Predictors: (Constant), SEC, SI, SF, ES

b. Dependent Variable: FP

*Ho<sub>1</sub>: There is no impact of environmental scanning on the financial performance of RDRS Bangladesh.*

*Ha<sub>1</sub>: There is an impact of environmental scanning on the financial performance of RDRS Bangladesh.*

The results presented in Table 4.9 show that the F value was 2.913 with a p-value of 0.094 and the value of t was .225 with p-value 0.092 since p-value was > 0.05, we shall accept the null hypothesis.

*Ho<sub>2</sub>: There is no impact of strategy formulation on the financial performance of RDRS Bangladesh.*

*Ha<sub>2</sub>: There is an impact of strategy formulation on the financial performance of RDRS Bangladesh.*

The results displayed in Table 4.9 show that the F value was 2.881 with a significant level = 0.094, t value was 6.840 with p-value of 0.094 this result revealed that H<sub>02</sub> is accepted. Thus strategy formulation has no significant impact on the financial performance of RDRS Bangladesh.

*Ho<sub>3</sub>: There is no impact of strategy implementation on the financial performance of RDRS Bangladesh.*

*Ha<sub>3</sub>: There is an impact of strategy implementation on the financial performance of RDRS Bangladesh.*

The results displayed in Table 4.9 show that the F value was .053 with a significant level = 0.818, t value was 12.030 with the p-value of 0.818 this result revealed that H<sub>03</sub> is accepted. Therefore; statistically it is proved that strategy implementation has no significant impact on the financial performance of RDRS Bangladesh.

*Ho<sub>4</sub>: There is no impact of strategy evaluation and control on the financial performance of RDRS Bangladesh.*

*Ha<sub>4</sub>: There is an impact of strategy evaluation and control on the financial performance of RDRS Bangladesh.*

The results displayed in Table 4.9 show that the F value was 39.012 with a significant level = 0.000, t value was 8.135 with a p-value of 0.000. So, H<sub>04</sub> is rejected. This indicated that the strategy evaluation and control has an impact on the financial performance of RDRS Bangladesh. Table 4.9 also showed the coefficients (Beta) for the environmental scanning, strategy formulation, and strategy implementation and strategy evaluation and control (0.203, 0.202, 0.028 and 0.604). These results indicated that strategy evaluation

and control had the highest effect on financial performance of RDRS Bangladesh.

Table 4.9 below shows means, standard deviation, and Pearson correlations for the research variables. The mean and standard deviation of environmental scanning are 4.11 and 0.429, respectively. The mean and standard deviation of strategy formulation are 4.08 and 0.365, respectively. The mean and standard deviation of strategy implementation are 3.76 and 0.496, respectively. The mean and standard deviation of strategy evaluation and monitoring are 3.90 and 0.479, respectively. The mean and standard deviation for financial performance are 3.95 and 0.347 respectively. Means and standard deviations of the sub-scales of financial performance are also presented in Table 4.9.

Table 4.9 also demonstrates that strategy formulation and strategy evaluation had a significant positive correlation with financial performance indicators and environmental scanning and strategy implementation had a negative correlation with financial performance indicators. The correlation coefficients between environmental scanning and financial performance variables (fundraising efficiency, financial transparency, program financial efficiency, and administrative efficiency) were 0.016, -0.135, 0.009, and 0.680 respectively.

Table 4.10: Means, Standard Deviations and Correlations.

Variables	Mean	SD	ES	SF	SI	SEC	FE	FT	PFE	AE	OFP
ES	4.11	.429	1								
SF	4.08	.365	.151	1							
SI	3.76	.496	-.201	.042	1						
SEC	3.90	.479	-.166	-.095	.091	1					
FE	3.86	.453	.016	.143	-.062	.292*	1				
FT	4.01	.546	-.135	.003	.216	.889**	.340**	1			
PFE	3.86	.469	.009	.087	-.191	.385**	.803**	.276*	1		
AE	4.06	.506	.680**	.342**	.077	.081	.149	.267*	.181	1	
OFP	3.95	.347	.203	.202	.028	.604**	.785**	.694**	.773**	.578**	1

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

\*. Correlation is significant at the 0.05 level (2-tailed).

The correlation coefficients between strategy formulation and the four financial performance indicators were 0.143 with fundraising efficiency, .0003 with financial transparency, 0.087 with program financial efficiency, 0.342 with administrative efficiency respectively. The correlation coefficients between strategy implementation and the four financial performance indicators were -0.062 with fundraising efficiency, .0216 with financial transparency, -0.191 with program financial efficiency and 0.077 with administrative efficiency and finally the correlation coefficients between strategy evaluation and control and the four financial performance variables were 0.292 with fundraising efficiency, .889 with financial transparency, 0.385 with program financial efficiency and, 0.081 with administrative efficiency .so it can be noted that correlation analysis revealed both positive and negative relationship between strategic management and financial performance of RDRS Bangladesh.

#### Managerial implications

This study focuses on the relationship between strategic management and financial performance of RDRS Bangladesh. The study recommends that in conducting the organizational operation, RDRS Bangladesh should study the factors of environment and formulate effective strategies in light of the environmental scanning for success and gaining competitive advantage from NGOs programs. In addition, RDRS Bangladesh needs to pay attention to the careful implementation of effective strategies and thereafter there is a need to monitor, evaluate and control the functions of RDRS Bangladesh in order to improve the financial performance of RDRS Bangladesh.

## V. CONCLUSION, RECOMMENDATIONS AND FUTURE WORK

This research examines four strategic management variables (environmental scanning, strategy formulation, strategy implementation, and strategy evaluation and control) in the perception of

employees, managers, program officers and program coordinators who employed at RDRS Bangladesh in respect to financial performance ( fundraising efficiency, financial transparency, program financial efficiency and administrative efficiency). The study found that strategic management adopted by RDRS Bangladesh including environmental scanning, strategy formulation, strategy implementation, and strategy evaluation and control. The results of the study indicated that among strategic management variables strategic evaluation and control had a single biggest positive influence on the financial performance of RDRS Bangladesh. Especially, it is statistically proved that there was 50.8 percent of the corresponding change in the financial performance of RDRS Bangladesh for every change in the four variables of strategic management. These findings are supported with previous studies, for example, Analoui & Samour (2012), Bryson (2011), Hatten (1982) and Mosley et al. (2012). Therefore, strategic management is an important factor for organizational subsistence to ensure financial performance of RDRS Bangladesh.

The study concludes that effective application of strategic management in NGOs sector has a sound influence on financial performance. The study recommended that RDRS Bangladesh should continue practicing effective strategic management practices for enhanced financial as well as an organizational performance by facing challenges in the NGOs sector in Bangladesh. The study also recommended that RDRS Bangladesh should ensure to have a strong strategy evaluation and control to confirm sustain financial performance.

This research work was solely based on the perception of staffs of RDRS Bangladesh. Therefore the study result was confined to this single NGO and it did not cover the entire NGOs sector in Bangladesh. so future research work should be undertaken by considering all NGOs in Bangladesh and it might produce the result that would generalize the findings. Moreover, future re-research should be explored the impact of strategic management on NGOs and Banking sector of Bangladesh.

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# The Conceptual Framework of Indonesia Raya Incorporated (IRI): Extending Relationship between the Economic Constitution and the Roles and Functions of State Companies

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**Abstract-** Indonesia Raya Incorporated (IRI) idea is a new and fascinating phenomenon in the perspective of the Indonesian economic system, mainly on the governance of State-owned Enterprises (SOEs) and Regional-owned Enterprises (ROEs). However, there are still few researchers who pay attention to their views on the IRI in corresponds to the Indonesia's economic system and constitution. The purpose of this study was to reveal the relationship between the economic constitution and the roles and functions of state companies to describe the idea of IRI, and also identify and describe the variables included in the IRI concept. The study was carried out using qualitative methods, designed with narrative strategies and grounded theory, and interpreted by using the constructivism approach. The results of the study revealed that: (1) the idea of IRI was set in economic and social issues related to natural wealth governance and economic resources, which gave hope of fulfilling the mandate of the economic constitution through the role and function of SOEs and ROEs; and (2) the content of the IRI concept variable was the economic constitution, corporate strategy, government policy, company share ownership, and the role and function of the company. The description of these findings was translated theoretically, constructively and holistically, thus broadening the conception of IRI and having implications for the economic, management and business strategy.

**Keywords:** indonesia raya incorporated (IRI), economic constitution, government policy, corporate strategy, company share ownership, state-owned enterprises (SOEs) and regional-owned enterprises (ROEs).

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



*Strictly as per the compliance and regulations of:*



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**Abstract-** Indonesia Raya Incorporated (IRI) idea is a new and fascinating phenomenon in the perspective of the Indonesian economic system, mainly on the governance of State-owned Enterprises (SOEs) and Regional-owned Enterprises (ROEs). However, there are still few researchers who pay attention to their views on the IRI in corresponds to the Indonesia's economic system and constitution. The purpose of this study was to reveal the relationship between the economic constitution and the roles and functions of state companies to describe the idea of IRI, and also identify and describe the variables included in the IRI concept. The study was carried out using qualitative methods, designed with narrative strategies and grounded theory, and interpreted by using the constructivism approach. The results of the study revealed that: (1) the idea of IRI was set in economic and social issues related to natural wealth governance and economic resources, which gave hope of fulfilling the mandate of the economic constitution through the role and function of SOEs and ROEs; and (2) the content of the IRI concept variable was the economic constitution, corporate strategy, government policy, company share ownership, and the role and function of the company. The description of these findings was translated theoretically, constructively and holistically, thus broadening the conception of IRI and having implications for the economic, management and business strategy.

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## 1. INTRODUCTION

State companies in Indonesia consist of two types. They are State-owned Enterprises (SOEs) and Government Regional-owned Enterprises (ROEs) or State-Owned Enterprises (*BUMN: Badan Usaha Milik Negara*) and Regional-Owned Enterprises (*BUMD: Badan Usaha Milik Daerah*). SOEs shares are majority owned by the central government, and for some companies that go public their minority shares are on the stock exchange. ROEs generally have not gone public so that the majority of share is in the hands of the

provincial or district government. Relatively, there is a different distribution of the number of company units between the provincial government and the Regency.

Some of the business focus of these state companies has sectoral similarities, for example: (1) the SOE's banking sector as a national bank and ROEs for regional banks or rural banks; (2) SOEs natural resources sector as a supplier of clean water from reservoirs, while ROEs as a water distribution agent to households and industries or is known as a regional water company (*PDAM: Perusahaan Daerah Air Minum*); and (3) others. In the large economic resources sector, namely natural resources such as oil and gas, coal, tin, gold, aluminum, forestry and plantations and others, almost all are dominated by SOEs and national and foreign private sector.

Research on SOEs in various countries have been carried out, however, researchers rarely explore the patterns and mechanisms of companies' shareholdings related to the country's economic constitution and the role and function of the company. Udin, Sudath, and Luo (2016) investigate SOEs failure for Bangladesh. Kloivene and Gimžauskiene (2014) investigated Lithuania's SOEs conceptual framework. Radygin, Simachev, and Entov (2015) analyzed SOEs activities about state failure and market failure. Sanusi (2015) explored the perspective of human resource management about SOEs organizational performance. Arkhipova, Dibrov, Beskrovnaya, and Shchukina (2015) classify SOEs types in Russia. Dobson (2017) explored SOEs impulse from China investing in Canada.

Moreover, Liang, Ren, and Sun (2015) explored the impact of state control on SOEs related to globalization in developing countries. Trihatmoko and Susilo (2018) have conducted a study on the concept of IRI about SOEs and ROEs in Indonesia. However, the study's focus was to uncover the background of the IRI idea in its interests to develop a theoretical perspective on the management of state asset ownership. This paper is a follow-up study as suggested by Trihatmoko and Susilo (2018) which is about the system or operationalization of the IRI concept. It focuses on the relationship between economic constitution and the role and function of state enterprises.

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Trihatmoko and Susilo's study (2018) has reported that the economic policies applied/ occur have caused a gap in state asset ownership between SOEs, ROEs, and the private sector. It is further emphasized that the majority of state company shares are only dominated by each level of government, and shares of private companies are only controlled by a group of national or foreign entrepreneurs or multinational companies. On the other hand, the essence of Indonesia's economic constitution does not address this, as stated in the 1945 Constitution of the Republic of Indonesia, Article 33. (see, Trihatmoko and Susilo, 2018; Trihatmoko, 2018; Asshiddiqie, 2016; Ismail, Santosa, and Yustika, 2016). This perspective can be assumed that the phrase "controlled by the state" in the law (economic constitution) is practiced only by the government or not by the public as citizens. Trihatmoko and Saragih as Expert Witnesses at the 2018 Constitutional Court hearing, calling it SOEs has become capitalist or capitalistic in carrying out business functions for their country.

The above issues of SOEs share ownership or ROE's have prompted a fresh thought, namely Indonesia Raya Incorporated (IRI) by Putut Prabantoro (Prabantoro, 2014; Trihatmoko and Susilo, 2018; Trihatmoko, 2018). The concept of IRI can be seen as a new term in the economic field since it is still rarely found in the literature. Therefore, research and academic studies on IRI are still rare to find. Nonetheless, in various mass media publications, it can be traced, indicating that the IRI phenomenon is gaining popularity since the end of 2016. To recall from Trihatmoko and Susilo (2018) has explained that IRI's thoughts were conveyed to the Presidential Advisory Council of the Republic of Indonesia.

The substance of IRI is giving ideas on how to "merge" or incorporation between SOEs and ROEs, particularly for state companies in the oil and gas sector (Prabantoro, 2014; Trihatmoko and Susilo, 2018). Trihatmoko and Susilo study results (2018) revealed that the emergence of IRI was driven by economic policies by the government so far which had an impact on economic liberalization, resulting in a gap in ownership of state assets. It was stated by them that to eliminate the state asset ownership gap; new economic policy was needed by the government to encourage the implementation of the IRI concept. Next, it is estimated that the results of the IRI practice will provide people's welfare and equitable development, and ultimately maintain the integrity of the Unitary Republic of Indonesia.

The background of IRI's idea in the macroeconomic context directs SOEs and ROEs to have a role and function directly towards the mandate of the constitution or economic constitution which is towards the general welfare and economic prosperity of

the people. Now the crucial question posed is how and what is the idea of IRI related to economic constitution? More comprehensive, how to conceptualize the idea of IRI?

The purpose of this study was to reveal the relationship between economic constitution and the role and function of state companies to describe the idea of IRI, and also identify and describe the variables included in the IRI concept. IRI's idea and conception are very significant to explore, since it will be useful as an academic review and discussion in an economic constitution based economic system, particularly the Indonesian economic system. The IRI study is theoretically and conceptually directed to expand scientific fields, among others: constitutional economy, political economy, development economics, state asset ownership management, and corporate strategy and SOEs and ROEs management, or public management and company management in general. From a practical point of view, the results of this study will be useful as an in-depth reflection on government authorities both for the executive and legislative levels, at the central and regional levels. Thus, it is an expectation for government authorities and other stakeholders to be able to make new efforts and breakthroughs that lead to the implementation of IRI.

## II. LITERATURES AND THEORY

The existence of state and regional-owned enterprises (SOEs & ROEs) for the country of Indonesia is institutionally as an extension of the state's interests "all elements of the nation (the people)" to operate the natural wealth and economic resources of the country, which are considered to have strategic value and dominate the necessities of life people. The main inter-institutional relationships are representative institutions of the people, government, and business entities. Representation of the people is represented by the legislative ranks from the House of Representatives of Regencies & Cities, Provinces, and the House of Representatives of the Republic of Indonesia (center). Governments are played by executives ranging from Village Heads, Regents, and Governors to Presidents and their ranks. The relationship between the state and SOEs & ROEs is based on agency theory, namely the state as the principal, meanwhile, the government as the main agent, and SOEs & ROEs as sub-agents (see, Trihatmoko, Harsono, Wahyuni, Haryono, and Lukviarman, 2018; Lukviarman, 2016, Liang et al., 2015; Bergen, Dutta, and Walker, 1992; Jensen and Meckling, 1972). Theoretically, it can be assumed that the government and state-owned enterprises are the unit of the implementing agency "agent" of the law orders that have been ratified by the people's representatives in the "principal" parliament.



Indonesia Raya Incorporated (IRI) can be seen as the design of SOEs and ROEs governance based on the Indonesian economic constitution, namely the 1945 Constitution of the Republic of Indonesia, as well as other laws. The IRI concept perspective is specifically built on the realm of state asset ownership management (Trihatmoko and Susilo, 2018). At the time of the emergence of the concept of IRI, it still leaves a question and discussion about what economic paradigms are and what is their relevance to the current general economic system, namely socialism and neo-liberalism?

In the discussion of paper of Trihatmoko and Susilo (2018), it was stated that IRI adheres to the paradigm of murakabism economics. Reviewing to the paper that murakabism itself is only briefly described. Currently, murakabism has been discussed in detail and in depth through a book called Murkabi Economics by Trihatmoko (2018). It is explained in the literature that murakabism is a new paradigm in the national and global economic system or has been described as murakab economic system. Thus, in short, it has led to the concept of IRI in line with the direction of economic system failure, as well as its perspective in following the flow of murakabism (see, Trihatmoko, 2018).

Regarding the theoretical relationship between economic constitution and the role and function of SOEs and ROE, it is still difficult to trace from the previous literature. Considering the literature review from a theoretical point of view about the relationship between economic constitution and the role and function of state-owned companies which is still limited, this study seeks to explore the phenomenon of the idea of IRI. Furthermore, how and what kind of closeness and relevance between IRI and the economic constitution and the role and function of state companies will be explained in the presentation of the results and discussion of this study. Understanding that this paper is very complex and attempts to build new theories and concepts, the deepening of the IRI theme uses a qualitative research approach.

### III. METHODOLOGY

The qualitative method in this study was designed with are narrative and grounded theory strategies, and was interpreted by using the constructivism approach (Creswell, 2009; Creswell, 2013; Fatchan, 2011). A narrative strategy was done to uncover the idea of Indonesia Raya Incorporated (IRI), meanwhile, the grounded theory was used to assemble theories into the constructs of IRI. The combination of approaches from strategic design and interpretation of qualitative studies is a methodology for solving rigid and complex problems for phenomena in the field, for example, papers: Trihatmoko and Susilo (2018), Trihatmoko, Harsono, Wahyuni, Haryono, and Lukviarman (2018), Trihatmoko, Mulyani, and

Lukviarman (2018), Kalu and Bwalya (2017) (see, Taylor, Bogdan, and DeVaul, 2016; Creswell 2013; Hammersly, 2013; Fatchan, 2011; Jonker and Penning, 2010; Creswell, 2009; Keegan, 2009; Proctor, 2005; etc.). Examples of combinative design research by Trihatmoko and Susilo (2018), Trihatmoko et al. (2018) or others have practiced a combination of phenomenological and grounded approaches, as well as constructivism and pragmatism.

Creswell (2013) explains: (1) Narrative strategy is a study that focuses on narratives, stories, or descriptions of a series of events related to the meaning of human experience: on natural resource governance and strategic economic resources related to state and regional- owned enterprises (SOEs and ROEs); (2) Grounded theory is an effort of researchers in conducting an abstract analysis of a phenomenon (the meaning behind the phenomenon); ownership of a state company, with the hope of creating a specific theory about the phenomenon specifically; (3) Systematics through a combination of the study strategy approach as a systematic procedure (utilizing causality, consequences, and coding themes). Following these methodological directions, the procedures for narrative and grounded theory approaches, and constructivism have been applied in order to be able to reconcile the problems of this study.

Data collection was obtained from the Focus Group Discussion (FGD) initiated by the Unmada Ekayatra Movement in collaboration with Raja Ali Haji Maritim University, on January 22-23 2017, in Batam – Kepulauan Riau. The participants of FGD were eight Professors' and Ph.D.'s of economics from various universities in Indonesia. Their areas of expertise vary namely micro & macro economics, and management and governance. The IRI initiator, Putut Prabantoro, acted as Chairman, and the author's paper has played a role as a discussion reporter. In addition, there were two people from the organizers attending the discussion, and one person from the academics was absent but submitted a written study in the discussion. The organizer has assigned an economist as a moderator; he did not act as an informant in this study. Formation between organizers, participants and researchers were set in such a way that the discussion is objective, independent and natural.

Thus, the eight participants have been grouped as the Key Informants (code: KI.1-8.), and four participants as the Supporting Informants (code: SI.1-4). The participation of the key informants was considered to have met/ fulfilled the needs of the data of this study. They were academics who are experts in economics, management, and governance from various different universities, as well as from different provinces and districts.

The discussion material was not explicitly used to operationalize the IRI conception, but was disguised



with the title of "IRI FGD - Energy as a Tool of Unifying the Nation". This has purpose in order that the participants can convey the broadest view of the idea of IRI phenomenon related to the energy economy sector and SOE's and ROE's. Therefore, the results of the data processing and analysis can be interpreted comprehensively, so that the results of this study will also be presented in other papers that are different from the theoretical perspectives in this paper.

The data analysis used was a Comprehensive, procedural approach that identifies IRI themes, composes axial coding, describes textually and structurally (Creswell, 2013; Gupta and Awasthy, 2015; Taylor et al., 2016). Next, data validation was carried out with dependability and confirmability procedures, namely: (1) the participants were given the freedom to give their views and opinions both key informants and supporting informants; (2) discussion formation placed researchers as inactive parties or called self-confinement or bracketing or epoche; and (3) confirming the results of the discussion to all participants in the closing session namely conclusions and suggestions as information notes (code: DN); (4) are open and independent, so that some important statements from participants have been included in various mass media.

The general confirmation procedure, namely IRI's conceptualization, was presented at the National Seminar at the University of Atma Jaya Yogyakarta, on September 4, 2018. The participants of the seminar consisted of several interests, namely lecturers, SOEs study forums, Indonesian Economic Association, Yogyakarta, and students. The constructs presented in the seminar were disguised, so that the appearance of the picture was different from the picture in this paper, but it remained substantially the same. The results of the seminar did not obtain records that were "disproving" the conception of IRI, meaning that the conception of IRI was considered to be understood analogically and objectively. In addition, the confirmation procedure is carried out through observations of a village-owned business entity (VOEs) about how IRI thinking has been practiced by a "village-level" state-owned company.

Various dependability and confirmability procedures have been implemented in an effort to maintain the credibility of this study (Fatchan, 2011; Creswell, 2013; Trihatmoko, 2016). As a note on this paper, general methodological exposure from "IRI-Batam FGD" will have an explanation similarity with other papers. Therefore, the methodological equation may not be able to quote each other, due to the closeness of the process of the preparation of the paper and its publication.

## IV. RESULTS

### a) *The Idea of Indonesia Raya Incorporated*

The results of the study revealed the narratives as an overview of the idea of Indonesia Raya Incorporated (IRI) which was considered appropriate and relevant to be implemented in the management of state-owned and regional-owned enterprises. The results of the study integrated the IRI conceptions and other natural resources and strategic economic governance from several notes and recommendations on FGD results. The following are the views of the informants and notes on the FGD recommendations that have been interpreted and later also suggest for the meaning of essential contents in the preparation of the IRI conception.

Community understanding and stakeholder awareness of constitutional economic knowledge is still weak. Therefore, a theoretical review and constitutional conception in the economic field need to be developed so that it can be implemented as stipulated in the Indonesian economic constitution.

"We shall not blame but how to be able to make it ourselves and we must look for our own mistakes. The new Constitution has the power if the people have the ability to run it" (KI.6).

"(1) IRI is the initial concept as a solution, meanwhile, the technique can be compiled after it, since we will never know when the mafia moves, however, we often find signs. (2) Right now the momentum is right for IRI at the same time when the oil and gas contracts will expire when it is pushed to enter the government desk. (3) The results of the FGD and other thoughts to be poured in the form of Book publishing to be useful as a fundamental policy reform. (4) The operationalization of the IRI Holdings is expected to be able to control the subsidiaries. (5) Making the stages of the IRI (road map) and its operational concepts, for example, "merging" *BPD* and *Semen Padang* (name of regional bank and SOEs), since both are financially healthy" (DN).

Strategic thinking on natural resource governance by IRI has not yet been followed up by the Government of Indonesia. On the other hand, the Indonesian economic constitution has given the mandate that natural wealth and economic resources are aimed at the prosperity and welfare of the people.

"The phenomenon showed that the economic infrastructure that is used as a railroad for wealth is barely built. Everyone wants to go to the city because there are no jobs in their area" (SI.1).

"Indonesia has all the potential energy that can unite the nation, if and only identified, managed, used, prospered well" (KI.1).

"(1) Indonesia has been assessed as failing to manage its natural resources, especially oil and gas, since those who enjoy the results tend to be by certain parties" private and foreign "which means that SOEs and ROEs have not fully mastered it. (2) The potential for disintegration of the Republic of Indonesia can occur by regions that are rich in natural resources, due to the unbalanced regional income and prosperity of the people is still low. (3) The potential economic resources of the Indonesian oil and gas sector with very large value can be empowered as a means of unifying the nation through the concept of Indonesia Raya Incorporated" (DN).

The conception of IRI is not only for natural resource governance, and then experts agree to be extended to other strategic economic sectors that are managed by state and regional-owned enterprises. The energy of all branches of energy production and mining, as well as other strategic economies, is expected to be able to move the future national economic conditions.

"Strong SOEs such as *Pertamina*, *PGN*, *PLN*, *PAM*, *ANTAM* and others as well as National Banks and other financial institutions must each become Economic Locomotives that will attract regional economic carriages" (SI.1).

"To accelerate the process of economic transformation and to mobilize various economic sectors in a country, there is a great need for energy. Therefore mastery of energy sources is a fundamental need for a country" (KI.5).

"(1) SOEs and ROEs that are expected to be the operationalization of natural resources governance are still in poor performance, especially that ROEs are still severe except for Regional Banks. (2) Make a formula for how natural resources are not controlled by foreign parties. (3) The need to prepare "renewable" alternative energy, with funding in part from the savings from the processing of the fossil industry" (ND).

Based on the above narratives that have been described, it can be stated that the idea of IRI is set in economic and social issues related to the management of natural wealth and economic resources. The idea of IRI gives hope of fulfilling the mandate of the economic constitution through the role and function of SOEs and ROEs. The drive to sharpen IRI's thinking and implement it is a phenomenon to be considered by the government in particular and stakeholders in general. Central and regional governments, even at the village level, as well as stakeholders in state companies, are expected to have political will towards the implementation of the IRI concept. The following is an inspirational record of observations as illustrations that encourage the argumentation of IRI's thinking to be implemented.

"In a small scale, public ownership of shares has been practiced by Village-owned Enterprises (*BUMDES: Badan Usaha Milik Desa*), Ponggok, Polanharjo, Klaten, Central Java. Currently, the village-level state company is able to record a gross income of Rp. 14 billion per year. Each resident of Ponggok is a shareholder in a company worth around Rp. 5 million per villager. The pattern of share ownership in the cottage-owned business entity is regulated through the village government policy (Liputan6.com.Jakarta, 03/24/2017). Every month, it is estimated that villagers have the right to receive a profit share of Rp. 400-500 thousand, since they are shareholders of the company. Instead of to individual citizens as shareholders, community activity groups make monthly contributions to invest in the company owned by the village of Ponggok."

The participation of community groups within the company shows that there has been the formation of incorporation between state business groups and small micro-economic empowerment groups in Ponggok Village. The results of these observations directed the village-owned enterprises (VOEs) into the category of state companies in addition to SOEs and ROEs mentioned earlier. VOEs categorization as a state company will be seen from the views of informants who direct VOEs companies to incorporate SOEs and ROEs. Moreover, the government is now pushing village governments in all corners of Indonesia to build or establish VOEs. Factual arguments that strengthen the inclusion of VOEs, which are natural resource centers, are precisely under the direct authority of local village administrations, or villagers have the right and direct interest in these natural resources.

#### b) *The Conception of Indonesia Raya Incorporated*

##### i. *The Identification and Description of Themes*

The results of the study identified themes as variables for building the conceptual framework of Indonesia Raya Incorporated (IRI). The IRI themes are economic constitution, corporate strategy, central and regional government policies, company share ownership, and the role and functions of the company (Table). Each theme is described in a textual and structural manner from the results of processing and analyzing data, and is interpreted constructively to link variables. The themes in the Table do not appear evenly from the opinions of all informants, because indeed the informants have a focus on their respective fields of expertise or knowledge.

Table 1: The Identification of Themes of Indonesia Raya Incorporated (IRI)

Informant	Economic Constitution	Corporate Strategy	Government policy	Shareholding	Roles and Functions of the Company
KI.1	starting from Article 33 paragraph 3 of the 1945 Constitution	currently invite foreign capital; professional	fix the laws and regulations	Share ownership structure	Nation's welfare; move the economy
KI.2	Article 33 of the 1945 Constitution	Presidential Decree 63 of 2004	-	opportunity to own shares	-
KI.3	Formulation of the Article 33 of the 1945 Constitution	ignored by the actors; potential to become a global player; SOE's and ROE's are not healthy	-	private ownership; domestic capital strength	Five main roles; complain of lack of supply
KI.4	Is Pancasila	-	Brawl at the national level ... local ... International	-	The creation of prosperity; dissatisfaction
KI.5	determined by the Act on its implementation	part of oil and gas products;	Ministerial decree	do not use it; investment needed	Fair and equitable; accelerated development
KI.6	-	starting from planning;	the Indonesian government must;	-	Prosperous country
KI.7	-	-	The form of government consistency	Local government as owner	regional ability
KI.8	-	-	-	revitalization	-
IS.1	philosophy of the 1945 Constitution and Pancasila; A strong foundation that drives IRI	responsible to the owner	Central Government ... Local Government	equity capital	Economic carriages; strengthen the national economy
IS.2	The basis of IRI's legality is very strong	-	-	integrate	-
IS.3	-	-	government policy,	-	-
IS.4	-	determinants of success and failure		lost power; it should be managed alone	-

Source: FGD data

## ii. Textual Description

### • Economic Constitution

The highest law in Indonesia is the 1945 Constitution of the Republic of Indonesia. Indonesia's economic system is contained in Article 33 which substantively adheres to the principle of kinship, strategic economic control and natural resources by the state for the welfare of society. The IRI concept is intended as the implementation of the mandate of the Indonesian economic constitution, namely Article 33. IRI is an economic thought which is seen as constitutional economic practice to be applied to state and regional-owned enterprises. State or regional companies are considered to be able to act as a representation of the principle of kinship in the governance of natural resources and production branches that are important to the state and control the livelihood of many people.

Article 33 of the Constitution of the Republic of Indonesia is the basis for IRI to implement the ideology of the Indonesian state, namely the 5th Precept of Pancasila - Social Justice for All Indonesians. In order to reach the noble ideals of the Indonesian people that are just and prosperous for their people, it is necessary to have the roles and functions of state and regional companies reorganized. The rearrangement of the company will later require the support of the central and regional governments, as well as internally from the company's management. Therefore the existing government laws and regulations need to be reviewed, to what extent their enthusiasm reflects the intent of Article 33. The hope is that the roles and functions of state and regional companies can have a direct positive impact on national economy and people's welfare fairly and evenly distributed to all levels of society.

"Action agenda, then everything starts from Article 33 paragraph 3 of the 1945 Constitution; ... "The earth, water and the wealth contained therein, are controlled by the State and used for the greatest prosperity of the people ..." (KI.1).

"Article 33 of the 1945 Constitution: (1) Arranges the Indonesian economy as a joint venture based on the principle of kinship, namely by making cooperatives as teachers of the Indonesian economy; (2) Organizing state-owned enterprises in production branches that are important to the State and which affect the livelihood of many people; (3) Ensuring the utilization of the earth, water and all the wealth contained therein for the greatest prosperity of the people" (KI.2).

"Indonesia's economic system should be "socialism" based on the formulation of Article 33 of the 1945 Constitution, namely the state must have the right to own, manage and control the natural resources and other production branches for the greatest prosperity of the people. As economic actors, namely SOEs/

ROEs, Cooperatives & foreign and domiciled private" (KI.3).

"Among the nation's unifying tools that need attention is Pancasila. Oil and gas as a tool for unifying the nation can be linked to the principle of "social justice for all Indonesians" (KI.5).

"The phrase "controlled by the state" listed in article 33 is carried out by the regime in power according to its wishes or according to the political and economic climate at that time, or, determined by the Act on its implementation". Actually the abundant use of natural resources for the welfare of the people is one of the objectives of Article 33 of the 1945 Constitution: Paragraph 1: ... as a joint effort based on the principle of kinship, 2: important production branches ... controlled by the State, 3: ... earth, water and natural wealth ... for the greatest prosperity of the people, 4: ... economic democracy with the principles of togetherness, efficiency with justice, sustainability, environmental insight, independence, and by maintaining the balance of progress and national economic unity; and 5: further provisions concerning the implementation of this article are regulated in law" (KI.6).

"Education will lead to the common needs of the Indonesian people and be based on a national life based on a common economy, according to the philosophy of the 1945 Constitution and Pancasila, namely "Togetherness and" (SI.1).

"The strong foundation that drives IRI to be realized is - All upstream and downstream industries are controlled by Energy (Oil and Gas, Coal etc.). This is to fulfill Article 33 of the 1945 Constitution, the energy source must be controlled by the State (Center + Region) for the greatest prosperity of the Indonesian" (SI.1).

"The basis of IRI's legality is very strong, namely (1) Pancasila which prioritizes mutual cooperation and kinship and unites national and national goals; (2) Archipelagic insight that animates the spirit of Indonesian Nationalism; (3) Formalism that humans "people" along with "its contents" in one" (SI.2).

### • Corporate Strategies

The Indonesian economic constitution is not only Article 33 of the 1945 Constitution, but also has been regulated through other laws. Legislation is used by state and regional companies as the basis for operating a company, whether it is about capital financing or capital investment. In this context financing and investment are corporate strategies in business management.

Perspective of corporate strategies is the decision of management of state and regional companies that refers to laws and government policies. This means that the share ownership of state and



regional companies is capital investment in accordance with the direction of the company's operational strategy. However, the corporate strategy and currently still places the government itself as the majority shareholder of the company. Meanwhile, it was assessed that currently many state or regional companies are in an unhealthy condition, while to explore natural resources requires huge capital investment and financing. Such conditions are directed by IRI that the share ownership of state-owned enterprises and their respective regions is to be owned by the central government and regional governments (incorporation). Corporate strategy on capital financing and capital investment will be implemented if the central and regional governments set new policies. Apart from that, in the practice of implementing corporate strategy professional management of resources is needed in order to achieve the success of the objectives of IRI.

"Who is the 'mastermind' in the dramaturgy play on the control of Indonesia's economic resources? The mandate of Article 33 of the 1945 Constitution, paragraphs 2 & 3, is neglected by these economic dramaturgies" (KI.3).

"However, the situation was once the Government of Republic of Indonesia, but now invites foreign capital. The concept of IRI in a long-term process and a shared opportunity in energy governance can be" (KI.1).

"...if part of the oil and gas product is confirmed by the law used for investment providing alternative energy sources that are not fossil-based and there is a change in mindset from producer energy culture to consumer energy culture" (KI.5).

"Several important stages of Indonesia Raya Incorporated, namely: (1) Consolidation; (2) Legalization; (3) Restructuring; (4) Integrated control; (5) Profitization, and others. The IRI ownership scheme needs to be sharpened so that it is more specific because whatever the title is, SOEs reform is needed. The point is that our SOEs are very potential to become global players" (KI.3).

"Adequate requirements, namely healthy and professional" (KI.1).

"Associated with the concept of IRI, the problem is that SOE's and ROE's are not healthy, how to unite a number of ROE's, 80% of loss? How is oil and gas controlled by foreigners? A ROEs that is not healthy or suspended?" (KI.3).

"IRI's conception directed that: (1) Captain and crew are not only responsible to the train owner but to all passengers who also come from other regions" (SI.1). "To increase the exploration and exploitation of oil and gas reserves that are still left requires large capital and requires high technology" (KI.5).

"ROEs must be involved directly or indirectly in the downstream process; directly as a company that processes natural resources, and indirectly, for example as a supplier of tools, machinery or other production needs. In natural resource management, from planning, exploration (eg oil), to production and marketing, local communities must be directly involved in every decision" (KI.6).

"The factor of human resources is actually a key factor or determinant of the success and failure of an organization in achieving its objectives. The magnificent building of a company or organization, the sophisticated technology used in organizations or companies, the rigor of standards, systems, or procedures used, even the obedience of organizations or companies to national or international regulations and standards will not guarantee the organization can survive, even to grow and develop" (SI.4).

"If necessary, training centers in the fields related to exploration to natural resource production must be built in areas that have natural resources" (KI.6).

#### • Central and Regional Government Policies

Stakeholders who have the authority to regulate natural resource governance and strategic economic resources are the central and regional governments. Government awareness of the economic constitution becomes a very important factor, because they are the compilers of laws and policy makers for the operationalization of the strategies of state and regional companies. Various government policies through the Ministry and Presidential Decrees or Instruction will control and direct the various levels of corporate strategy of state and regional companies. Especially related to natural resources and strategic economic resources is a state wealth as a vital object for the national economy.

In this perspective, IRI directs that the operationalization of the company in terms of corporate strategy needs policy support through regulations and legislation from the central and regional governments. The policy adopted is the investment strategy for both capital and company financing. IRI's thinking directed the share ownership of state and regional companies, even though in this context the ownership portion and scheme had not been exploratively explained. Corporate strategy in terms of capital incorporation in the body of state-owned and regional-owned enterprises is expected to be a mediator for the achievement of the mandate of the economic constitution, namely the welfare of the people and national economic prosperity. Thus the direction of IRI through joint ownership of shares will lead to the roles and functions of government and regional companies for the economy of the community. Implications of IRI "forward" conditions with policies that have been established or that will be

designed by the central and regional governments. Therefore, all this time there is still a perceived imbalance of authority between the central government and regional governments in the determination of policies.

"Furthermore, Indonesia has set oil and gas as one of the national vital objects through the Decree of the Minister of Energy and Mineral Resources Number: 3407 K/ 07/ Mem/ 2012 concerning the Determination of National Vital Objects in the Energy and Mineral Resources Sector" (KI.5).

"Formal rules, Presidential Decree No. 63 of 2004: Definition of national vital objects is the area, installation, business that involves the lives of many people or sources of income of the State. It is said to be strategic if: (1) Producing basic needs; (2) if there is a threat resulting in: (-). Disaster against humanity; (-) National chaos in transportation and communication; (-) Disruption of government/State administration" (KI.2).

"As a recommendation, the Revision of the Law on Financial Balance, Minerals and Oil and Gas. Indonesia Raya Incorporated (Holding) as a form of Government consistency with the applicable legislation. The key words are sovereignty, distribution, sustainability" (KI.7).

"The opportunities for IRI may have role to fix laws and regulations. The requirement is the need to expand the scope of holistic energy production and the courage to curb everything" (KI.1).

"Theoretically the construction of IRI, namely: (1) the Central Government provides its economic locomotives; (2) The Regional Government provides its economic carriages" (SI.1).

"The focus of oil and gas governance lies in government policy, where inequality still occurs between regions with the center and operational efficiency. IRI should have begun to become a new policy study by the government towards the prosperity of all people" (SI.3).

"In order for natural resources management to be good for all, governance needs to pay attention to the harmonization of interests among the 3 parties: (1) The national level is to pay attention to international developments and interests; (1) The international level is the need to hear the growing interest in formulating international standards; (3) Local level, namely the existing rules and procedures, must ensure that the affected communities directly benefit from natural resource exploitation" (KI.4).

"Therefore, before it is too late, the Indonesian government must emphasize through legislation that part of the proceeds from oil and gas that can still be exploited must be used for investment to find and prepare alternative energy sources" (KI.6).

"To overcome the dissatisfaction that arises in provinces rich in natural resources, especially oil and gas requires various policies that can provide incentives that can encourage these provinces to develop faster" (KI.6).

"Related to the implementation of regional autonomy, the management of natural resources must be a reference as well as a benchmark to be established and implemented in the preparation of each draft regional regulations. The central government must provide greater "power" for local governments to implement it" (KI.6).

"The central government must give greater authority to the regional government in any decisions related to natural resource management including methods of exploitation, the area to be exploited, production and profit sharing" (KI.6).

#### • Ownership of State and Regional Company Shares

The idea of IRI was intended to reform the pattern of share ownership between state companies and regions that had only been dominated by the central or regional governments. The conception of IRI considers various factors, mainly natural resources in areas in Indonesia that are managed by state and private companies. On the other hand, the shares of the companies in question are only dominated by the central government or by national and foreign private parties. Conversely, even if the regional company manages natural resources and its shares are only controlled by the regional government, the pattern is considered unfair within the framework of the Unitary Republic of Indonesia.

The term "merge" between a state-owned enterprise and a regionally owned enterprise has not been explicitly operationalized. However, the substance and essence are the balance of share ownership of state and regional companies, both by the central government and by the regional government or called incorporation. Restructuring the ownership of shares through the incorporation of state-owned enterprises and regions needs to obtain government support through their policies, as well as the will of the management of the company in practicing financing and capital investment strategies. The incorporation of share ownership by central and regional governments in state and regional companies is required so that the role and function of the company are in accordance with the mandate of the Indonesian economic constitution.

However, the idea of IRI are also open to the involvement of national and foreign private parties to participate in capital investments in state or regionally-owned enterprises. Its interests, namely the private sector, are seen as having huge capital potential to contribute to empowering natural resources and national economic resources. The things that have happened so far, namely the national and foreign private companies



through their corporations dominate natural resources and other economic resources, but have not incorporated national and regional companies. The dominance of state companies in the area of natural resources, as well as the domination of the national and foreign private sectors, is considered to have the potential to disintegrate the Unitary State of the Republic of Indonesia. Therefore, the proportion of share ownership of state and regional companies is expected to use the idea of IRI, but the intention of "proportion 51%" is still not an understanding of the text by the informants. In this context, the technical or share ownership mechanism of state and regional companies by the central and regional governments or the involvement of the private sector, still needs to be explained in the IRI concept. But the most important thing is the role and function of state and regional companies aimed at the interests of economic prosperity for all parties, whether central or regional government, as well as the private sector and the general public.

"Indonesia Raya Incorporated is a merge between SOEs and ROEs in an economic resource by involving capital participation from provincial and district-level ROE's throughout Indonesia" (IS.1).

"Solutions that must be done: (1) The government must position the local government as the owner/ position as well, do not become a new occupation and be more sadistic; (2) The government must review the contract of work; (3) Inclusion of the central and regional governments needs to be prepared from the beginning, do not be sudden or late; (4) Transformation must be done when there are still many natural resources; (5) Consistent with applicable legislation; (6) Management of natural resources as a regional empowerment strategy" (KI.7).

"If we give up these scarce resources to be managed by foreigners, then our power is lost. Law No. 4 of 2009 does mandate the Indonesian government to renegotiate contracts with all foreign mining companies in Indonesia. However, the termination of the contract is far more holding the mandate of Article 33 of the 1945 Constitution" (SI.4).

"The structure of IRI's share ownership is submitted as follows: (1) State-owned BUMN or Central Government controls a minimum of 51% of the shares, while the rest can be owned by ROEs Prov. – ROEs Dist.; (2) Provincial ROEs - The Provincial Government controls a minimum of 51% of the shares, while the rest can be owned by the Regency-owned enterprises, etc.; (3) Regency-owned Regional Government-Owned Enterprises at least control 51% of the Shares, while the rest can be VOE's etc. ROEs – VOEs, VOEs can synergize in corporate participation in energy bonds as a form of joint ownership, owning all" (KI.1).

"The development of committed, loyal, highly dedicated, honest and trustworthy human resources is also not only for PT Pertamina (as the biggest energy source manager) or other SOEs, but for all organizations or companies. Other natural resources in Indonesia should also be managed by the Indonesian people themselves" (IS.4).

"The rejection of Energy Sector Workers' Union to foreign energy companies. For strategic industries (ESDM) it will be better managed by SOEs (Article 33 of the 1945 Constitution), if it is already done, from now on the government must have the courage to conduct a moratorium on FDI that invests in the strategic industry, the solution to foreign parties given the opportunity to have a maximum share of less than 50 %" (KI.2).

"Even though, it is still has not appear to the surface until now, one of the things to watch out for is the dissatisfaction that arises from various parties in provinces that are rich in natural resources, not to be used by foreign parties with proxy war mode to control these natural resources" (KI.5).

"That private ownership can also be interpreted as "controlled by the state", because there is a special regulation (Right to control & regulate), to the exploration and exploitation of natural resources (oil, gas, coal, etc.) that require very large investment and high risk with profit sharing patterns" (KI.3).

"All of this makes the Indonesian economy hostage to the power of foreign investors/ compradores, namely giving birth to structural imbalances in the Indonesian economy, this is the result of a very liberal law. Therefore, it is necessary to divest the control of economic resources by giving confidence in the strength of domestic capital, both the central government, regional government and domestic private sector" (KI.3).

"The underlying problem faced today is that Indonesia does not have sufficient capital and technology to explore and exploit the remaining oil and gas reserves. For example, to find a point of oil reserves in the bowels of the earth, an investment of around Rp. 13 trillion is needed. As a result, Indonesia is very dependent on foreign capital and technology from other countries to explore and exploit available oil and gas reserves" (KI.5).

"For that reason, the Crucial Note Towards the coveted IRI, namely: (1) Energy must be seen holistically; (2) Strengthening business capacity; (3) Strengthening Defense and Security; (4) Elite-Biased Extremism; (5) Revitalization of national spirit from political elements with integrity; (6) *Lemhanas* must be increased. Now the community considers that there is no alignment by the "government" there is no other institution" (IK.8).

"The aim of IRI is as a strategic deterrent to such threats through natural resource management and economic resources by integrating SOEs and ROEs" (SI.2).

- Roles and Functions of State and Regional Companies

Economic constitution can be interpreted as a great vision or noble ideals of the nation, namely to promote economy towards people's welfare and the nation's economic prosperity. State-owned and regional-owned enterprises are corporation-shaped institutions formed and built by the government. In the perspective of state business institutions, state and regional-owned enterprises should play a role and function to carry out the mandate of the economic constitution.

Prosperity and welfare of the people, unity and economic equality in various regions in Indonesia, as well as economic sovereignty over natural resources and national economic resources are expected to be realized through a pattern of share ownership of state and regional companies incorporatively by the central and regional governments. Practically, there are still many problems that are considered not to prosper the people or to side with national independence. The realization of the great vision of the national economy through economic constitution is the essence of the idea of IRI. State and regional companies are expected to play a role and function as a driving force and empowerment through business activities to manage natural resources and national strategic economic resources. For this reason, the rearrangement of the company's stock ownership mechanism is encouraged to implement the idea of IRI.

"Five main roles of SOE, according to Article 2 of Law No. 19 of 2003, namely: (1) Encouraging National Economic Growth; (2) Providing Economic Value Added; (3) Providing Public Services; (4) Running; (4) Business Pioneer; (5) Support the Development of Micro Small-Medium Enterprises" (KI.3).

"The goal is that these economic locomotives will carry economic cars from the region to the center or vice versa or from region to region" (SI.1).

"Economic acceleration will occur with the implementation of IRI, namely IRI can bring as many economic carriages as provincial and district enterprises to strengthen the economy of each region, which automatically strengthens the national economy" (SI.1).

"Realizing the national corporation in energy governance will unite, and also realize: (1) national solidity; (2) National progress; (4) National welfare. Finally it takes courage to start and who initiates/initiates, therefore IRI is expected to do this" (KI.1).

"This is very important on the grounds that the ability of the region to pay shares is not enough money, so

that it is finally controlled by the capitalists. Kalimantan land has been controlled by conglomerates" (KI.7).

"The indications are: (1) Energy resources tend to be used to get foreign exchange rather than to move the people's economy; (3) Equitable access to energy is still low; (4) Agriculture bears the burden as a supplier of food and energy" (KI.1).

"The impact is the industrial sub-sector, fertilizer, electricity complaining of gas supply shortages. National Electrification Ratio (RE) increased from 65.8% (2009) to 67.2% (2010) and 82.37% (August 2014). However, RE varies greatly between provinces" (KI.3).

"For this reason, the hypothesis is that good natural resources governance is expected to accelerate the creation of prosperity for the Indonesian people" (KI.4).

"If oil and gas will be used as a unifying tool for the nation, then the requirements that must be met by oil and gas as one of the national vital objects is to be able to increase the prosperity of society fairly and evenly as an glue and unifying nation" (KI.5).

"Until now the provinces that are rich in natural resources are still not satisfied with the transfer of funds from the central government to the lower government, even though the area has received special autonomy. Of course this will lead to sustained dissatisfaction from the community and political elites" (IK.4).

"Energy availability is one of the components that determines the acceleration of national development and the improvement of people's welfare, especially for economic transformation from backward to advanced". (KI.5).

"With its natural resources - especially oil - which is very abundant, Indonesia should be one of the prosperous countries in the world, in addition to being just and prosperous, such as the ideals of Pancasila and the purpose of the 1945 Constitution. In fact, the Indonesian people are still far from that dream. Ironically, Indonesia's regions that are rich in natural resources, such as Papua, Sulawesi, Kalimantan, and Riau Islands, poverty is still large" (KI.6).

The meaning of the theme (Table) which has been described in the context above among one theme with another theme has a direct or indirect relationship. For example, it can be considered, when interpreting the share ownership of state and regional companies directly the description is related to corporate strategy and government policy, but also related to the economic constitution. The constructionism of relations between themes through the process of compounding analysis produces phenomenological meanings to be described in a structured or constructive manner.

### iii. *Structural Description*

Structural descriptions are prepared based on a compound analysis of the themes of Indonesia Raya Incorporated which have been described textually. The results of the analysis are explained by constructing the variable's description of premises (Pa-f) and major propositions (P1-P8). Constructionism in this structural description ultimately resulted in a construct that is the conceptual framework of Indonesia Raya Incorporated (IRI) (Figure). The following is the composition of the premises and propositions to build an IRI conceptual framework.

First, (Pa) Economic constitution is the foundation of the country's economic vision to be realized through the roles and functions of state-owned and regional-owned companies. (Pb) The economic constitution which regulates the roles and functions of state-owned and regional-owned companies is contained in the Constitution and other laws. (Pc) The operationalization of corporate strategy in the management of state-owned and regional-owned companies is based on the Constitution and the laws that are constitutionally applicable. (Pd) Corporate strategy in the framework of the company to regulate capital, namely the ownership structure of shares of state-owned and regional-owned companies; (Pe) Economic constitution is constitutionally constituted as the basis of the central and regional governments in determining their policies. (Pf) The policies of the central and regional governments need to re-regulate the share ownership of state-owned and regional-owned companies.

*P1:* Economic constitution indirectly directs to the roles and functions of state-owned and regional-owned companies.

*P2:* Economic constitution will determine the corporate strategy of state-owned and regional-owned companies in their operational management.

*P3:* Corporate strategy regarding company capital determines the share ownership structure of state and regional-owned companies.

*P4:* The Economic Constitution is the policy base of the central and regional governments related to state-owned companies and the government.

*P5:* Central and regional government policies will determine the shareholding structure of state-owned and regional-owned companies.

Second, (Pa) Corporate strategy in terms of capital investment and financing and other strategies needs to be supported or approved by the government. (Pb) Forms of support and approval in the form of Presidential Decrees and other Ministerial and Government Regulations. (Pc) Company management has the right to submit proposals or requests for

approval to the Government to support the corporate strategy that will be operational.

*P6:* Every central and regional government policy will determine the operation of corporate strategy in state-owned and regional-owned companies.

*P7:* The design or implementation of corporate strategy encourages the central or regional government to establish new policies regarding state-owned and regional-owned companies.

Third, (Pa) Corporate strategies and policies of the central and regional governments are required to regulate the share ownership structure of state and regional-owned companies. (Pb) The regulation on the proportion and mechanism of share ownership is expected to be a direct mediator of the constitutional mandate on the role and function of state and regional-owned companies.

*P8:* Share ownership of state-owned and regional-owned companies will have implications for the roles and functions of state-owned and regional-owned companies.

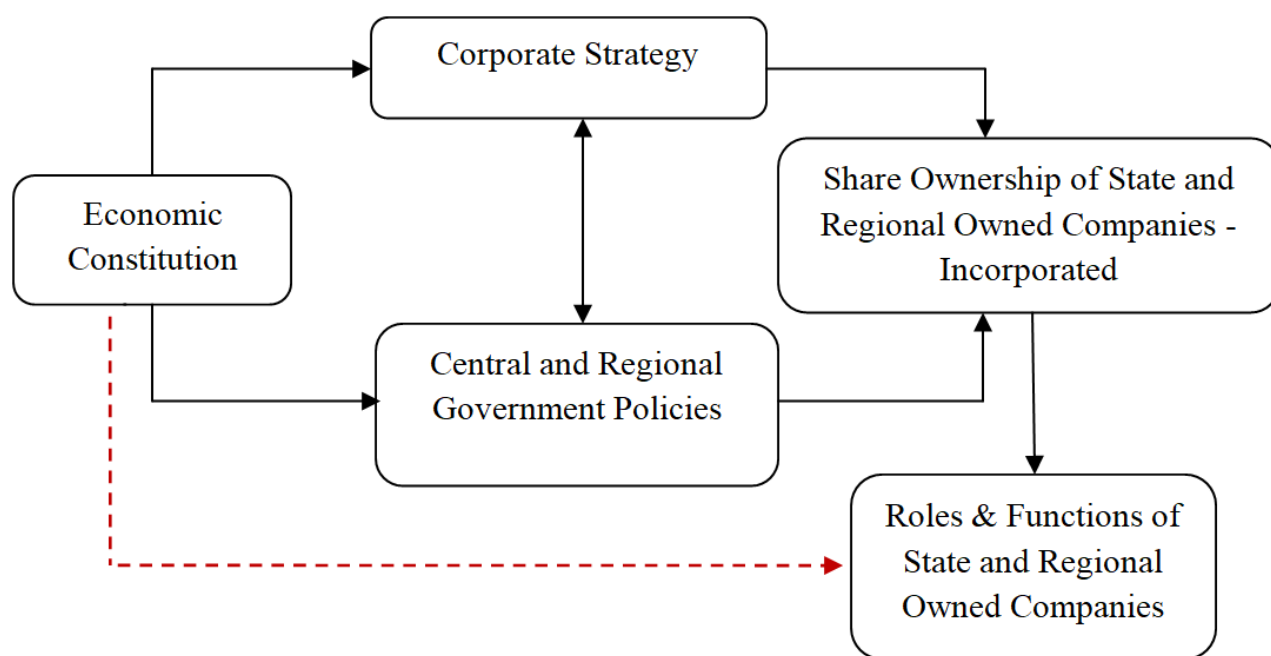


Figure 1: The Model of Indonesia Raya Incorporated (IRI)

## V. DISCUSSION AND IMPLICATION

### a) The Idea of Indonesia Raya Incorporated

The results of the study stated that understanding of constitutional economic knowledge by the community was still low, including by other stakeholders. This can be expected as Trihatmoko (2018) explained in the Constitutional Court Session that education in economics and business is still very limited which discusses and applies business models based on economic constitution. This phenomenon gives an implicative signal to the concepts and theories in the field of economics and management to be extended its context is based on the economic constitution, according to the constitution of the country where the science is taught.

The results of the study reveal that Indonesia's economic constitution has given a constitutional mandate that is natural wealth and economic resources aimed at the prosperity and welfare of the people, which are based on joint efforts and kinship. This is in accordance with the vision or essence of the objectives of the Indonesian economic constitution, Article 33 of the NRI 1945 Constitution, so that these findings are in line with the Murakabi Economic literature view by Trihatmoko (2018) and the results of Trihatmoko and Susilo (2018). Like the village of Ponggok, it has practiced a greedy economic system through the role and function of VOEs in managing economic resources in the village murakabilistic. This discussion indicates that the implications of IRI's thinking lead to SOEs share ownership, ROEs and VOEs by the wider community nationally, meaning not just marriage/ inclusion between

SOEs, ROEs and VOEs. Thus it is expected that the state companies are expected to implement a greedy business pattern such as Trihatmoko's conception (2018). The results of the study provide a prospect that the conception of IRI is not only for the management of natural resources, meaning that it includes other strategic economic sources, so that it is expected to be able to move the national economic conditions forward. This finding confirms the conception of the management of state asset ownership by Trihatmoko and Susilo (2018), namely encouraging the government to issue new economic policies. The aim is to eliminate the gap in state asset ownership between SOEs, ROEs and the private sector, so that the impact is expected to be able to provide people's welfare and equitable distribution of development nationally.

### b) The Conception of Indonesia Raya Incorporated

Efforts from this study have successfully proposed a new concept, namely a construct of Indonesia Raya Incorporated (IRI) (Figure). Theoretical review of the relationship between the variables of economic constitution, corporate strategies, share ownership, and the role and function of a company is a process or flow of thinking framework, so that it is not only causality, causality, but holistic. The IRI concept has implications for the expansion of the management of state asset ownership by Trihatmoko and Susilo (2018). IRI is as a coping tool of the ownership gap of state assets, which is considered no longer in line with the direction of Indonesia's economic constitution (Trihatmoko, 2018; Trihatmoko and Susilo, 2018).



The point of view through abstract thinking from IRI's conception is that the economic constitution targets the SOEs and ROEs roles and functions, including VOE as a play maker of Indonesia's national economic journey. To reach this target, the main mediator believed by IRI's thought is the pattern of ownership of corporate shares that are legal entities owned by the state, region and/ or village. If the composition of share ownership as currently in effect is only focused on the government or corporations, as well as certain private entities, SOEs and ROE are not in accordance to the spirit of Indonesia's economic constitution. However, on the contrary that is in accordance to the mandate of the Indonesian economic constitution in the idea of IRI's that ownership must be proportionally incorporated between the central, regional, private, and even the public.

The discussion points lead to share ownership of state-owned companies to all public interests that are constitutionally entitled to share ownership. Thus reaffirming that the IRI conception adheres to the paradigm of murakabism by Trihatmoko's (Trihatmoko and Susilo, 2018; Trihatmoko, 2018), or not the view of neo-liberalism or socialism. According to Trihatmoko (2018) that a greedy economic system is a pattern or mechanism of national and global economic governance with a contemporary approach, or in the context of this paper as the implementation of Pancasila, especially the 5th Precept (Trihatmoko and Susilo, 2018).

IRI's conception illustrates that share ownership can only be changed or "retained as it is now" is very dependent on two factors, namely central and local government policies, and SOEs and ROEs corporate strategy. Both of these factors constitute a unified state mission to their inseparable corporations, so that the two are closely related. The effectiveness and accuracy of central and regional government policies, as well as corporate strategies are highly dependent or based on the meanings of elaborating economic constitutions. Foresight and accuracy to interpret the phrases of each article in the constitution relating to the economic system with SOEs and ROE's governance will have direct implications for central and regional government policies, as well as the state-owned corporate strategy "SOEs and ROEs". In short, it can be formulated that the relationship between the economic constitution and the roles and functions of SOEs and ROEs is an "abstract" indirect way of thinking. This is due to that the essence is centered on central and local government policies, and corporate strategy in terms of rearranging the ownership of the company's shares "SOEs and ROEs".

Based on the overall findings and discussion of this study, the substance of idea and concept of IRI has implications for the national and global economic systems. The business practices of state-owned legal entities are based on the country's economic constitution. It is not necessarily to have the same

meaning to the country's economic constitution with one another among countries. For that reason, the conception of IRI in the context of management of ownership of state assets will have implications for the strategic management of multinational companies in Indonesia. The emergence of contradictions and debates between national economic interests and global interests it is better to make efforts to create a balance or harmonization between the national economic systems of a country with the economic intelligence of other countries. This is to provide direction-answers to the phenomenon that occurs, namely the description of several regions in Indonesia, multinational companies have dominated the processing of natural resources (Trihatmoko and Susilo, 2018).

## VI. CONCLUSION & RECOMMENDATION

The study entitled Indonesia Raya Incorporated (IRI) has described, explained and described the idea and conceptions of IRI, and those have been discussed in this paper. Based on the findings and discussion on the presentation in the future, the following can be concluded along with recommendations from the results of the formulation of this study.

First, IRI is a new idea on the management of natural resources by state-owned enterprises (SOEs) and regions (ROEs), and is also expected to govern other strategic Indonesian economic resources. As an argument that the IRI concept is in accordance to the mandate of the Indonesian economic constitution in the context of exploring natural wealth and empowering other strategic economic resources aimed at the prosperity and welfare of the people, so that it is expected to be able to move the national economic conditions forward. However, the community and various stakeholders still do not understand the essence of Indonesia's own economic constitution, so that the idea of IRI is still stalled or not implemented by SOEs and ROEs.

Based on this conclusion, it was recommended to: (1) the central and regional governments, as well as their legislator ranks to socialize and deepen IRI's thinking in relation to Indonesia's economic constitution; (2) experts in the field of constitutional law and economics so that they focus on directing views on a variety of barriers, as well as government regulations related to economic governance, natural resources, SOEs and ROEs roles and functions. Thus the results of the discussions can be used as a sharpening of the relationship between economic constitution, the interests of the community and the state's vision to find points of understanding with the idea of IRI.

Second, the conception of IRI seeks to explicitly practice the economic constitution through the roles and functions of SOEs and ROEs, including other business



institutions, namely village-owned enterprises (VOEs). The IRI implementation focuses on the mechanism or ownership pattern of SOEs and ROEs company shares, including VOEs, incorporation. To be able to implement the mechanism for the incorporation of share ownership, it is necessary for central and regional government policies to support the implementation of the "SOEs and ROEs" corporate strategy. The rational reason is that government policy will become the foundation of SOEs management and ROEs as a protection/ legal basis for the corporation they lead.

It is recommended for the central and regional governments to take appropriate policies and in accordance with the economic constitution and dare to start implementing the IRI concept. "VOEs in Ponggok can be used as a mirror that the murakab business has already been practiced by the village government, meaning that the lower class society has gone beyond the elite's initiative". The policies of the central and regional governments are the key to the "responsible" door for the implementation of the IRI concept so that SOEs business and ROEs are murakabi for all Indonesian people. Furthermore, economists who are on the side of the government are recommended to provide their ideas openly and can be discussed with experts from academia who support the idea of IRI. Thus, at the same time it can bring together the thoughts between the world of practice and academics which are often "perhaps in contrast to interests" between them.

## VII. LIMITATION AND FUTURE RESEARCH

This paper focuses on the remembrance of the emergence of the phenomenon of Indonesia Raya Incorporated (IRI) thinking, as well as building the IRI's conceptual framework. Meanwhile, IRI is a big thought since it collaborate various perspectives of economic and management knowledge, and social. Data collection in the "FGD" methodology is limited to the horizon of Indonesia's economic constitution. On the other hand, each country has an economic constitution that may be different from the Indonesian constitution. Reviewing at some of the limitations in this paper, the following suggestions are proposed for the future researchers.

First, studies and IRI-themed research are still open to be developed in the future, so that researchers have the opportunity to do further studies. IRI's conception can be used as a framework in the perspective of the management of state asset ownership, and leads to poor business patterns for SOEs, ROEs, and VOEs. Corporate management and corporate governance models for state-owned companies still leave opportunities to be deepened by researchers. Next there is still homework on the rules of the game or the mechanism of sharing/ incorporating

portions of SOEs, ROEs, and VOEs shares fairly, so that the opportunity for further study arises in the political economy and/ or state law.

Second, further studies can be conducted on how SOEs governance, ROEs and VOEs are practiced based on Indonesia's economic constitution, or for countries outside Indonesia to be practiced according to their economic constitution. In the end, IRI-like research is expected to contribute to fields: constitutional economics, political economy, development economics, state asset ownership management, and corporate strategy and corporate management of state, regional or village-owned enterprises. For this reason, the concept building of IRI (Figure) can be replicated or expanded as a generalization of theories related to the economic and management context with SOEs business, ROEs and VOEs in every country without exception to what the economic system that being adopted by them recently.

Third, other research methodological approaches can be used in the implementation of the study opportunities suggested above, so that the results of the research will contribute to the expansion of the conception and theorization of the results of this study. Likewise, for different objectives and research contexts with the topic of this study can adopt the methodological design of this study, namely the qualitative method using a narrative and grounded theory approach, and constructivism.

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# Financial Slack and Firm Performance in Africa: The Mediating Effects of the Banking Sector and the Stock Market Development

By Demis Hailegebreal Hailu, Man Wang, Misraku Molla Ayalew  
& Yidersal Dagne Dinberu

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**GJMBR-B Classification:** JEL Code: M20



*Strictly as per the compliance and regulations of:*



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Demis Hailegebreal Hailu <sup>α</sup>, Man Wang <sup>σ</sup>, Misraku Molla Ayalew <sup>ρ</sup> & Yidersal Dagne Dinberu <sup>ω</sup>

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## 1. INTRODUCTION

Organizational resources and firm performance are the most significant focuses in the strategic management literature. While the firm soundness is the leading issue investigated, the slack resources has received important consideration in the field (Daniel et al., 2004, Alessandri et al., 2014, Mousa et al., 2013). The resource-based theory (Penrose, 2009) suggested that organizational slack is considered a benefit as it can safeguard organizations at the times of environmental turmoil, declines the conflict among employees and promote innovation. Moreover previous empirical studies widely investigated the impact of financial slack on firms' performance, supported the resource-based and behavioral theories which found the positive influence of financial slack on firms' financial performance (Shahzad et al., 2016, Bradley et al., 2011,

Daniel et al., 2004, Chen and Miller, 2007, Wan and Yiu, 2009, Peng et al., 2010, Liu et al., 2014, Tan and Peng, 2003, Bourgeois, 1981, Nohria and Gulati, 1997). However, the agency theory (Jensen and Meckling, 1976) argued that organizational slack is inefficient and accrues because of poor management which is supported by several empirical studies. Consistent with the agency and pecking order theories, studies investigated the relationship between the financial slack and firm performance documented an inverse relationship between these variables (Voss et al., 2008, Latham and Braun, 2009, Altaf and Shah, 2017). Furthermore, other studies documented that there exists a curvilinear relationship between slack and firm performance, having an inverse U-shape suggesting too little or/ and too much slack being awkward, firms need to uphold the optimal level of slack resources (Tan and Peng, 2003, George, 2005, Wiersma, 2017b).

Though previous studies extensively examined the relationship between slack and firm performance in developed nations (Daniel et al., 2004, Bradley et al., 2011, Argilés-Bosch et al., 2016, Wiersma, 2017b, Stan et al., 2014) and in emerging nations such as China (Liu et al., 2014, Yang and Chen, 2017, Chen and Miller, 2007, Peng et al., 2010) and India (Altaf and Shah, 2017), this has not been extensively investigated in Africa. These studies documented the direct association of financial slack and firm performance. Also, researchers seldom explored the association of the banking sector and the stock market development and firm performance (Fafchamps and Schündeln, 2013, Pera, 2014, Masoud and Hardaker, 2014) and the link between financial slack and the banking and the stock market development (Agarwal and Mohtadi, 2004) (Etudaiye-Muhtar and Ahmad, 2014). Despite, the mediating effects of the banking sector and the stock market development on slack-performance linkage were ignored.

The current study, therefore, contributes to the corporate finance literature in the following ways. (1) It explored the direct slack-performance relationship of firms operating in heterogeneous business environments. (2) It investigated the mediating effects of the banking sector and the stock market development on the slack-performance relationship of firms in Africa

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using Structural Equation Modeling believing that mediation analysis facilitates a better understanding of the relationship between the financial slack and firm performance through banking sector and stock market development.

## II. THE BANKING AND STOCK MARKET DEVELOPMENT IN AFRICA

Generally, in Africa, the banking sector and the stock markets development has been remained low compared to developed and emerging continents. However, there still exists relative differences in these institutional developments in African countries that influence on the slack-performance nexus. For instance, Pera (2014) reviewed the banking sectors in Sub-Saharan Africa and reported that, as the banking sector continues in a higher growth cycle, the need for formal financial services usually increases leading to an increase in bank assets to GDP. Likewise, Ngare et al. (2014) explored the association between the stock market development and economic growth, and found a positive influence of the stock market development on investment. This result revealed that the stock market is decisive in providing external finance for investment so

that firms can accumulate more slack. We computed the average banking and stock market development using bank deposit to GDP% and stock market capitalization to GDP% of Asia, Europe, and Africa from 2006 to 2014 to compare African banking sector and stock market development with the stated continents (see figure 1). We also used the world average bank deposit to GDP% and Stock market capitalization to GDP% as a baseline for comparison between the stated continents. Accordingly, the average banking sector development is found to be the highest in Europe, which is 72.228 followed by Asia, which is 56.096 and the world average is 41.931 in the last nine years. The average banking development of Africa is found to be the lowest (30.825), indicating that the banking sector development in Africa is in its infant stage. On average, Asian stock market is found to be relatively better with an average of 59.567 followed by the European stock market with an average of 55.558. Africa is still behind in stock market development compared with Asia and Europe. However, African stock market development, compared with the world's average is found to be better with the average stock market development of 47.392, indicating the stock market development in Africa is in its initial stage, but it is considered to be promising in the future.

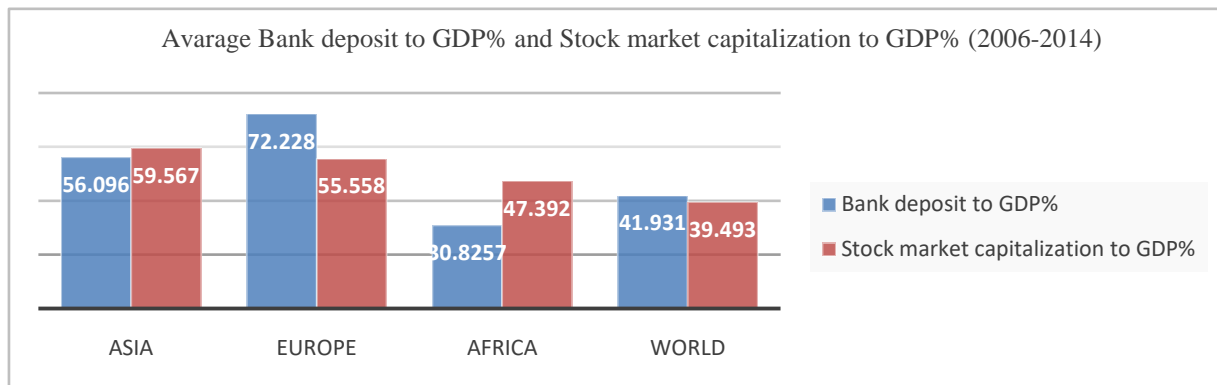


Figure 1: Average Bank deposit to GDP% and Stock market Capitalization to GDP% (2006-2014)

## III. LITERATURE REVIEW AND HYPOTHESIS

Though Barnard (1968) stated the role of slack in his work on *the Functions of the Executive*, the specific label of slack was not conceived until March and Simon (1958) issued their influential book of 'organization' in 1958. Resources-based (Penrose, 2009) and organizational theorists (Cyert and March, 1963, Pfeffer and Salancik, 1978, Thompson, 1967) considered the firm as a unit to an organism that needs survival as the ultimate goal. The slack is defined as a cushion of actual or potential resources that enable a firm to adjust effectively to internal pressures for alteration or to external burdens for change in policy, and to pledge changes in strategy related to the external environment (Bourgeois, 1981, Nohria and Gulati, 1997).

According to Cyert and March (1963), Dimick and Murray (1978), and Geiger and Cashen, (2002), slack is defined as the resource available to the organization, which is beyond the minimum requirement to operate a required level of production. The slack resources comprise human, technological and financial slacks. However, our study considered the financial slack resources. Prior literature suggested that there are multiple components of slack (Bourgeois, 1981, Singh, 1986, Geiger and Cashen, 2002). These components are classified as available, recoverable and potential slacks (Bourgeois, 1981, Bromiley, 1991, Daniel et al., 2004, Bradley et al., 2011, Marlin and Geiger, 2015), absorbed and unabsorbed slack (Tan, 2003, Lin et al., 2009, Huang and Li, 2012, Argilés-Bosch et al., 2016), and high-discretion and low discretion slack (George (2005)). These



approaches used to categorize slack are similar in that slack resources are either available and unabsorbed or already absorbed and recoverable, are considered internal slack, when slacks are not currently in the organization are taken as external, potential, and unabsorbed (Bourgeois, 1981, Bromiley, 1991, Daniel et al., 2004, Bradley et al., 2011, Marlin and Geiger, 2015). Based on these similarities we used available, recoverable, and potential slacks, consistent with studies of (Bourgeois, 1981, Bromiley, 1991, Daniel et al., 2004, Bradley et al., 2011, Marlin and Geiger, 2015). While available slacks clarify the types of slack that are unused, but readily available (Bourgeois, 1981, Bromiley, 1991, Daniel et al., 2004, Bradley et al., 2011, Marlin and Geiger, 2015), potential slacks present the current potential to the firms to obtain resources through debt financing (Marlin and Geiger, 2015) and recoverable slacks capture the extent to which organizations have embedded resources in the form of excess costs that the firm can recover it during the financially hardship times (Bourgeois, 1981, Bromiley, 1991, Daniel et al., 2004, Bradley et al., 2011, Marlin and Geiger, 2015).

Regarding its relationship with performance different components of the slack has been treated (Nohria and Gulati, 1997) though, different views exist about the paybacks of slack (Geoffrey Love and Nohria, 2005). For instance, some empirical studies documented the positive relationship between slack and performance (Vanacker et al., 2013, Cyert and March, 1963, Bradley et al., 2011, Marlin and Geiger, 2015) while others predicted negative nexus (Jensen, 1986, Picolo et al., 2017, Shahzad et al., 2016, Argilés-Bosch et al., 2016) and curve-linear (George, 2005, Tan, 2003, Tan and Peng, 2003, Kim et al., 2008, Wiersma, 2017b, Wiersma, 2017a, Danneels, 2008). Resources-based theorists argue that slack resources can help the organization in the externalization of opportunities (Penrose, 2009), safeguard the firms from the environmental crisis (Thompson, 1967) and upsurge a firm's strategic decisions (Ma et al., 2012). Especially during the turmoil, slack allows the organization to hang in there (Sharfman et al., 1988). According to organizational theory, the slack has been used to perform four functions. First, slack acts as an incentive, which indicates payment to members of the alliance more than what is required to maintain the firm (Cyert and March, 1963). Second, slack can become a resource for conflict resolution assuming that, with adequate slack, there can be a solution to every problem. Third, slack is buffer, which insulates the technique core of the firm from environmental turmoil. Fourth, slack can facilitate the strategic behavior, which enables the organization to test novel strategies like familiarizing new products and inflowing new markets (Thompson and Levine, 1997). Therefore, slack is

necessary to help ensure the long-run survival of the organization. Especially during the turmoil, slack allows the organization to hang in there (Sharfman et al., 1988).

Despite, organizational theorists confess that 'slack resources are extra costs to the firm' and that too much slack is incapable (Galbraith, 2007). However, they generally believed that, given the complex trade-offs, the benefits of slack offset its costs, and that a zero-slack organization is not realistic. Hence, organizational theorists suggest that, before reaching an excessive level, the slack resources have a favorable impact on the firm's performance, which is supported by the result of several prior empirical studies (Bradley et al., 2011, Vanacker et al., 2013, Marlin and Geiger, 2015, Argilés-Bosch et al., 2016, Picolo et al., 2017). Thus, given the arguments of organizational theory and the results of prior empirical studies, the following hypothesis is offered:

*Hypothesis 1: Financial slacks have a positive association with the firm's performance.*

By painting a different picture of the benefit of slack, agency theory turns the organizational theory viewpoint 'upside down' (Davis and Stout, 1992). Agency theory cast-offs the viewpoint of organizational theory that the organization is an organism with human-like properties such as interest in survival. Contrarily, the firm is not an individual but it is a legal entity that serves as a focus for multiple procedures which carried out the conflicting objectives of individuals into steadiness within a framework of contractual relations (Jensen and Meckling, 1976). This viewpoint concerns the firm as a nexus of contracts among principals and agents (Fama, 1980). Agency theorists argued that maintaining slack can be good for the firm; rather, it will only be good for executives acting as agents (Jensen and Meckling, 1976). Since executives integrally have a set of goals such as the chase of power, respect, money, and job securities, that are unaligned with the interests of principals, executives may use slack to involve in excessive diversification, empire-building, and on the job shirking. Thus, slack may become a source of agency problems, that breed inefficiency also called x-inefficiency which means 'the variation between the efficient behavior of business assumed by economic theory and their real behavior due to uncompetitive pressure' (Leibenstein, 1969). The view of agency theory is empirically supported by prior studies (Tan and Peng, 2003, Shahzad et al., 2016, Lee and Wu, 2016). Based the arguments of agency theory and the results of prior empirical studies, we proposed the following hypothesis:

*Hypothesis 2: Financial slacks have a negative association with the firm's performance.*

The causal relationship between financial slack and firm performance deserves more attention than

recently. Some prior studies evidenced positive (Bradley et al., 2011, Vanacker et al., 2013, Marlin and Geiger, 2015, Argilés-Bosch et al., 2016, Picolo et al., 2017) and others documented negative (Tan and Peng, 2003, Shahzad et al., 2016, Lee and Wu, 2016) association between financial slack and firm performance. These studies documented the direct association of slack and firm performance. Also, researchers seldom explored the association between the banking sector and the stock market development and firm performance. The banking sector development leads firm financial performance (Fafchamps and Schündeln, 2013). Similarly Pera (2014) found that as the banking sector develops, the need for formal financial institution rapidly increases, so does the ratio of bank assets to GDP in Sub-Saharan Africa. Moreover Masoud and Hardaker (2014) concluded that both the stock market and the banking sector development enhance the firm's growth that leads to performance. The link between financial slack and banking sector and the stock market development also has been hardly explored. Etudaiye-Muhtar and Ahmad (2014), investigated the banking sector development and corporate leverage in South Africa and they found that as the banking sector develops, firms in South Africa use less debt. Likewise, Agarwal and Mohtadi (2004) documented that while the banking sector favors debt financing, equity market favors equity financing in developing countries. Moreover Demirgüç-Kunt and Levine (1996), Demirgüç-Kunt and Maksimovic (1996a) and Demirgüç-Kunt and Maksimovic (1996b) evidenced the stock market development produces a higher debt-equity ratio for firms and help entrepreneurs diversify their portfolios. Also, Demirgüç-Kunt and Maksimovic (1996b) found that a significant positive relationship between bank development and debt-equity and a negative, but insignificant relationship between stock market development and debt-equity ratio. The results of the above studies, in general, are an indication that preference of firms to use internal or external sources of funds, for financing investment projects is dependent on the institutional development which can provide external sources of finances in the form of debt and or equity. That is, in countries where the banking sector and the stock market are well-developed, firms prefer external financing. In such countries, firms are supposed to retain more internal sources of finance in the form of slack. Contrarily, in countries where the banking sector and stock market are underdeveloped, firms rely on their interior resources support their investment projects and are supposed to have little slack resources. Therefore, we proposed the following hypotheses.

*Hypothesis 3: The banking sector development has significant mediating effect on the slack-performance relationship.*

*Hypothesis 4: The stock market development has significant mediating effect on the slack-performance relationship.*

#### IV. METHODOLOGY

*Sample and Data Sources:* We draw the study sample from 1,287 publicly listed firms of 33 African countries. We exclude financial companies considering that their operation is different from the non-financial firms that may lead to unique financial slack resources. We then included 457 firms and 13 countries over ten years (2006-2015). We obtained the firm-level data from the Osiris database and the data for bank deposit to GDP% and the stock market capitalization to GDP% from the World Bank database. We include the banking sector and stock market development with missing values because we could not find the full years' data for some countries from the stated database. The effect of including the banking sector and the stock market development with missing values is a decrease in the observation of the study (see Table 2).

*Performance Measures:* Consistent with prior studies, (Bradley et al., 2011, Latham and Braun, 2009, Marlin and Geiger, 2015, Picolo et al., 2017, Argilés-Bosch et al., 2016, Tan, 2003), ROA (Net income/Total assets) and ROS (Net income/Sales) were used as a measure of performance. The purpose of using ROA and ROS is to capture the firm's executive's effectiveness for the maximization of profits from investments in assets, and operational performance respectively.

*Explanatory Variables:* We used available, potential, and recoverable slack resources as explanatory variables. Particularly we used two available slacks components; (1) current assets/current liability (2) (current asset - current liabilities)/sales, three potential slack components; (1) debt/equity, (2) debt/sales and (3) debt/assets, and one recoverable slack component; (1) selling, general, and administrative expenses/sales.

*Control Variables:* We controlled the firm size since both slack and performance are dependent on firm size and firm growth (sales growth/asset growth). Also, unlike prior studies, we controlled the banking sector and stock market development using bank deposits to GDP% and stock market capitalization to GDP% respectively.

*Model Specification:* The following model is developed to test our hypotheses.

$$Y_{ij} = \alpha + \sum_{k=1} \beta_k \text{slack}_{ij} + \sum_{h=1} \beta_h \text{control}_{ij} + \varepsilon_i + \delta_i + \mu_j$$

Where  $Y_{ijt}$  is performance proxies (ROA, and ROS),  $i$  is firm,  $j$  is country,  $\text{Slack}_{ij}$  is a vector of slack components,  $\text{Control}_{ij}$  is a vector of control variables,  $\beta_k$  and  $\beta_h$  are coefficients of explanatory and control

variables respectively and  $\varepsilon_i$  is error term,  $\delta_i$  is industry effect and  $\mu_j$  is country effect.

**Estimation Approach:** Our data set is a panel, constituting 457 firms and 13 countries over ten years. Therefore, we employed the Hausman fixed-random specification test that suggests a fixed effect model with a Chi-square of 106.21 (p-value=0.000) is appropriate for our dataset.

We developed the hypothesis used to prove the mediating effects of the banking sector development ( $M_1$ ) and the stock market development ( $M_2$ ) on the slack (X) and performance (Y) linkage. The empirical testing of mediation effects involves two broad categories (1) the Baron and Kenny's approach, also known as segmentation (implicit) approach and (2) the transmittal (explicit) approach. Based on segmentation approach, three hypotheses are required: H1) independent variable (X) affects the mediator (M), H2) mediator (M) affects the dependent (Y) and H3) the mediator mediates the nexus of the independent (X) and the independent (Y) variables. Contrarily, the transmittal approach, also called Sobel test (Sobel, 1982), the Distribution product Method (MacKinnon et al., 2002), Bootstrapping (Bollen and Stine, 1990), Monte Carlo Simulation (MacKinnon et al., 2004), and Bayesian Estimation (Yuan and MacKinnon, 2009), needs a solo hypothesis attesting that a mediator affects the link between X and Y. Though the Baron and Kenny method was a widely used approach, recent mediation approaches argued that Baron and Kenny's approach has numbers of limitations such as 1) lesser statistical power, 2) not testing a specific indirect effects, 3) neither measuring the extent of the mediation effect, nor accepting models with inconsistent mediation (MacKinnon et al., 2000, MacKinnon et al., 2002, Hayes, 2009, Rungtusanatham et al., 2014). Considering the

curbs of Baron and Kenny method, Kenny et al. (1998) and Rungtusanatham et al. (2014) recommended the transmittal approaches of mediation. More precisely, Frazier et al. (2004), Rungtusanatham et al. (2014), Mumtaz Ali Memona and Chuahe (2018) suggested that bootstrapping is a powerful method to detect mediation by capturing complex and dynamic relationship within observed and unobserved variables via diagram and system of linked regression style. We, therefore, used Structural Equation Modeling (SEM) with bootstrap standard errors and confidence intervals to test the mediating effects of the banking sector and the stock market development on the slack-performance nexus.

**The good of fit of the model:** The second step of the mediation process, next to model specification (path diagram), is testing the goodness of fit of the model. There are various indices of model goodness of fit and suggested that it is not necessary or realistic to use all of them and the most commonly reported fit indices are the CFI, GFI, NFI and the NNFI (McDonald and Ho, 2002). To the contrary, reporting the various indices is necessary because different techniques reflect a different aspect of model fit (Crowley and Fan, 1997). Following this argument, Hu and Bentler (1999) suggested a two-index presentation strategy, namely Tucker-Lewis Index (TLI) & Standardized Root Mean Square Residual (SRMR), Root Mean Square Error of Approximation (RMSEA) & Standardized Root Mean Square Residual (SRMR) and Comparative Fit Index (CFI) & Standardized root mean square residual (SRMR). We, thus, used combinations of RMSEA and SRMR. We choose these indices because they are more sensitive to sample size, model misspecification and parameter estimates and the values of SRMR less than 0.08, and RMSEA less than 0.06 indicate a good fit of the model.

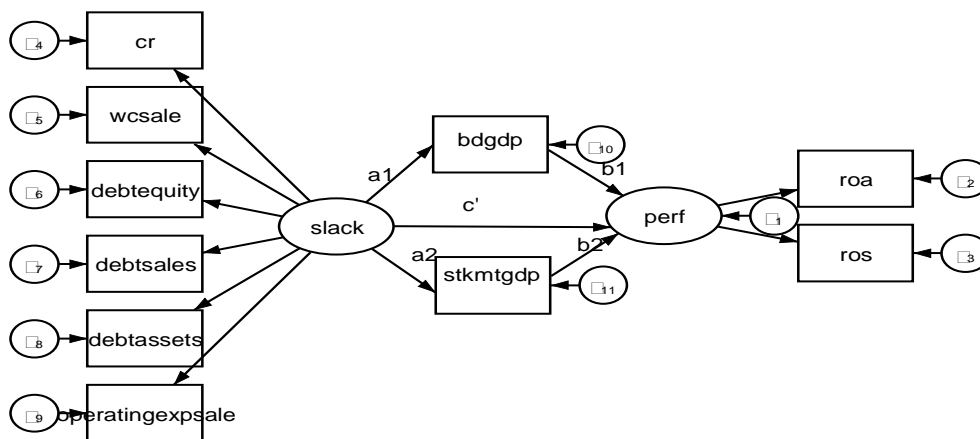


Figure 2: Path diagram of the mediation model

Where *cr* is current ratio, *wcsale* is working capital to sale, *debtequity* is Debt to Equity, *debtssales*, Debt to Sales, *debtassets* is Debt to assets, *Slack* is slack variables, *bdgdp* is Bank deposit to GDP%, *stmktgdp* is Stock market capitalization to GDP%, *performance* is firm performance, *roa* is Return on assets and *ros* is Return on sales, path *c'* is the direct effect of slack performance holding banking sector and stock market development constant, path '*a<sub>1</sub>b<sub>1</sub>*' presents the indirect effects of financial slack on firm performance through banking sector development holding stock market development constant, path '*a<sub>2</sub>b<sub>2</sub>*' is the indirect effect of financial slack on firm performance through stock market development holding banking sector development constant and paths *c' + a<sub>1</sub>b<sub>1</sub>* and *c' + a<sub>2</sub>b<sub>2</sub>* are the total effects of financial slack resources on financial performance taking banking sector and stock market development as mediator respectively.

## V. DESCRIPTIVE STATISTICS AND CORRELATION

Table 1 reports the mean value, the correlation and the Variance Inflation Factor (VIF). We found that the ROS and ROA of firms, on average, is 5.92 and 0.04 suggesting the operational performance (ROS) of firms in Africa is higher than its return on assets (ROA). Firms in Africa reported, on average, the current ratio and working capital of 4.55 and 75.41 respectively,

suggesting that first reported the highest working capital ratio. The mean value of the ratio of debt- to equity, debt to sales and debt to assets are 3.76, 16.35 and 0.78 respectively, revealed that firms reported the highest debt to sales ratio. On average firms in Africa reported very low operating to sales ratio which is accounted to 0.0099. The mean value of the natural logarithm of total assets (firm size) is 5.69. Bank deposits to GDP% and stock market capitalization to GDP%, on average, are 53.56 and 85.83 respectively which shows in Africa the stock market development is better compared with the banking sector development. Table 1 also presents the correlation, Variance Inflation Factor, and the tolerance value (1/VIF). The highest correlation is found between the ratio of Debt to Sales and working capital to sale (0.7214) which even is tolerable. However, the correlation coefficients among most of the other variables are fairly small, suggesting there is no multicollinearity problem in our study. We further checked the multicollinearity problem using VIF and 1/VIF that clearly indicate whether this problem happened or not in our study. According to Leech et al. (2005), the value of VIF higher than 10 or the value of tolerance (1/VIF) lower than 0.1 is an indication of the existence of a multicollinearity problem in the model of the study. As we can see from table 2, there is no value of VIF higher than 10 and 1/VIF lower than 0.1 indicating that the problem of multicollinearity does not exist in our model and all variables can be retained in the model.

Table 1: Mean, Correlation and Variance Inflation Factor (VIF)

	Mean	CR	WC	Debt-Equity	Debt-Sales	Debt-Assets	Op.exp	size	Growth	Bank	Market	VIF	1/VIF
ROA	0.04												
ROS	5.92												
CR	4.55	1										1.00	0.998
WC	75.41	0.0235	1									2.48	0.402
Debt-Equity	3.76	0.001	-0.0004	1								1.00	0.9988
Debt-Sales	16.35	0.0171	0.7214	0.0034	1							2.84	0.352
Debt-Assets	0.78	-0.0262	-0.0024	0.013	-0.007	1						1.01	0.994
Op.exp	0.01	-0.0011	0.0016	-0.006	0.2945	0.007	1					1.25	0.802
size	5.69	-0.0075	-0.0109	-0.008	-0.0007	-0.04	0.0232	1				1.07	0.933
Growth	-6.76	0.0015	0.0078	0.0003	-0.1958	-0.003	0.0012	-0.016	1			1.12	0.895
Bank	53.56	0.0218	0.0044	0.0035	0.0134	-0.027	0.0101	-0.251	0.0007	1		1.19	0.842
Market	85.83	0.0055	0.0386	0.0285	0.0504	0.025	0.0357	-0.090	-0.02	0.32	1	1.12	0.889
Mean VIF												1.41	

Where WC is Working capital, Debt-Equity is the ratio of debt to Equity, Debt-Sales is the ratio of Debt to Sales, Debt-Asset is the ratio of Debt to total assets, Op.exp is the ratio of operating expense to sales, size is the natural logarithm of total assets, growth denotes firm growth, Bank denotes banking sector development, Market is Stock market development, VIF is the Variance Inflation Factor and 1/VIF is tolerance

## VI. RESULT AND DISCUSSION

### a) Slack-performance nexus

The first purpose of this study is to examine the relationship between financial slack and firm

performance of firms in Africa. We then tested our hypotheses by estimating the model using the fixed effect (within) robust estimation approach. The R-square within (0.98 when we use ROS and 0.56 when we use ROA) shows that slack resources along with



other control variables strongly explained the operational performance than the performance of investment of assets of firms in Africa (ROA). The F-test of the models are significant with a p-value of 0.00, and we believed that the empirical models used in this study as a whole are correctly specified. We first estimated the model (column 1) without controlling the control variables, industry, and country dummies and then, we run the model (column 2) controlling the control variables, industry, and country dummies and we found the same result.

*Available slack and firm performance:* We found a positive association between available slack and ROA that supported the organizational theory. There exists a mixed relationship between available slack and ROS. The ROS is positively (significant) and negatively (insignificant) associated with the working capital to sales and the current ratios.

*Potential slack and firm performance:* We also found a mixed correlation between these variables. The main effect of debt/sales and debt/assets in the fixed regression result was negative and significant, indicating a positive relationship between potential slack and firm's ROA. This result revealed that the fewer the ratios of debt to sales and debt to assets, the better the ROA. To the contrary, we found a significant negative effect of debt/sales, debt/assets, and debt/equity, indicating there exists a positive and significant association of potential slack and operational performance (ROS) of firms in Africa.

*Recoverable slack and firm performance:* We finally found that recoverable slack is found to have a positive, but not significant and a positive and significant association with ROA and ROS respectively. The results of this study confirmed the first but not the second hypothesis, suggesting that the organizational theory is essential to explain the slack-performance nexus of firms in Africa.

Our study also found evidence in the relationship between control variables and firm performance. Firm size has a positive relationship with ROA and ROS whereas growth has a negative association with ROA and ROS. The relationship between firms' growth and ROS has found to be statistically significant. Our study contributes to the corporate finance literature by providing insight on the slack-performance nexus by controlling institutional developments which hardly controlled by previous studies. The banking sector and the stock market development have been found to have a positive association with firms' ROA. Firms' ROS is found to have a negative association with banking sector development and positive association with stock market development.

The result of this study shows that different types of slack have different influence on the different

performance of firms. That is there exists a positive and negative correlation between slacks and performances. This result is consistent with prior studies (Bourgeois III and Singh, 1983, Marlin and Geiger, 2015). Furthermore, Daniel et al. (2004) found varying slack-performance nexus using different measures of slack and performance.

The findings of this study support the organizational theory which is in favor of a positive influences of slack resources on the firms' financial performance. Our study found a positive association between financial slack resources and firms' financial performance in Africa. Particularly, the relationship between available slack and recoverable slack with the firm ROA, and recoverable slack and the ROS of firms provide strong support of the resource-based view of the firm that the availability of financial slack boosts the firms' endeavor to perform well. In other words, slack resources are necessarily helping ensure the long-run survival of firms. The positive relationship between financial slack and firm performance is also an indication that slack resources are an incentive required to boost performance, and is also used for conflict resolution, buffer, and facilitates strategic behavior that enables African firms to test with new strategies such as introducing new products and entering new markets. This study also supported the resource-based view in that managers should look inside the firm to find the resources of competitive advantage, so that resources are helping companies achieve higher organizational performance. This result is also consistent with the empirical studies (Vanacker et al., 2013, Cyert and March, 1963, Bradley et al., 2011, Marlin and Geiger, 2015). The negative impact of financial slack has been observed on the operational performance (ROS), indicating there exists a positive association between potential slack components and ROS of African firms. This result evident that the existence of such slack enhances the firms endeavor to perform well because it helps firms secure resources through debt financing.

#### b) Mediation analysis (Structural Equation Modeling)

The main contribution of this study is to examine the mediating effects of the banking sector and the stock market developments on the association of financial slack and firm's performance. Growing literature currently advocates the use of bootstrapping for evaluating indirect effects (Lockwood and MacKinnon, 1998, MacKinnon et al., 2004, Shrout and Bolger, 2002, Preacher and Hayes, 2004). Bootstrapping is one of several *re-sampling* strategies for mediation estimation and hypothesis testing. Any statistics can use bootstrapping, but this study focuses on the mediation, its standard error and significance level of paths. Thus, we estimated a bootstrapped standard errors and path coefficients with Replications



1000. Before we run the mediation, we tested the goodness of fit of the model using a two-index presentation strategy, as suggested by Hu and Bentler (1999). The SRMR less than 0.08 and the RMSEA less than 0.06 shows the goodness of fit of the model. As can be seen from Table 3 the value of SRMR and RMSEA is 0.000 indicating the model fits well. Table 3 shows the estimate of the path observed coefficients, bootstrap standard error, and P-values. We used the banking sector development (M1) and the stock market development (M2) in the model as the mediators on the relationship between the slack and financial performance of firms in Africa. The mediating effects of the banking sector and the stock market development on the relationship between slack and performance is presented in Table 3.

The evidence of mediation exists when the relationship between the dependent and independent variables is partially or fully influenced by the mediating variable (Lockwood and MacKinnon, 1998). That is, mediation exists if the coefficient of a direct path between the independent variable (financial slacks) and the dependent variable (firm performance) is smaller when we included the mediator in the model. Moreover, full mediation exists if the indirect path ( $a_1b_1$  and  $a_2b_2$ ) is not significant, but the direct path ( $c'$ ) is statistically significant. Partial mediation exists if the direct ( $c'$ ), indirect ( $a_1b_1$  and  $a_2b_2$ ) and total ( $c' + a_1b_1$  and  $c' + a_2b_2$ ) paths are statistically significant. Strong mediation also exists with significant indirect and insignificant direct effects. The mediating be tested using the coefficient of the indirect path and the p-value. The higher the coefficient and the lower p-value ( $p < 0.05$ ), the stronger the mediation effect. However, there might be mediation with the small coefficient of indirect paths if the p-value is lower ( $p < 0.05$ ). Moreover, the presence of mediating effects can be detected by using the confidence interval of the indirect effects, that is, if the confidence interval of indirect effect contains non-zero, it shows there exists mediation. Based on these arguments we reported the result of bootstrapping as follows.

The coefficient of the indirect effect of the ratio of debt to assets (path  $a_1b_1$ ) on ROA via the banking sector development, holding the stock market development constant, is -0.00003 and is significant at the 5% level of significance. The direct and total effects of the ratio of debt to assets via the banking sector development, holding the stock market development constant, are the same (-0.061) and statistically significant ( $p = 0.04$ ). This result shows that the banking sector development partially mediates the relationship between the ratio of debt to assets and return on assets (ROA) of firms in Africa. More specifically, the ratio of the debt to asset has indirect effect on ROA, that is, a unit increase in the ratio of debt to assets will reduce the ROA by 0.061 units via the banking sector development.

The estimates of the direct, indirect and total effects of the current ratio, working capital, and debt to equity, debt to sales and operating expense to sales doesn't confirm any evidence of the mediating effect of the banking sector development on the relationship between the financial slack and the ROA of firms in Africa. For clarity, the coefficients (indirect effects) of the current ratio, working capital, debt to equity, debt to sales, and operating expense to sales are very small (close to zero), and the p-values are too high (non-significant). Table 3 also presents the SEM analysis, using bootstrapping, of path  $a_2b_2$  by introducing the stock market development into the model as a mediator, holding the banking sector development constant. The coefficients of indirect effects ( $a_2b_2$ ) of all slack variables are significantly small or close to zero with a non significant p-values ( $p > 0.05$ ) indicating that the relationship between slack and performance of firms in Africa is not strongly mediated by the stock market development. Moreover, the confidence intervals of the indirect effects of slack variables, through the banking sector and the stock market development, on ROA and ROS are close to zero (see the appendix) suggesting there exists a weak mediating role of the banking sector and the stock market development on the relationship between slack components and firm performance.

The direct and the total effects of the ratio of operating expense to sales, holding the banking sector constant, on ROS found to be the same and the highest (3.135). However, when we introduce the banking sector development in the model as a mediator, the indirect effect of operating expense to sales become very low (0.000053) and non-significant. The coefficients of the indirect effects of other slack variables are found to be close to zero with the higher p-values ( $P > 0.05$ ) suggesting that the banking sector development is not mediating the slack-performance nexus of firms in Africa. Similarly, introducing the stock market development in the model as a mediator, we estimate the indirect effects of financial slack components on the firm's operational performance (ROS). However, we found that the coefficients are too small (almost close to zero) and are an indication that slack-performance relationship is not strongly mediated by the stock market development. However, the result of our study doesn't confirm the third and the fourth hypotheses of the study. That is, both the banking sector and the stock market development have no strong mediating effect on the relationship of slack and performance of firms in Africa. Thus, the third and fourth hypotheses of our study are not confirmed in this study. The pecking order theory suggested that in the presence of asymmetric information in the credit market, firms tend to use their internal sources to support their investment projects. This study found that the preference of firms to use internal sources of finance, for financing investment

projects is dependent on the institutional development which can provide external sources of finances. For instance, in countries where the banking sector and stock market are well-developed, firms can easily have external sources of finance and can support their investment with it and can have more financial slack in the form of more retained earnings. But this is not true for firms in Africa because it is due to the immature banking sector and the stock market as we discussed in section 3 of this study.

We also found inconsistent mediation that possibly happened when the sign of the direct ( $c'$ ) and the indirect effects ( $a_1b_1$  or  $a_2b_2$ ) are opposite

(MacKinnon et al., 2007). The direct path of the debt to sales and debt to assets on ROA, through stock market development, is negative. Contrarily, the indirect effects of the same variables with the same mediator on the ROA is positive. We also found the opposite signs of other paths (see Table 3). Inconsistent mediation might be happening when the first step of Baron and Kenny (the dependent variable has a significant relationship with the independent variable) would not be met. However, it has been argued that this step is not the necessary condition of mediation Kenny et al. (1998) because it is not part of the mediation.

Table 2: Fixed effect robust (within) regression

Variables	(1)		(2)	
	ROA	ROS	ROA	ROS
CR	4.04E-05** (4.79E-05)	-0.0004*** (0.0009)	4.06E-05** (4.82E-05)	-0.00051*** (0.00093)
WC	9.13E-07*** (1.47E-06)	0.076253* (0.00137)	8.19E-07*** (2.13E-06)	0.077111* (0.00123)
Debt-Equity	7.87E-06* (4.14E-06)	-0.00056* (7.45E-05)	1.09E-05* (5.92E-06)	-0.00108* (0.000222)
Debt-Sales	-1.7E-05** (1.61E-05)	-0.03826* (0.01576)	-2E-05** (2.25E-05)	-0.04762* (0.014345)
Debt-Assets	-0.06424* (0.017369)	-0.04207* (0.01507)	-0.06395* (0.017579)	-0.01004** (0.013952)
Op.exp	0.000225*** (0.00053)	3.044028* (0.39762)	7.46E-05*** (0.00071)	3.303782* (0.351602)
size			0.097149** (0.096619)	2.398616** (1.8975)
Growth			-4.80E-06** (9.81E-06)	-0.018* (0.005268)
Bank			0.001359** (0.000887)	-0.24363** (0.163697)
Market			0.000447** (0.00033)	0.096777** (0.069304)
_cons	0.090505* (0.013629)	0.803843* (0.15741)	-0.47087** (0.610076)	-7.82082** (10.08582)
Number of obs =	4570	4570	4301	4301
R-sq: within	0.5535	0.9835	0.5590	0.9847
F-test	21.08*	33058.51*	11.95*	58783.04*
Country dummies	No	No	Yes	Yes
Industry dummies	No	No	Yes	Yes

NB: standard errors are in parentheses, CR is Current ratio, ROA is Return on Assets, ROS is Return on Sales, WC is Working capital, Debt-Equity is the ratio of debt to Equity, Debt-Sales is the ratio of Debt to Sales, Debt-Asset is the ratio of Debt to total assets, Op.exp is the ratio of operating expense to sales, size is the natural logarithm of total assets, growth denotes firm growth, Bank denotes banking sector development, Market is stock market development, \* is significant at 1%, \*\* is significant at 5% and \*\*\* is significant at 10%.

Table 3: Mediation analysis (Structural Equation Modeling)

Variables		ROA <-		ROS <-		
	Direct effect (c')	Indirect effect (a <sub>1</sub> b <sub>1</sub> )	Total effect (c' + a <sub>1</sub> b <sub>1</sub> )	Direct effect (c')	Indirect effect (a <sub>1</sub> b <sub>1</sub> )	Total effect (c' + a <sub>1</sub> b <sub>1</sub> )
Bank (M1)	0.0004* (0.0002)		0.00039* (0.0002)	-0.003 (0.0074)		-0.003 (0.007)
CR	0.000282 (0.003)	0.0000015 (0.00002)	0.0000296 (0.003)	0.0002 (0.051)	-0.0000126 (0.0002)	0.00019 (0.051)
WC	0.0000005 (0.00001)	-0.00000002 (0.0000005)	0.0000005 (0.000001)	0.077* (0.037)	0.0000002 (0.000004)	0.077403 (0.037)
Debt-Equity	0.000203 (0.0002)	0.0000002 (0.000005)	0.0000205 (0.00002)	0.0008 (0.0029)	-0.0000014 (0.00006)	0.0008 (0.003)
Debt-Sales	-0.0000112 (0.00003)	0.0000004 (0.0000005)	-0.000011 (-0.00003)	-0.036** (0.0305)	-0.0000034 (0.00001)	-0.036 (0.0305)
Debt-Assets	-0.061* (0.03)	-0.00003** (0.000035)	-0.061* (-0.0303)	-0.048** (0.07)	0.0002 (0.0006)	-0.048 (0.07)
Op.exp	0.0004 (0.002)	0.000006 (0.000034)	0.00042 (0.0025)	3.135** (2.49)	0.000053*** (0.0003)	3.1352*** (2.492)
	Direct effect (c')	Indirect effect (a <sub>2</sub> b <sub>2</sub> )	Total effect (c' + a <sub>2</sub> b <sub>2</sub> )	Direct effect (c')	Indirect effect (a <sub>2</sub> b <sub>2</sub> )	Total effect (c' + a <sub>2</sub> b <sub>2</sub> )
Market (M2)	0.0000034 (0.0001)		0.000003 (0.00014)	0.0032 (0.0076)		0.0032 (0.0076)
CR	0.00003 (0.003)	0.000000012 (0.000001)	0.00003 (0.0026)	0.0002 (0.04)	0.00001 (0.0012)	0.00019 (0.04)
WC	0.0000005 (0.00001)	0.000000001 4	0.0000005 (0.00001)	0.077402* (0.0399)	0.00000135* ** (0.00003)	0.0774032 (0.0399)
Debt-Equity	0.00002 (0.0004)	0.000000001 (0.000002)	0.00002 (0.0004)	0.0008 (0.0051)	0.000038 (0.0003)	0.00086 (0.0053)
Debt-Sales	-0.000011 (0.00003)	0.00000002 (0.00004)	-0.000011 (0.00003)	-0.036** (0.0304)	0.00002 (0.00005)	-0.037** (0.0304)
Debt-Assets	-0.06* (0.0309)	0.000001 (0.00004)	-0.06 (0.031)	-0.049*** (0.082)	0.00096 (0.0055)	-0.048 (0.081)
Op.exp	0.0004 (0.003)	0.00000108 (0.00004)	0.0004 (0.003)	3.134** (2.4032)	0.001 (0.0031)	3.135** (2.403)
Obs.	4556			4301		
Replications	1000			1000		
RMSEA	0.000			0.000		
SRMR	0.000			0.000		

Note: Bootstrap standard error in parentheses next to observed coefficients, CR is Current ratio, ROA is Return on Assets, ROS is Return on Sales, WC is Working capital, Debt-Equity is the ratio of debt to Equity, Debt-Sales is the ratio of Debt to Sales, Debt-Asset is the ratio of Debt to total assets, Op.exp is the ratio of operating expense to sales, Bank is banking sector development, Market is stock market development, \* is significant at 1%, \*\* is significant at 5% and \*\*\* is significant at 10%

## VII. CONCLUSION AND IMPLICATION

While firm-level data is obtained from the OSIRIS database, the institutional development indexes data is extracted from World Bank. Based on the data availability, the study period covers ten years, from 2006 to 2015. Accordingly, 457 non-financial publicly quoted companies with ten years firm-level data from 2006 to 2015 of 13 African countries were included in the study. We used firm performance as dependent and slack as explanatory variables. While firm performance is measured by ROA and ROS, financial slack are

categorized as available, potential, and recoverable slack, and firm size, firm growth, banking sector, and stock market development as control variables. We employed the Hausman specification test that suggested the fixed effect model is the super choice over the random effect model. Thus, we run a fixed effect (within) robust regression, (1) without controlling the control variables, the country, and the industry effect and (2) with controlling control variables, country, and industry effects. Furthermore, we tested the mediation effect of the banking sector and the stock market development on the slack-performance nexus using

Structural Equation Modeling (SEM) through bootstrapping.

The result of this study supported the organizational theory which favors positive slack-performance relationship. The first hypothesis of this study assumed a positive correlation between financial slack and firms' financial performance. The result of our study doesn't confirm this hypothesis because the association is mixed. We found no strong association between available slack and ROA. Potential slack is found to have a strong relationship with ROA and ROS. More specifically, the ratio of debt to equity has a strong relationship with the ROA, and the ROS. We also found that the ratio of debt to assets has a strong relationship with the ROA and the ROS. Debt to sales has statistically strong and negative correlation with operational performance (ROS) of firms. Recoverable slack is found to have statistically strong and positive relationship with ROS and has no strong relationship with ROA. The mediation analysis using Structural Equation Modeling revealed that both the banking sector and the stock market developments have no strong mediating effects on the financial slack and firm performance of firms in Africa.

Concerning the relationship between financial slack and firm performance, our finding implied that this result might not behold true in a universal context, but it is definitely dependent upon the environment in which the firms are embedded. Thus, our study offers some managerial implication for policy formulations. First, given the result that slack resources have a positive association with firms' operational performance (ROS) and financial performance (ROA), it is indicative that African firms need to strengthen the monitoring mechanism such as corporate governance to boost the commitments of those resources. The effective corporate governance mechanism help firms enhance the optimum use of financial resources to enhance performance. We found no evidence of mediation effect of the institutional development on the slack-performance nexus of firms in Africa. We further compared theses institutional developments (banking sector and the stock market of Africa) with of Asia, Europe, and World average. Both the stock market and the banking sector development of Africa lags behind the Asia's, Europe, and even world average. Hence, it is imperative to improve the institutional development in Africa. A well developed banking sector and stock market helps secure the external financing(debt and equity) so that firms will have sufficient internal sources of finance (slack) in the form of retaining earnings which can support both the financial and operational performance of firms in Africa.

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## APPENDIX

**Table 4:** Banking sector development as mediator of slack and ROA (SEM analysis with bootstrapping)

Direct effects						
	Observed Coef.	Bootstrap Std. Err.	z	P>z	Normal-based [95%Conf. Interval]	
structural Bank (M <sub>1</sub> ) <-						
CR	0.0037208	0.050512	0.07	0.941	-0.095281	0.1027227
WC	-0.0000599	0.001314	-0.05	0.964	-0.002636	0.002516
Debt-Equity	0.0004054	0.01201	0.03	0.973	-0.023133	0.0239441
Debt-Sales	0.0010033	0.001387	0.72	0.469	-0.001715	0.0037216
Debt-Assets	-0.073036	0.082309	-0.89	0.375	-0.234359	0.0882874
Op.exp	0.0155414	0.08669	0.18	0.858	-0.154367	0.1854502
ROA <-						
Bank (M <sub>1</sub> )	0.0003944	0.000176	2.24	0.025	0.0000491	0.0007397
CR	0.0000282	0.002593	0.01	0.991	-0.005054	0.0051102
WC	5.15E-07	1.15E-05	0.04	0.964	-2.21E-05	0.0000231
Debt-Equity	0.0000203	0.000228	0.09	0.929	-0.000426	0.0004669
Debt-Sales	-0.0000112	3.36E-05	-0.33	0.739	-7.71E-05	0.0000547
Debt-Assets	-0.0606111	0.030319	-2	0.046	-0.120036	-0.001186
Op.exp	0.0004159	0.002461	0.17	0.866	-0.004407	0.0052391
Indirect effects						
ROA <-						
Bank (M <sub>1</sub> )	0	(no path)				
CR	1.47E-06	1.98E-05	0.07	0.941	-3.73E-05	0.0000402
WC	-2.36E-08	5.18E-07	-0.05	0.964	-1.04E-06	9.92E-07
Debt-Equity	1.60E-07	4.74E-06	0.03	0.973	-9.13E-06	9.45E-06
Debt-Sales	3.96E-07	5.77E-07	0.69	0.493	-7.36E-07	1.53E-06
Debt-Assets	-0.0000288	3.49E-05	-0.82	0.41	-9.73E-05	0.0000397
Op.exp	6.13E-06	3.42E-05	0.18	0.858	-6.08E-05	0.0000731
Total effects						
Structural Bank (M <sub>1</sub> ) <-						
CR	0.0037208	0.050512	0.07	0.941	-0.095281	0.1027227
WC	-0.0000599	0.001314	-0.05	0.964	-0.002636	0.002516
Debt-Equity	0.0004054	0.01201	0.03	0.973	-0.023133	0.0239441
Debt-Sales	0.0010033	0.001387	0.72	0.469	-0.001715	0.0037216
Debt-Assets	-0.073036	0.082309	-0.89	0.375	-0.234359	0.0882874
Op.exp	0.0155414	0.08669	0.18	0.858	-0.154367	0.1854502
ROA <-						
Bank (M <sub>1</sub> )	0.0003944	0.000176	2.24	0.025	0.0000491	0.0007397

CR	0.0000296	0.002606	0.01	0.991	-0.005078	0.0051367
WC	4.91E-07	1.12E-05	0.04	0.965	-2.15E-05	0.0000225
Debt-Equity	0.0000205	0.000231	0.09	0.929	-0.000431	0.0004723
Debt-Sales	-0.0000108	3.33E-05	-0.32	0.746	-7.61E-05	0.0000545
Debt-Assets	-0.0606399	0.030318	-2	0.045	-0.120062	-0.001218
Op.exp	0.000422	0.002473	0.17	0.864	-0.004425	0.0052688

Table 5: Stock market development as mediator of slack and ROA (SEM analysis with bootstrapping)

Direct effects						
	Observed Coef.	Bootstrap Std. Err.	z	P>z	[95%Conf.	Interval
Structural Market (M <sub>2</sub> ) <-						
CR	0.0035397	0.35819	0.01	0.992	-0.698499	0.7055782
WC	0.0004192	0.010499	0.04	0.968	-0.020158	0.0209968
Debt-Equity	0.0117193	0.072192	0.16	0.871	-0.129775	0.1532133
Debt-Sales	0.0062141	0.009045	0.69	0.492	-0.011513	0.0239409
Debt-Assets	0.2973973	1.474919	0.2	0.84	-2.59339	3.188185
Op.exp	0.3142367	0.684712	0.46	0.646	-1.027773	1.656247
ROA <-						
Market (M <sub>2</sub> )	3.44E-06	0.000138	0.02	0.98	-0.000266	0.0002731
CR	0.0000295	0.002601	0.01	0.991	-0.005069	0.0051281
WC	4.81E-07	1.13E-05	0.04	0.966	-2.17E-05	0.0000226
Debt-Equity	0.0000206	0.000438	0.05	0.963	-0.000838	0.0008791
Debt-Sales	-0.0000107	3.42E-05	-0.31	0.754	-7.77E-05	0.0000563
Debt-Assets	-0.0606297	0.030903	-1.96	0.05	-0.121197	-0.000062
Op.exp	0.0004138	0.00288	0.14	0.886	-0.005231	0.006059
Indirect effects						
ROA <-						
Market (M <sub>2</sub> )	0	(no path)				
CR	1.22E-08	1.28E-06	0.01	0.992	-2.50E-06	2.52E-06
WC	1.44E-09	(constrained)				
Debt-Equity	4.03E-08	1.64E-06	0.02	0.98	-3.17E-06	3.25E-06
Debt-Sales	2.14E-08	8.56E-07	0.02	0.98	-1.66E-06	1.70E-06
Debt-Assets	1.02E-06	3.87E-05	0.03	0.979	-7.49E-05	0.0000769
Op.exp	1.08E-06	4.33E-05	0.02	0.98	-8.37E-05	0.0000859
Total effects						
Structural Market (M <sub>2</sub> ) <-						
CR	0.0035397	0.35819	0.01	0.992	-0.698499	0.7055782
WC	0.0004192	0.010499	0.04	0.968	-0.020158	0.0209968
Debt-Equity	0.0117193	0.072192	0.16	0.871	-0.129775	0.1532133
Debt-Sales	0.0062141	0.009045	0.69	0.492	-0.011513	0.0239409
Debt-Assets	0.2973973	1.474919	0.2	0.84	-2.59339	3.188185
Op.exp	0.3142367	0.684712	0.46	0.646	-1.027773	1.656247
ROA <-						
Market (M <sub>2</sub> )	3.44E-06	0.000138	0.02	0.98	-0.000266	0.0002731
CR	0.0000295	0.002602	0.01	0.991	-0.005071	0.0051298
WC	4.83E-07	1.13E-05	0.04	0.966	-2.16E-05	0.0000226
Debt-Equity	0.0000206	0.000438	0.05	0.962	-0.000839	0.0008798
Debt-Sales	-0.0000107	0.000034	-0.31	0.753	-7.74E-05	0.000056
Debt-Assets	-0.0606287	0.030881	-1.96	0.05	-0.121155	-0.000103
Op.exp	0.0004149	0.002873	0.14	0.885	-0.005217	0.0060465

Table 6: Banking sector development as mediator of slack and ROS (SEM analysis with bootstrapping)

Direct effects						
	Observed Coef.	Bootstrap Std. Err.	z	P>z	Normal-based [95%Conf.	Interval
Structural						
Bank ( $M_1$ )<-						
CR	0.0037208	0.053181	0.07	0.944	-0.100512	0.1079533
WC	-0.0000599	0.001241	-0.05	0.962	-0.002493	0.002373
Debt-Equity	0.0004054	0.016852	0.02	0.981	-0.032625	0.0334354
Debt-Sales	0.0010033	0.001615	0.62	0.534	-0.002162	0.0041681
Debt-Assets	-0.073036	0.078848	-0.93	0.354	-0.227576	0.0815037
Op.exp	0.0155414	0.093513	0.17	0.868	-0.167742	0.1988243
ROS<-						
Bank ( $M_1$ )	-0.0033846	0.007374	-0.46	0.646	-0.017838	0.0110686
CR	0.0002059	0.050865	0	0.997	-0.099487	0.0998992
WC	0.0774029	0.036945	2.1	0.036	0.0049919	0.1498139
Debt-Equity	0.0008275	0.002867	0.29	0.773	-0.004792	0.0064467
Debt-Sales	-0.0366469	0.030454	-1.2	0.229	-0.096336	0.0230417
Debt-Assets	-0.0488627	0.069623	-0.7	0.483	-0.185322	0.0875964
Op.exp	3.135279	2.491808	1.26	0.208	-1.748575	8.019134
Indirect effects						
ROS<-						
Bank ( $M_1$ )	0	(no path)				
CR	-0.0000126	0.000186	-0.07	0.946	-0.000376	0.0003512
WC	2.03E-07	4.25E-06	0.05	0.962	-8.12E-06	8.53E-06
Debt-Equity	-1.37E-06	0.000057	-0.02	0.981	-0.000113	0.0001103
Debt-Sales	-3.40E-06	9.58E-06	-0.35	0.723	-2.22E-05	0.0000154
Debt-Assets	0.0002472	0.000585	0.42	0.673	-0.000899	0.0013936
Op.exp	-0.0000526	0.000347	-0.15	0.879	-0.000732	0.0006267
Total effects						
Structural						
Bank ( $M_1$ )<-						
CR	0.0037208	0.053181	0.07	0.944	-0.100512	0.1079533
WC	-0.0000599	0.001241	-0.05	0.962	-0.002493	0.002373
Debt-Equity	0.0004054	0.016852	0.02	0.981	-0.032625	0.0334354
Debt-Sales	0.0010033	0.001615	0.62	0.534	-0.002162	0.0041681
Debt-Assets	-0.073036	0.078848	-0.93	0.354	-0.227576	0.0815037
Op.exp	0.0155414	0.093513	0.17	0.868	-0.167742	0.1988243
ROS<-						
Bank ( $M_1$ )	-0.0033846	0.007374	-0.46	0.646	-0.017838	0.0110686
CR	0.0001933	0.050795	0	0.997	-0.099363	0.09975
WC	0.0774031	0.036946	2.1	0.036	0.0049913	0.1498149
Debt-Equity	0.0008261	0.002842	0.29	0.771	-0.004744	0.0063963
Debt-Sales	-0.0366503	0.030452	-1.2	0.229	-0.096334	0.0230337
Debt-Assets	-0.0486155	0.069624	-0.7	0.485	-0.185075	0.0878442
Op.exp	3.135227	2.491741	1.26	0.208	-1.748496	8.01895

Table 7: Stock market development as mediator of slack and ROS (SEM analysis with bootstrapping)

Direct effects						
	Observed Coef.	Bootstrap Std. Err.	z	P>z	[95%Conf. Interval	
Structural						
Market ( $M_2$ ) <-						
CR	0.0035397	0.373759	0.01	0.992	-0.729014	0.7360938
WC	0.0004192	0.010162	0.04	0.967	-0.019498	0.0203363
Debt-Equity	0.0117193	0.080062	0.15	0.884	-0.1452	0.1686386
Debt-Sales	0.0062141	0.009506	0.65	0.513	-0.012418	0.0248459
Debt-Assets	0.2973973	1.529025	0.19	0.846	-2.699438	3.294232
Op.exp	0.3142367	0.581213	0.54	0.589	-0.824921	1.453394
ROS <-						
Market ( $M_2$ )	0.0032189	0.007603	0.42	0.672	-0.011683	0.0181209
CR	0.0001794	0.039557	0	0.996	-0.07735	0.0777088
WC	0.0774018	0.039902	1.94	0.052	-0.000805	0.1556083
Debt-Equity	0.0008244	0.005141	0.16	0.873	-0.009251	0.0108997
Debt-Sales	-0.0366724	0.030392	-1.21	0.228	-0.09624	0.0228947
Debt-Assets	-0.0496291	0.08174	-0.61	0.544	-0.209837	0.1105786
Op.exp	3.13427	2.403235	1.3	0.192	-1.575984	7.844523
Indirect effects						
ROS <-						
Market ( $M_2$ )	0	(no path)				
CR	0.0000114	0.001202	0.01	0.992	-0.002344	0.0023667
WC	1.35E-06	3.31E-05	0.04	0.967	-6.35E-05	0.0000662
Debt-Equity	0.0000377	0.000272	0.14	0.89	-0.000496	0.0005714
Debt-Sales	0.00002	5.54E-05	0.36	0.718	-8.85E-05	0.0001285
Debt-Assets	0.0009573	0.005486	0.17	0.861	-0.009794	0.011709
Op.exp	0.0010115	0.003103	0.33	0.744	-0.005071	0.007094
Total effects						
Structural						
Market ( $M_2$ ) <-						
CR	0.0035397	0.373759	0.01	0.992	-0.729014	0.7360938
WC	0.0004192	0.010162	0.04	0.967	-0.019498	0.0203363
Debt-Equity	0.0117193	0.080062	0.15	0.884	-0.1452	0.1686386
Debt-Sales	0.0062141	0.009506	0.65	0.513	-0.012418	0.0248459
Debt-Assets	0.2973973	1.529025	0.19	0.846	-2.699438	3.294232
Op.exp	0.3142367	0.581213	0.54	0.589	-0.824921	1.453394
ROS <-						
Market ( $M_2$ )	0.0032189	0.007603	0.42	0.672	-0.011683	0.0181209
CR	0.0001908	0.039945	0	0.996	-0.0781	0.0784821
WC	0.0774032	0.039903	1.94	0.052	-0.000804	0.1556108
Debt-Equity	0.0008621	0.00527	0.16	0.87	-0.009467	0.0111916
Debt-Sales	-0.0366524	0.0304	-1.21	0.228	-0.096235	0.0229302
Debt-Assets	-0.0486718	0.080687	-0.6	0.546	-0.206815	0.1094712
Op.exp	3.135281	2.402844	1.3	0.192	-1.574207	7.84477





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# Privatization, Financial Liberalization, and Bank Performance: Evidence from Bangladesh

By Md. Ataur Rahman & Md. Tarek Masud Rana

*Begum Rokeya University*

**Abstract-** This study examines the impact of privatization and financial liberalization on the banking sector and the contribution of private commercial banks in Bangladesh economy. We use most of the CAMELS measures to find out the performance of sample bank categories based on capital adequacy, asset quality, management efficiency, earnings and profitability, and liquidity. We examine 495 observations collected from 55 banks including 6 state-owned banks, 40 private commercial banks, and 9 foreign commercial banks during 2009-2017. This paper mostly agrees with the existing literature that privatization and financial liberalization has a significant positive influences on banking sectors performance. This paper also discloses that private commercial banks belong the sound management skills rather than other categories of the banks except for foreign commercial banks in Bangladesh. The findings of the research will help the government and the central bank to take a crucial financial decision to improve the financial performance of the banking sector in Bangladesh.

**Keywords:** camels, privatization, liberalization, bangladesh.

**GJMBR-B Classification:** JEL Code: B26



*Strictly as per the compliance and regulations of:*



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Md. Ataur Rahman <sup>α</sup> & Md. Tarek Masud Rana <sup>σ</sup>

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**Keywords:** camels, privatization, liberalization, bangladesh.

## I. INTRODUCTION

The banking sector is the most emerging sector for every country. It is the heart of an economy like Bangladesh. To ensure the economic growth for a country or changing development scale especially developing country like Bangladesh, proper utilization of the financial resources is obligatory. Last two decades a huge number of developing, industrialized and transition countries have liberalized their financial and banking system (Fanelli and Medhora, 1998). Privatization of this sector is the prominent weapon of financial liberalization. By this way, competition will exist in the financial market and government intervention will ensure it very much. Enhancing the efficiency and performance of the banking sector privatization is the modern concept. Bangladesh government controlled this financial sector until 1982. In 1983 government initiated to inaugurate private commercial bank in Bangladesh. According to Levine (1998), banks ownership structure and industrial role in the economy is a vital variable in the way of economic growth and financial development. In a developing country, privatization of the banking sector will help to occur financial liberalization that will change

the whole financial sector. World Bank stated that the privatization process made accounting system more transparent need to develop the economic performance and improved the facilities to ensure the desired goal. Overall privatization process of banking sector improves the banking facilities and efficiencies as well as it will create the opportunities. Privatization is the way of the denationalization process, changes of ownership from the public sector to the private sector. The efficiency of Public owned banks is less than that of privately owned banks (Berger et al., 2005), and publicly owned banks associated with sorry looking economic performance (La Porta et al., 2002). In the developing countries, public controlled banks may influence to less intermediation, lower employment in small enterprises and lower GDP in the economy (Berger et al., 2004). Both in developing and developed countries privatization bank supervised to be followed by (Nakane and Weintraub, 2005; Beck et al., 2005) few performance improvements. It also pronounces the procedure of renovation of companies from being publicly transacted to becoming privately held. The manner of privatization of banking sectors means the modifications of banking ownership from government to a private owner. Financial liberalization is the financial form of financial market. It was the position of the financial market when all kind of restriction of a financial market went up. The financial liberalization that took place in the developing countries in the 1980s and 1990s was part of the general transfer toward giving markets a greater role in development. Financial liberation also the circumstance of changing of several factors in finance: exploitation, expenses and the ineptitudes involved with employing finance as a factual of populist, state-led progress, querying for financial resources, public demands for optimum finance and less hidden tax and subsidies, and heaviness on the financial system. (Hanson and Ramachandran, 1990). The interest rate, branch restraints, technological amelioration, admittance to finance, private banks, and reserve requirement will be reformed on that liberalization situation. This time interest will help to equate demand and supply of the market demand.

## II. THE OBJECTIVE OF THE STUDY

To show the effect of privatization and the financial liberalization on the performance of the banking sector in Bangladesh is the core objective of this paper.

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Following particular objectives also help us to ensure our main objective:

- Measuring the performance of Bangladeshi bank based on asset quality, capital adequacy level, management capability, earnings quality, and liquidity position.
- Evaluating category wise strength and weakness of bank performance operating in Bangladesh.

### III. REVIEW OF RELATED LITERATURE

The efficiency of the financial arena is essential for ensuring economic growth (Levine, 1997). The function of the banking sector is to the proper allocation of resources and uses these in the most productive sectors in an efficient way that will provide the optimum result. The contribution of the banking sector and financial institutions in economic development has been shown in lots of studies. Cornett et al. (1992) showed the performances between the public bank and privately owned bank in Thailand, Philippines, Malaysia, South Korea, and Indonesia for the period 1994–1997. In a cross-country study, La Porta and Lopez-De-Silanes, (2002) find that the performance of public banks is low than that of private banks. That study analysis has shown private owned bank had much more efficiency rather than a public sector bank. For the sake of Argentina, Clark and Cull (2001) mentioned the way of privatization process and showed the success of the regional bank privatization depended on the usefulness of the buyers. Galal et al. (1994), La Porta and Lopez-De-Silanes (2002) supported that the way of privatization procedure help to the betterment of banking performance. These authors also mention that the allocation of credit and efficiency are better in the privatized banks. Privatization of government enterprise is highly productive on the time of ownership and controlling power is switched to private sectors. This significant performance and efficiency of this sector measures among others and they are used in their literature (Perevalov et al., 2000). The government stated banks as an organ of the commanding heights procedure was supported by authors as like Lewis (2013) and Gerschenkron (1962). Gelos and Roods (2004) used the methodology to assess the competition of the transition banking sector. Different studies (Bhattacharya et al., (1997) have judgment the skill of banks using the mathematical programming strategy of Data Envelopment Analysis (DEA). Unal and Navarro (1999) showed the technical judgment of banking sector privatization in Mexico and supply a brief explanation of that procedure. They recommend that the shortage of pre-mention legal and regulatory framework was the main impediment of success in the privatization banking sectors set by the government. Meyendorff and Snyder (1997) argued that the transactional strategy of banking privatization in three nonbanks from Russia and Central

Europe. Gerschenkron (1962) states that governments can control financial sectors for direct savings of the people in developmental sectors of their countries where financial organizations are not good enough developed in productive sectors. Makler (2000) stated few factors spoil the Brazilian effort to privatize the state bank. The main problem in state bank are lower competition, much political intervention and lack of corporate governance, these problems are the main obstacle of government bank success (Clark et al., 2003). Verbrugge et al. (1999) illustrated the performance of the private bank in 25 developing and growing economic countries. In their study, they find that after privatization the profitability, operating efficiency, non-interest revenue and leverage condition was improved on that particular country.

### IV. RESEARCH METHODOLOGY

#### a) Data Collection

In this study, we collected secondary data from the annual report of some specific banks during the years 2009–2017 and used to measure the performance of banks in Bangladesh. We also collect secondary data from different articles, Bangladesh Bank, and other secondary sources.

#### b) Sampling Design

We collect a sample of 495 observations from 55 banks including 6 government-owned bank, 40 private commercial banks, and 9 foreign banks during 2009–2017. For this study, the banking sector is divided into three categories. These are State-Owned Commercial Bank (SCBs), Private Commercial Bank (PCBs), and Foreign Commercial Bank (FCBs).

To find out the impact of privatization and financial liberation on the performance of the banking sector in Bangladesh, most of the CAMELS measures have been analyzed. This framework includes the analysis of five groups of measures concerning the performance of banking financial institutions. These five measures of financial ratios include:

- Capital adequacy
- Asset quality
- Management soundness
- Earnings and profitability
- Liquidity

### V. FINDINGS AND ANALYSIS

#### a) Capital Adequacy

Capital adequacy highlights the whole capital position of the bank in the financial institution. The banks in Bangladesh are directed to maintain the minimum capital requirement, at least 10 percent of risk-weighted assets or 4 billion as capital (which one is higher). Capital adequacy of a financial institution is measured by the capital to risk-weighted asset ratio and presented in the following Table 1 and Figure 1.



Table 1: Capital adequacy ratio (in percent) during 2009-2017

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capital adequacy(SCBs)	9.0	8.9	11.7	8.1	10.8	8.3	6.4	5.9	7.0
Capital adequacy(PCBs)	12.1	10.1	11.5	11.4	12.6	12.5	12.4	12.4	12.2
Capital adequacy(FCBs)	28.1	15.5	21.0	20.6	20.2	22.6	25.6	25.4	23.3

Source: Bangladesh Bank

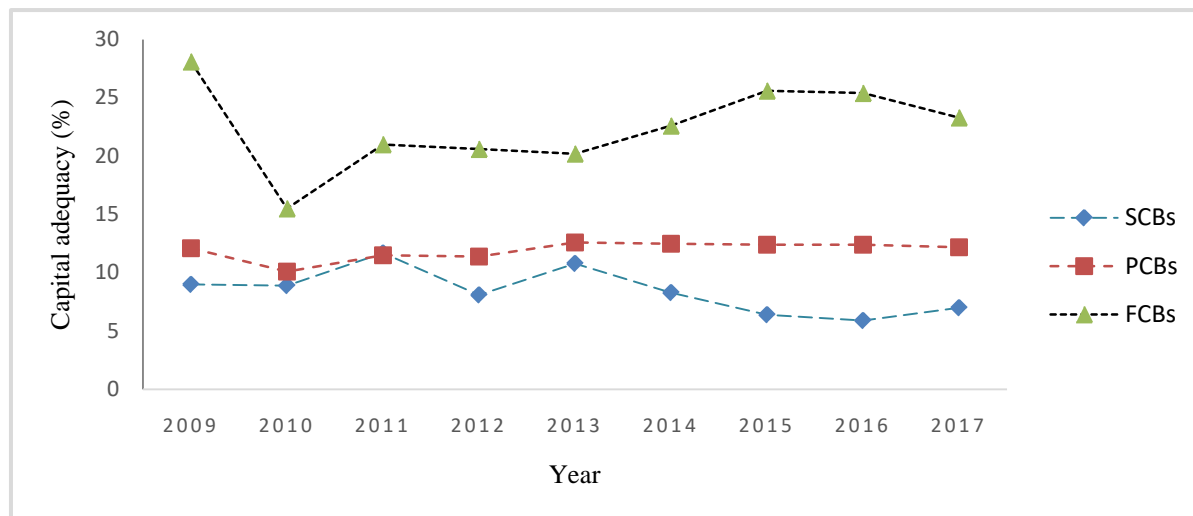


Figure 1: Capital to risk-weighted asset ratio

From the above Figure 1, we observe that capital adequacy ratio of SCBs shows mixture behavior from 2009-2013 but gradually declining from 2013 to 2016, finally increasing in 2017. In the private sector bank, the ratio of capital to the risk-weighted asset is stable over the period of 2009-2017 and higher than SCBs. Foreign commercial bank's capital to risk-weighted asset ratio condition is so much better than all sectors of the bank in Bangladesh. In the year 2009 the ratio is 28.1 and significantly declines to 15.5 in 2010 then shows increasing stable behavior. The foreign commercial bank is improving their performance in our

country but their capital and overall contribution in our financial sector are not significant.

#### b) Asset Quality

Loans and advances are the key factors in the asset composition of the whole commercial bank. When management gives more focus on loans and advances, it will increase the vulnerability of asset to credit risk. Asset quality of the financial sector is the major determinant of financial health, especially of earning ability. Non-performing loan ratio is the key measurement technique of asset quality.

Table 2: Indicator of asset quality (in percent) during 2013-2017

	2009	2010	2011	2012	2013	2014	2015	2016	2017
NPL to total loan (SCBs)	21.4	15.7	11.3	23.9	19.8	22.2	21.5	25.1	26.8
NPL to total loan (PCBs)	3.9	3.2	2.9	4.6	4.5	4.9	4.9	4.6	5.8
NPL to total loan (FCBs)	2.3	3.0	3.0	3.5	5.5	7.3	7.8	9.6	7.9

Source: Bangladesh Bank

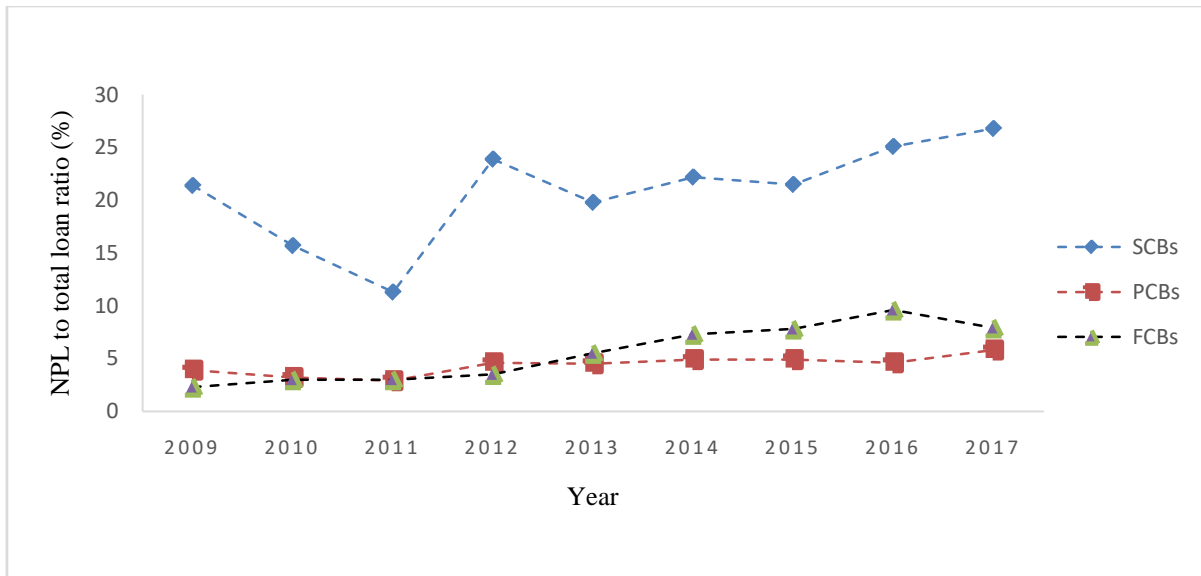


Figure 2: NPL to total loan ratio

From Figure 2, non-performing loan to total loan ratio of SCBs is gradually increasing significantly but in 2011 it is minimum (11.3 percent). NPL to total loan ratio is also increasing gradually for both private commercial bank and the foreign commercial bank over the period but less than that of state-owned commercial banks.

ratio of expenditure to income will help to measure the soundness of any financial institution. It is difficult to decide any conclusion on the bases of management based solely on the quantitative indicators. Qualitative competences, senior or mid-level management, response to the change in any circumstances are being considered of management soundness.

#### c) Management Soundness

The growth of financial institution is depends on sound management system of the financial sector. The

Table 3: Expenditure to income ratio (in percent) during 2009-2017

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Exp. to income ratio (SCBs)	75.6	80.7	62.7	73.2	84.1	84.1	84.5	90.2	87.9
Exp. to income ratio (PCBs)	72.6	67.6	71.7	76.0	77.9	75.8	75.5	73.5	74.5
Exp. to income ratio (FCBs)	59.0	64.7	47.3	49.6	50.4	46.8	47.0	45.7	45.5

Source: Bangladesh Bank

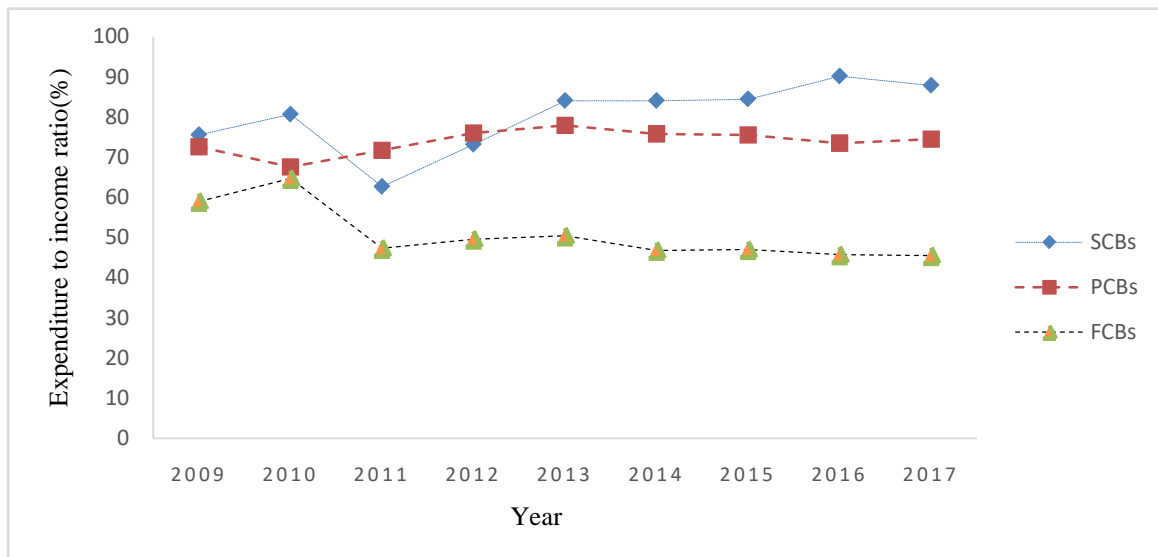


Figure 3: Expenditure to income ratio

In above Figure 3, the ratio of total expenses to total income for state-owned commercial bank increasing significantly in the recent year which is providing inefficiency in public sector banking. It shows poor performance of the state-owned bank. Expenditure to income ratio is just about stable for both the private commercial bank and foreign commercial bank. That is SCBs and FCBs are concern about their expenditure regarding their income.

#### d) Earning and Profitability

Most commonly used indicator for measuring the profitability of any banking institution are the return on asset (ROA) measured by net profit divided by total asset and return on equity (ROE) measured by net profit divided by total equity. Performance of all categories of sample banks are presented in Table 4 and illustrated graphically in Figure 4 and 5.

Table 4: Indicator of earning and profitability (in percent) during 2009-2017

	2009	2010	2011	2012	2013	2014	2015	2016	2017
ROA (SCBs)	1.0	1.1	1.3	-0.6	0.6	-0.6	-0.04	-0.16	-0.63
ROE (SCBs)	26.2	18.4	19.7	-11.9	10.9	-13.6	-1.5	-6.0	-19.4
ROA (PCBs)	1.6	2.1	1.6	0.9	1.0	1.0	1.0	1.03	0.68
ROE (PCBs)	21.0	20.9	15.7	10.2	9.8	10.3	10.8	11.1	7.5
ROA (FCBs)	3.2	2.9	3.2	3.3	3.0	3.4	2.9	2.56	2.15
ROE (FCBs)	22.4	17.0	16.6	17.3	16.9	17.7	14.6	13.1	10.8

Source: Bangladesh Bank

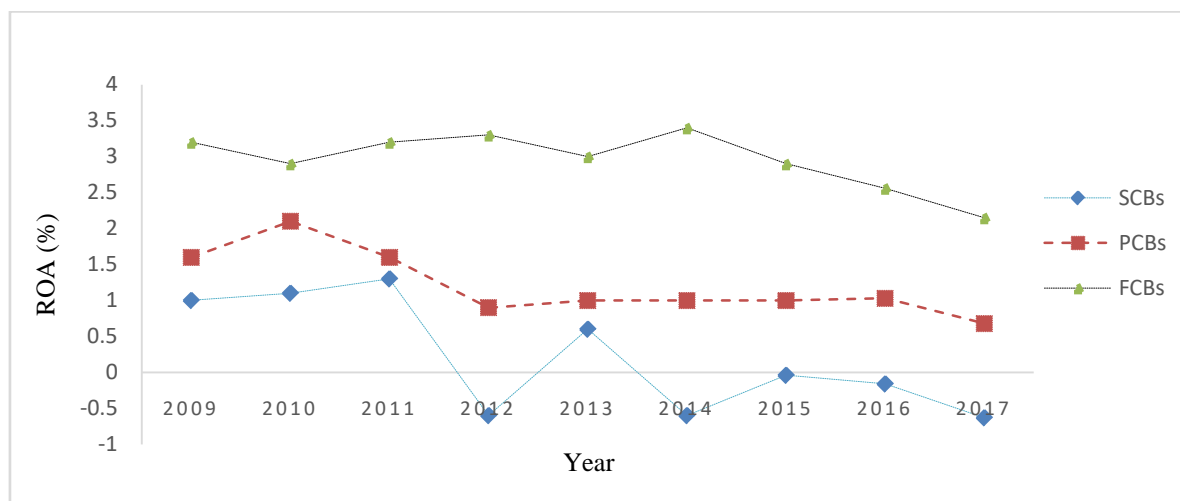


Figure 4: Return on asset ratio



Figure 5: Return on equity ratio

From the above Figure 4 and 5, it is clear that the profitability ratio measured by ROA and ROE for all categories of sample bank is following the declining trend. In the case of SCBs, continuously it goes to negative figure for the last couple of years. The private commercial bank's profitability is still a positive figure but in a declining trend. Foreign commercial bank's profitability ratio is much stronger than that of SCBs and PCBs.

#### e) Liquidity

The liquidity of any financial institution can be assessed using the loan to deposit ratio. A rising loan to deposit ratio indicates liquidity problems for a bank. The liquidity position of all categories of sample banks are summarized in the following Table 5 and explained graphically in Figure 6.

Table 5: Indicator of liquidity (in percent) during 2009-2017

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Loan to Deposit ratio (SCBs)	25.1	27.2	31.3	29.2	44.3	42	41.4	40.0	38.4
Loan to Deposit ratio (PCBs)	18.2	21.5	23.5	26.3	28	28.2	19.7	17.8	16.5
Loan to Deposit Ratio (FCBs)	31.8	32.1	34.1	37.5	46.2	56.9	51.8	48.2	40.9

Source: Bangladesh Bank

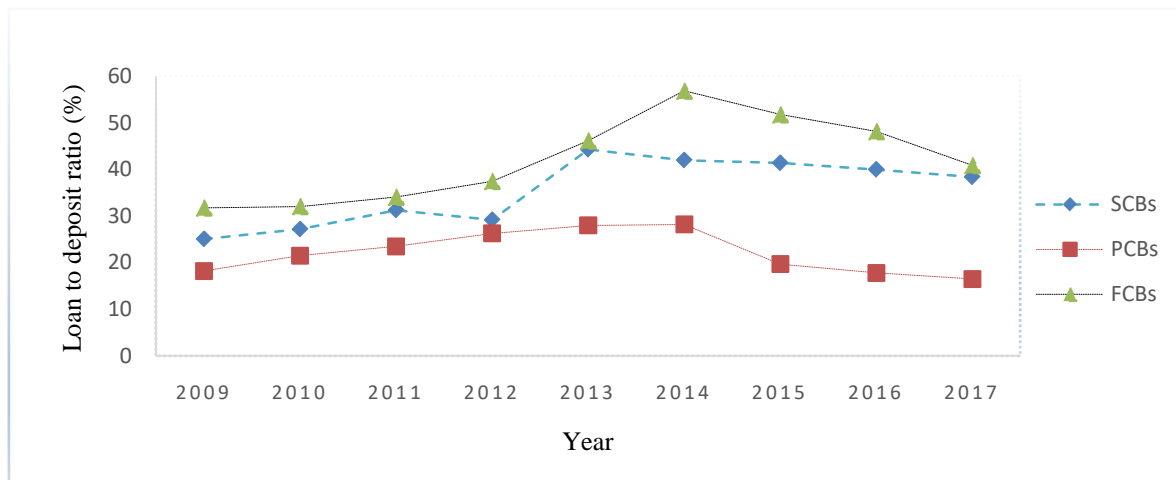


Figure 6: Loans to deposit ratio

From the above Figure 6, it is clear that the loan to deposit ratios of all categories of sample banks follow increasing trends from 2009 to 2014. The liquidity condition of SCBs, PCBs, and FCBs all are gradually declining from 2014 to 2017.

## VI. CONCLUSION

We applied the CAMELS method in this study that facilitates to identify the effect of privatization and financial liberalization on the banking sector. Sample from a different bank in Bangladesh has been analyzed during 2009-2017. The result shows that the improvement of financial health due to the privatization and liberalization policies influence so far in Bangladesh. We found strongly that private bank contributes a great significance of our banking sector. Private bank overall performance is better than other sectors of the bank in our country. This privatization process and financial liberalization influence the economic growth in Bangladesh. The private banking sector is the most potential financial sector in

Bangladesh to accelerate economic growth of the country.

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## An Analysis of Consumption Pattern in Drought- Prone Region of Western Maharashtra (India)

By Dr. M. S. Deshmukh & Dr. Satish Vyavahare

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**Abstract-** This paper examines the farmer's monthly per capita consumption expenditure of food and non-food items in the dry region of western Maharashtra using the field survey data 2015-16. The present study was carried out in eighteen villages, covering 360 farmers of Atpadi and Jat block of Sangli district and Sangola and Mangalwedha block of Solapur district in western Maharashtra. Consumption is a significant activity performed by the households where in which drought significantly impacted its food consumption pattern by causing a change in the structure of food consumption baskets. The MPCE share on Jawar of small farmers (11.80%) was higher as compared to medium farmers (10.94%) and large farmers (9.74%). The share of monthly per capita consumption expenditure of milk (liquid) of large farmers (16.39%) was very high as compared to small farmers (12.41%) and medium farmers (13.07%). The monthly per capita expenditure of transport, communication & entertainment of large farmers (Rs.65) was high as compared to medium farmers (Rs.50) and small farmers (Rs.43). The monthly per capita expenditure on education of small farmers was Rs.100 (8.74%), medium farmers Rs.118 (9.35%) and the large farmers Rs.169 (11.13%). During the reference period in a study area. The average MPCE of large farmers were 1.33 times larger than the MPCE of small farmers.

**Keywords:** food and non-food consumption expenditure, gini coefficient, lorenz curve.

**GJMBR-B Classification:** JEL Code: A19



*Strictly as per the compliance and regulations of:*



# An Analysis of Consumption Pattern in Drought-Prone Region of Western Maharashtra (India)

Dr. M. S. Deshmukh <sup>α</sup> & Dr. Satish Vyavahare <sup>σ</sup>

**Abstract-** This paper examines the farmer's monthly per capita consumption expenditure of food and non-food items in the dry region of western Maharashtra using the field survey data 2015-16. The present study was carried out in eighteen villages, covering 360 farmers of Atpadi and Jat block of Sangli district and Sangola and Mangalwedha block of Solapur district in western Maharashtra. Consumption is a significant activity performed by the households where in which drought significantly impacted its food consumption pattern by causing a change in the structure of food consumption baskets. The MPCE share on Jawar of small farmers (11.80%) was higher as compared to medium farmers (10.94%) and large farmers (9.74%). The share of monthly per capita consumption expenditure of milk (liquid) of large farmers (16.39%) was very high as compared to small farmers (12.41%) and medium farmers (13.07%). The monthly per capita expenditure of transport, communication & entertainment of large farmers (Rs.65) was high as compared to medium farmers (Rs.50) and small farmers (Rs.43). The monthly per capita expenditure on education of small farmers was Rs.100 (8.74%), medium farmers Rs.118 (9.35%) and the large farmers Rs.169 (11.13%). During the reference period in a study area. The average MPCE of large farmers were 1.33 times larger than the MPCE of small farmers. The distribution of consumption expenditure of all the categories of farmers were examined through frequency distribution and deciles group analysis. Lorenz curve and Gini coefficient were used to analyze the level of inequality in the distribution of consumption pattern among the sample households. The farmer's monthly per capita consumption expenditure on food items Rs. 743 (56.9%) is higher than non-food items Rs 565 (43.1%) in the sample area of western Maharashtra. Moreover, MPCE on cereals (14.65%) was highest followed by milk (13.96%) and edible oil (6.06%) in sample households of western Maharashtra. The paper finds a Gini expenditure coefficient of 0.172%, which suggest that the spending behavior of household is influenced by the income, but the inequality in the distribution of expenditures is low.

**Keywords:** food and non-food consumption expenditure, gini coefficient, lorenz curve.

## I. INTRODUCTION

India is the second largest populous country in the world. Therefore its market potential is more than that of any countries in the world except China. India made a noteworthy change from being a supply controlled to a demand-driven economy. With a huge middle-class population, increasing local purchasing

power and their rising level of affluence, it has one of the biggest consumer markets across the world and is estimated to be at par with the other Asian countries like China. India today offers remarkable market potential with a faster growth in a wide range of products. It is one of the leading economy in the world with regard to purchasing power. The personal income what we earn, from one or the other source is spent either on consumption of food and non-food items or is unspent. India's faster economic growth since the 1990s has raised per capita income and / or expenditure has significantly impacted its food consumption patterns by causing a change in the structure of food consumption patterns observed during a pre-reforms period. Some of the Indian scholars still see that its recent economic growth as being inclusive (Bhalla 2011; Bhagwati and Panagariya 2013), a considerable larger body of work suggests that consumption, income, and wealth inequality have all mounted since the 1990s (Sen and Himanshu 2004; Subramanian and Jayaraj 2013). The consumption pattern in India is defined with the reference to the consumer expenditure survey conducted by the NSSO. These surveys divide the rural and urban population into different expenditure groups. The distribution of household/person and the per capita monthly expenditure on food and non-food items is given for each group. Hence there is relevance of looking at the block-wise composition of food and non-food consumption baskets of farmers in the drought-prone area of western Maharashtra (India).

The major aim of the paper is to examine the trends in farmer's MPCE of food and non-food items and estimate the Gini coefficient ratio in the study region. Present paper deals with the analysis of consumption expenditure pattern, both in terms of value and quantity of items consumed. It also examines whether there is any variation in the consumption expenditure of food and non-food items among the small medium and large farmers in selected drought-prone villages in western Maharashtra.

## II. RESEARCH METHODOLOGY AND DATABASE

This paper is based on primary data collected from 360 respondents, from 18 villages of four blocks of the selected district (20 farmers from each sample village) of the drought-prone region of Sangli and Solapur district of western Maharashtra during 2015-16. The 120 respondents from six villages of Jat block

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(Tipehali, Gulvanchi, Dhavadwadi, Pratappur, Kosari, Birnal), 60 respondents from three villages of Atpadi block (Zare, Vibhutvadi, Pimpri) of Sangli District and 100 respondents from five villages of Sangola block (Bamani, Akola, Vasud, Sangewadi, Kadlas) and 80 respondents (Farmer's) from four villages of Mangalwedha block (Marawade, Hivargao, Khomnal,

Sharadnagar) of Solapur district were interviewed through structured questionnaire and observation method.

The collected data is analyzed by using the appropriate statistical tools. The formula for estimating Gini coefficient is as below:

$$\text{Gini-coefficient} = 1 - \frac{\sum_{k=1}^N (P_k - P_{k-1}) (q_k + q_{k-1})}{N}$$

The consumption expenditure among the households is examined through frequency distribution and docile group analysis. Lorenz curve and Gini-coefficient are used to find out the level of inequality in the distribution of consumption among the sample households.

### III. RESULT AND DISCUSSION

The consumption expenditure on food and non-food items are generally used as the key index for determining the standard of living in emerging countries. Research of sequential changes in consumption pattern, provides an understanding into the status of human capital of a nation and hence is useful in planning future investment decision. These studies play a vital role in

recent years in the wake of globalization and apprehensions about food securities.

#### a) Classification of Farmers by Broad Groups of MPCE of Food and Non-Food Items

The table no. 1 shows the size of land holding and commodity-wise monthly per capita consumption expenditure (MPCE) on broad groups of food and non-food items. Monthly per capita consumption expenditure of jawar of small farmers is Rs. 135 (11.80%), Medium farmers Rs. 138 (10.94%) and a large farmer's Rs. 148 (9.74%). The average consumption expenditure of jawar of Sangli and Solapur district is Rs. 140 (10.83%). The share of consumption expenditure of Jawar of small farmer's is higher than the medium and large farmer's in the study area. The average MPCE of all the farmers on wheat is Rs. 28 (2.16%).

**Table 1:** Classification of Farmers by Broad Groups of MPCE of Food and Non-Food Items in Study Area of Western Maharashtra

(In Rs)

Items	Small Farmers	Medium Farmers	Large Farmers	Average
A) Food items				
1. Jawar	135 (11.80)	138 (10.94)	148 (9.74)	140 (10.83)
2. Wheat	27 (2.36)	28 (2.22)	29 (1.91)	28 (2.16)
3. Rice	17 (1.49)	16 (1.27)	20 (1.32)	18 (1.36)
4. Other	3 (0.26)	4 (0.32)	5 (0.33)	4 (0.30)
5. Moong	11 (0.02)	9 (0.03)	13 (0.02)	11 (0.02)
6. Urad	2 (0.17)	3 (0.24)	4 (0.26)	3 (0.23)
7. Tur	9 (0.79)	9 (0.71)	11 (0.72)	10 (0.74)
8. Other	2 (0.17)	2 (0.16)	3 (0.20)	2.33 (0.18)
9. Milk Liquid	142 (12.41)	165 (13.07)	249 (16.39)	185 (13.96)
10. Milk Products	22 (1.92)	26 (2.06)	26 (1.71)	25 (1.90)
11. Sugar	63 (5.51)	72 (5.71)	72 (4.74)	69 (5.32)
12. Salt, Procceed Food	25 (2.19)	24 (1.90)	24 (1.58)	25 (1.89)
13. Edible Oil	75 (6.56)	76 (6.02)	85 (5.60)	79 (6.06)
14. Egg, Fish, Meat	36 (3.15)	40 (3.17)	54 (3.55)	44 (3.29)
15. Vegetables	48 (4.20)	47 (3.72)	45 (2.96)	47 (3.63)
16. Fruits	31 (2.71)	32 (2.54)	40 (2.63)	35 (2.63)



17. Packaged & Processed Food	17 (1.49)	22 (1.74)	24 (1.58)	21 (1.60)
Subtotal Food (A)	665 (58.13)	713 (56.50)	852 (56.09)	743 (56.91)
B) Non Food Items				
18. Pan ,Tobacco, Intoxicants	31 (2.71)	35 (2.77)	40 (2.63)	36 (2.71)
19. Fuel, Light	34 (2.97)	41 (3.25)	46 (3.03)	40 (3.08)
20. Kerosene	11 (0.96)	10 (0.79)	9 (0.59)	10 (0.78)
21. Transport, Communication & Entertainment	43 (3.76)	50 (3.96)	65 (4.28)	53 (4)
22. Clothing, Bedding & Footwear	116 (10.14)	136 (10.78)	160 (10.53)	137 (10.48)
23. Education	100 (8.74)	118 (9.35)	169 (11.13)	129 (9.74)
24. Medical	97 (8.48)	106 (8.40)	120 (7.90)	108 (8.26)
25. Sanitary Goods, Personal Care, Cosmetics	38 (3.32)	40 (3.17)	41 (2.70)	40 (3.06)
26. Other	9 (0.79)	13 (1.03)	17 (1.12)	13 (0.98)
Subtotal Non Food (B)	479 (41.87)	549 (43.50)	667 (43.91)	565 (43.09)
Total Food & Non Food (A+B)	1144 (100)	1262 (100)	1519 (100)	1308 (100)

Note: Figures in parentheses denotes the percentage

Source: Field Survey 2015-16

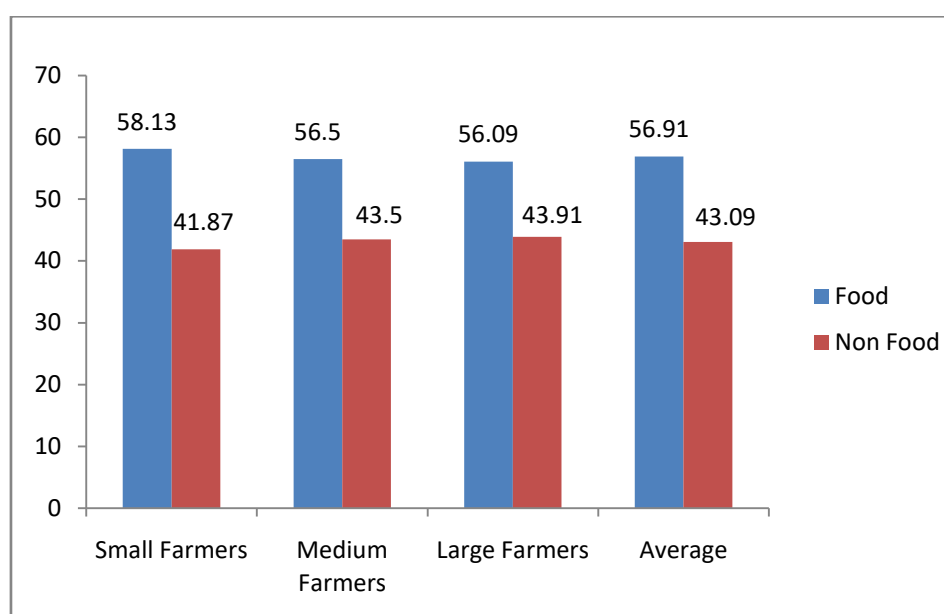


Figure 1: Size of Land Holding and MPCE on Broad Groups of Food and Non-Food Items

The monthly per capita consumption expenditure (MPCE) on milk (liquid) of small farmer's is Rs. 142 (12.41%), medium farmers Rs. 165 (13.07%) and the large farmer's Rs. 249 (16.39%). The average MPCE on rice, moong, urad, tur items of food basket of small, medium and large farmers are more or less same. The share of MPCE of large farmers on milk consumption is higher than small and medium farmers. Moreover, the MPCE on milk products, sugar, salt and processed food, edible oil, egg, fish, meat, vegetables and fruits is perpetual. Average monthly per capita consumption expenditure on pan, tobacco and intoxicant items of all categories of farmers is Rs. 35

(2.71%). However, MPCE on transport, communication & entertainment of the large farmers is Rs. 65 (4.28%), which is higher than the medium farmers is Rs. 50 (3.96%) and small farmers is Rs. 43 (3.76%).

The average MPCE on clothing, bedding and footwear of all categories of farmers is constant. MPCE on education of small farmers is Rs. 100 (8.74%), medium farmers is Rs. 118 (9.35%) and the large farmer is Rs. 169 (11.13%). MPCE on the education with variation in the size of holding, i.e. larger the size more the expenditure and smaller the size lesser the expenditure. MPCE on medical, sanitary goods personal care and cosmetics of all the categories of farmers is

more or less same. Monthly per capita consumption expenditure (MPCE) on food items of small farmers is Rs. 665 (58.13%), medium farmers Rs. 713 (56.50%) and a large farmer is Rs. 852 (56.09). However, the average monthly per capita consumption expenditure (MPCE) on non-food items of small farmers is Rs. 479 (41.87%), medium farmers Rs. 549 (43.50%) and the large farmers Rs. 667 (43.91%). Moreover,, the monthly per capita consumption expenditure (MPCE) on food items (56.9%) is higher than that of non-food items (43.1%). It is thus evident that the MPCE on cereals (14.65%) which is highest followed by milk (13.96%) and edible oil (6.06%) in sample households of western Maharashtra during the study period.

food items by social groups. Monthly per capita consumption expenditure on jawar of general category farmers is Rs. 143 (10.44%), OBC category farmers Rs. 134 (11.05%) and SC category farmers 137 (12.89%). The average MPCE on jawar of Sangli and Solapur district is Rs. 138 (11.46%). The share of MPCE on Jawar of SC category farmers is higher as compared to OBC and general category farmers. Monthly per capita consumption expenditure on wheat of general category farmers is Rs. 31 (2.26%), OBC category farmers Rs. 24 (1.98%) and SC category farmers 26 (2.45%). The average MPCE on wheat is Rs. 27 (2.23%). The average MPCE on rice, moong, urad, tur commodity in general, OBC and SC category farmers is constant.

b) *Commodity-Wise Monthly Per Capita Consumption Expenditure (MPCE) by Social Groups*

Table no. 2 shows the commodity-wise monthly per capita consumption expenditure of food and non-

*Table 2: Commodity-wise MPCE by Social Groups in the Study Area*

(In Rs)				
Items	General	OBC	SC	Average
A) Food items				
1. Jawar	143 (10.44)	134 (11.05)	137 (12.89)	138 (11.46)
2. Wheat	31 (2.26)	24 (1.98)	26 (2.45)	27 (2.23)
3. Rice	18 (1.31)	15 (1.24)	16 (1.51)	16 (1.35)
4. Other	5 (0.36)	3 (0.25)	3 (0.28)	4 (0.30)
5. Moong	11 (0.03)	10 (0.02)	11 (0.03)	11 (0.02)
6. Urad	3 (0.22)	3 (0.25)	2 (0.19)	3 (0.22)
7. Tur	10 (0.73)	9 (0.74)	7 (0.66)	9 (0.71)
8. Other	3 (0.22)	2 (0.16)	2 (0.19)	2 (0.19)
9. Milk Liquid	184 (13.43)	175 (14.43)	150 (14.11)	170 (13.99)
10. Milk Products	27 (1.97)	24 (1.98)	18 (1.69)	23 (1.88)
11. Sugar	74 (5.40)	64 (5.28)	59 (5.55)	66 (5.41)
12. Salt, Procceed Food	25 (1.82)	23 (1.90)	22 (2.07)	23 (1.93)
13. Edible Oil	79 (5.77)	75 (6.18)	75 (7.06)	76 (6.33)
14. Egg, Fish, Meat	45 (3.28)	41 (3.38)	31 (2.92)	39 (3.19)
15. Vegetables	47 (3.43)	48 (3.96)	41 (3.86)	45 (3.75)
16. Fruits	35 (2.55)	34 (2.80)	30 (2.82)	33 (2.73)
17. Packaged & Processed Food	22 (1.61)	19 (1.57)	17 (1.60)	19 (1.59)
Subtotal Food (A)	762 (55.62)	703 (57.96)	647 (60.87)	704 (58.15)
B) Non Food items				
18. Pan ,Tobacco, Intoxicants	36 (2.63)	36 (2.97)	27 (2.54)	33 (2.71)
19. Fuel, light	46 (3.36)	34 (2.80)	31 (2.92)	37 (3.03)
20. Kerosene	10 (0.73)	10 (0.82)	11 (1.03)	10 (0.86)
21. Transport, Communication & Entertainment	57 (4.16)	46 (3.79)	36 (3.39)	46 (3.78)
22. Clothing, Bedding & Footwear	143 (10.44)	129 (10.63)	112 (10.54)	128 (10.54)
23. Education	151 (11.02)	94 (7.75)	78 (7.34)	107 (8.70)

24. Medical	109 (7.96 )	111 (9.15)	82 (7.71)	100 (8.27)
25. Sanitary Goods, Personal Care, Cosmetics	42 (3.07 )	38 (3.13)	32 (3.01)	37 (3.07)
26. Other	14 (1.02)	12 (0.99)	7 (0.66)	11(0.89)
Subtotal Non Food (B)	608 (44.38)	510 (42.04)	416 (39.13 )	511 (41.85)
Total Food & Non Food (A+B)	1370 (100)	1213 (100)	1063 (100)	1215 (100)

Note: Figures in parentheses denoted the percentage

Source: Field Survey, 2015-16

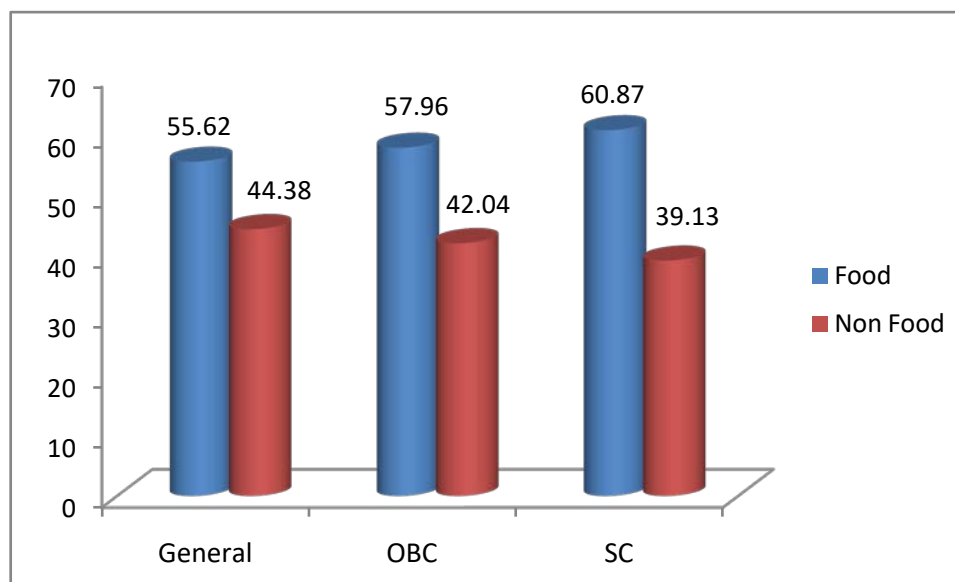


Figure 2: Commodity-wise MPCE by Social Groups in the Study Area

The monthly per capita consumption expenditure on milk (liquid) of SC category farmers is Rs. 150 (14.11%), OBC category farmers Rs. 175 (14.43%) and the general category farmers Rs. 184 (13.43%). It shows that the share of OBC category farmers MPCE on milk consumption is higher than the SC and general category farmers. Monthly per capita consumption expenditure on milk product, sugar, salt, processed food, edible oil, egg, fish, meat, vegetables, fruits is constant. The average monthly per capita consumption (MPCE) on pan, tobacco and intoxicant items of all categories of farmers is Rs.33 (2.71%). MPCE on transport, communication & entertainment in the general category farmers is Rs.57 (4.16%), OBC category farmers Rs.46 (3.79%) and SC category farmers Rs.43 (3.39%). The share of MPCE on transport, communication & entertainment items of general category farmers is more than the OBC and SC category farmers. Average monthly per capita expenditure on clothing, bedding and footwear of all categories of farmers is constant. The MPCE on education in general category farmers is Rs.151 (11.02%), OBC category farmers Rs.94 (7.75%) and the SC category farmers is Rs.78 (7.34%). The MPCE on the education in general category farmers is more as compared to OBC and SC category farmers. The MPCE

on medical, sanitary goods personal care and cosmetics of all categories of farmers is constant. Monthly per capita consumption expenditure on food items of SC category farmers is Rs.647 (60.87%), OBC category farmers Rs.703 (57.96%) and general category farmers Rs.762 (55.62%). The average monthly per capita consumption expenditure of non food items of SC category farmers is Rs.416 (39.13%), OBC category farmers Rs.510 (42.04%) and the general category farmers Rs.608 (44.38%). The average share of MPCE of all the farmers by social groups on food items is Rs. 704 (58.15%) and non-food item is Rs.511 (41.85%) in the study area of Sangli and Solapur district.

#### c) MPCE of Food and Non-Food Items by Level of Education in the Study Area

The table no.3 reveals the commodity-wise monthly per capita consumption expenditure on broad groups of food and non-food items by educational level of the farmers in study area. Monthly per capita consumption expenditure on jawar of illiterate farmers is Rs.137 (11.13%), primary educated farmers Rs.135 (10.91%), secondary educated farmers Rs.145 (11.23%), and higher secondary educated farmers Rs.145 (10.80%). It is clear that there is an inverse relationship between MPCE on jawar and level of

education. The average MPCE by the level of education on jawar of Sangli and Solapur district is Rs.140 (10.39%). Moreover, the average MPCE on rice, moong, urad and tur items in all farmers is constant.

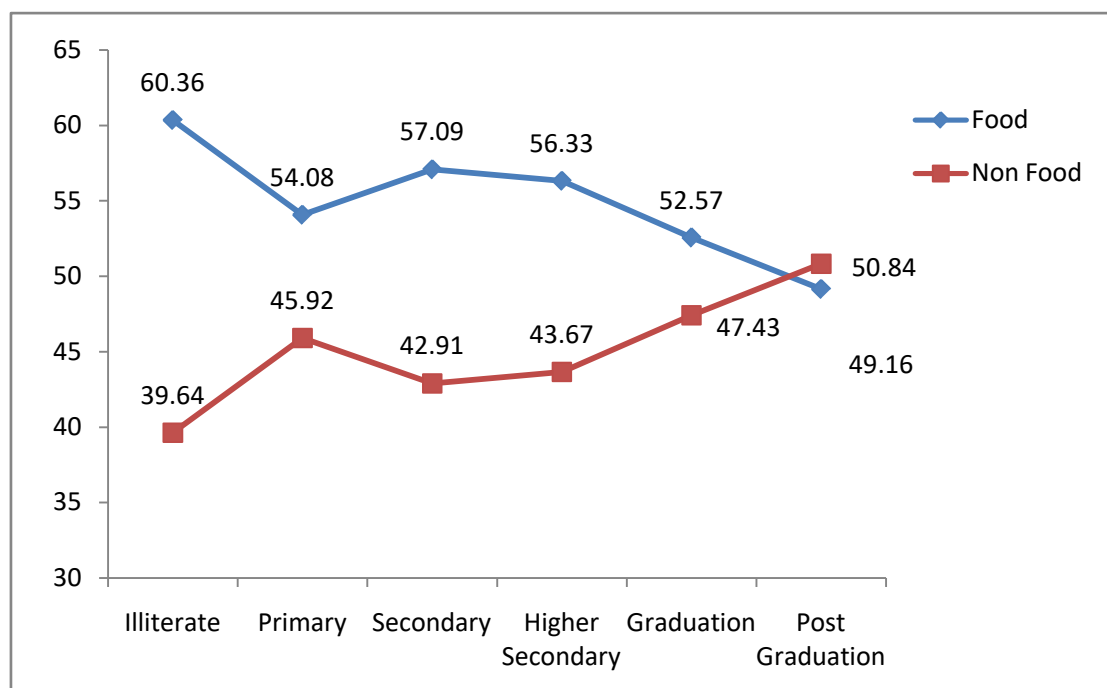


Figure 3: MPCE of Food and Non-Food Items by Educational Level in the Study Area

Table 3: MPCE of Food and Non-Food Items by Educational Level in the Study Area

(In Rs)

Items	Illiterate	Primary	Secondary	Higher Secondary	Graduation	Post Graduation	Average
A) Food items							
1. Jawar	137(11.13)	135(10.91)	145 (11.23)	145 (10.80)	143 (10.06)	137 (8.18)	140 (10.39)
2. Wheat	27 (2.19)	25 (2.02)	29 (2.25)	27 (2.01)	39 (2.74)	37 (2.21)	31 (2.24)
3. Rice	15 (1.22)	16 (1.29)	19 (1.47)	18 (1.34)	19 (1.34)	25 (1.49)	19 (1.36)
4. Other	2 (0.16)	4 (0.32)	5 (0.39)	4 (0.30)	9 (0.63)	6 (0.36)	5 (0.36)
5. Moong	10 (0.01)	10 (0.03)	12 (0.03)	11 (0.02)	9 (0.04)	16 (0.02)	11 (0.03)
6. Urad	1 (0.08)	3 (0.24)	4 (0.31)	4 (0.30)	2 (0.14)	2 (0.12)	3 (0.20)
7. Tur	9 (0.73)	9 (0.73)	9 (0.70)	11 (0.82)	7 (0.49)	12 (0.72)	10 (0.70)
8. Other	2 (0.16)	2 (0.16)	2 (0.15)	2 (0.15)	3 (0.21)	6 (0.36)	3 (0.20)
9. Milk Liquid	210(17.06)	127(10.27)	192 (14.87)	173 (12.89)	141 (9.92)	172 (10.27)	169 (12.55)
10. Milk Products	25 (2.03)	26 (2.10)	22 (1.70)	24 (1.79)	28 (1.97)	36 (2.15)	27 (1.96)
11. Sugar	67 (5.44)	71 (5.74)	66 (5.11)	67 (4.99)	86 (6.05)	81 (4.84)	73 (5.36)
12. Salt, Procced Food	24 (1.95)	24 (1.94)	24 (1.86)	24 (1.79)	25 (1.76)	28 (1.67)	25 (1.83)
13. Edible Oil	73 (5.93)	77 (6.22)	79 (6.12)	81 (6.04)	87 (6.12)	92 (5.50)	82 (5.99)
14. Egg, Fish, Meat	40 (3.25)	41 (3.31)	38 (2.94)	51 (3.80)	38 (2.67)	63 (3.76)	45 (3.29)
15. Vegetables	47 (3.82)	47 (3.80)	44 (3.41)	49 (3.65)	49 (3.45)	46 (2.75)	47 (3.48)
16. Fruits	34 (2.76)	32 (2.59)	29 (2.25)	41 (3.06)	36 (2.53)	40 (2.39)	35 (2.60)
17. Packaged & Processed Food	20 (1.62)	20 (1.62)	18 (1.39)	24 (1.79)	26 (1.83)	24 (1.43)	22 (1.61)
18. Subtotal Food (A)	743(60.36)	669(54.08)	737 (57.09)	756 (56.33)	747 (52.57)	823 (49.16)	746 (54.93)
B) Non Food Items							
19. Pan,Tobacco, Intoxicants	38 (3.09)	33 (2.67)	28 (2.17)	44 (3.28)	30 (2.11)	39 (2.33)	35 (2.61)
20. Fuel, Light	34 (2.76)	42 (3.40)	43 (3.33)	38 (2.83)	58 (4.08)	58 (3.46)	46 (3.31)
21. Kerosene	10 (0.81)	10 (0.81)	11 (0.85)	10 (0.75)	11 (0.77)	12 (0.72)	11 (0.78)

22. Transport, Communication & Ent.	44 (3.57)	52 (4.20)	54 (4.18)	56 (4.17)	53 (3.73)	70 (4.18)	55 (4.01)
23. Clothing, Bedding & Footwear	129(10.48)	131(10.59)	134 (10.38)	145 (10.80)	150 (10.56)	165 (9.86)	142 (10.44)
24. Education	85 (6.90)	144(11.64)	109 (8.44)	135 (10.06)	227 (15.97)	298 (17.80)	166 (11.80)
25. Medical	101 (8.20)	105 (8.49)	121(9.37)	99 (7.38)	92 (6.47)	139 (8.30)	110 (8.04)
26. Sanitary Goods, Personal Care, Cosm.	37 (3.01)	39 (3.15)	40 (3.10)	43 (3.20)	36 (2.53)	47 (2.81)	40 (2.97)
27. Other	10 (0.81)	12 (0.97)	14 (1.08)	16 (1.19)	17 (1.20)	23 (1.37)	15 (1.10)
Subtotal Non Food (B)	488(39.64)	568(45.92)	554 (42.91)	586 (43.67)	674 (47.43)	851 (50.84)	620 (45.07)
Total Food & Non Food (A+B)	1231 (100)	1237(100)	1291 (100)	1342 (100)	1421 (100)	1674 (100)	1366 (100)

Note: Figures in parentheses denoted the percentage  
Source: Field Survey, 2015-16

The average MPCE on clothing, bedding, medical, sanitary goods personal care, cosmetics and footwear of all categories of farmers in this group is constant. Monthly per capita consumption expenditure (MPCE) on food items of illiterate farmers is Rs.743 (60.36%), primary educated farmers Rs.669 (54.08%), secondary educated farmers Rs.737 (57.09%), graduate farmers Rs.747 (52.57%) and post graduate farmers Rs.823 (49.16%). The monthly per capita consumption expenditure on non food items of illiterate farmers is Rs.488 (39.64%), primary educated farmers Rs.568 (45.92%), secondary educated farmers Rs.554 (42.91%), graduate farmers Rs.674 (47.43%), and post graduate farmers Rs.851 (50.84%). The share of average MPCE on food items by educational level of the farmers is Rs.746 (54.93%) and a non-food item Rs.620

(45.07%). It is clear that as the level of education improves the MPCE on non-food items also increases among all the farmer in the study region. The MPCE of a highly educated farmer of food items (49.16%) is lesser than non-food expenditure (50.84%).

d) *Taluka / Block-Wise MPCE of Food and Non-Food Items in the Sample Area*

The table no. 4 shows the taluka-wise monthly per capita consumption expenditure (MPCE) on broad groups of food and non-food items in drought-prone area of Sangli and Solapur district in western Maharashtra. The MPCE on jawar of Jat taluka is Rs.145 (11%), Atpadi taluka Rs.125 (10%), Sangola taluka Rs.133 (10%) and Mangalwedha taluka Rs.150 (12%) respectively.

Table 4: Taluka/Block Wise MPCE of Food and Non-Food Items in Sample Area

MPCE	(In Rs)					
	Jat (1)	Atpadi (2)	Sangli* (3=1+2)	Sangola (4)	Mangalwedha (5)	Solapur* (6=4+5)
A) Food items						
1. Jawar	145 (11)	125 (10)	135 (11)	133 (10)	150 (12)	141 (11)
2. Wheat	26 (2)	21 (2)	24 (2)	37 (3)	25 (2)	31 (2)
3. Rice	15 (1)	16 (1)	16 (1)	19 (1)	19 (2)	19 (1)
4. Other	3 (0)	4 (0)	4 (0)	6 (0)	3 (0)	4 (0)
5. Moong	9 (1)	12 (1)	10 (1)	11 (1)	13 (1)	12 (1)
6. Urad	2 (0)	4 (0)	3 (0)	3 (0)	3 (0)	3 (0)
7. Tur	9 (1)	8 (1)	8 (1)	9 (1)	11 (1)	10 (1)
8. Other	2 (0)	2 (0)	2 (0)	3 (0)	2 (0)	2 (0)
9. Milk Liquid	267 (21)	118 (21)	193 (21)	123 (21)	152 (21)	137 (21)
10. Milk Products	25 (2)	22 (2)	23 (2)	27 (2)	25 (2)	26 (2)
11. Sugar	61 (5)	67 (5)	64 (5)	84 (6)	635 (5)	74 (6)
12. Salt, Procceed Food	22 (2)	24 (2)	23 (2)	27 (2)	25 (2)	26 (2)
13. Edible Oil	80 (6)	73 (6)	77 (6)	76 (6)	79 (6)	77 (6)
14. Egg, Fish, Meat	41 (3)	51 (4)	46 (4)	37 (3)	43 (3)	40 (3)



15. Vegetables	42 (3)	50 (4)	46 (4)	53 (4)	43 (4)	48 (4)
16. Fruits	30 (2)	41 (3)	35 (3)	35 (3)	33 (3)	34 (3)
17. Packaged & Processed Food	17 (1)	22 (2)	20 (2)	24 (2)	20 (2)	22 (2)
Subtotal Food (A)	797 (63)	659 (53)	728 (58)	704 (53)	708 (57)	706 (55)
B) Non Food Items						
18. Pan ,Tobacco, Intoxicants	36 (3)	42 (3)	39 (3)	33 (2)	31 (2)	32 (2)
19. Fuel, Light	35 (3)	35 (3)	35 (3)	52 (4)	37 (3)	44 (3)
20. Kerosene	9 (1)	11 (1)	10(1)	11 (1)	10 (1)	11 (1)
21. Transport, Communication & Entertainment	45 (4)	49 (4)	47 (4)	60 (4)	50 (4)	55 (4)
22. Clothing, Bedding & Footwear	136 (11)	123 (10)	130 (10)	139 (10)	135 (11)	137 (11)
23. Education	74 (6)	123 (10)	99 (8)	187 (14)	117 (9)	152 (12)
24. Medical	88 (7)	152 (12)	120 (10)	99 (7)	109 (9)	104 (8)
25. Sanitary Goods, Personal Care, Cosmetics	35 (3)	44 (4)	40 (3)	42 (3)	39 (3)	40 (3)
26. Other	13 (1)	13 (1)	13 (1)	13 (1)	12 (1)	13 (1)
Subtotal Non Food (B)	471 (37)	593 (47)	532 (42)	635 (47)	541 (43)	588 (45)
Subtotal Food & Non Food (A+B)	1269(100)	1252(100)	1260(100)	1340(100)	1249 (100)	1294 (100)

Note: Figures in parentheses denote the percentage, \*= denote Average  
Source: Field Survey, 2015-16

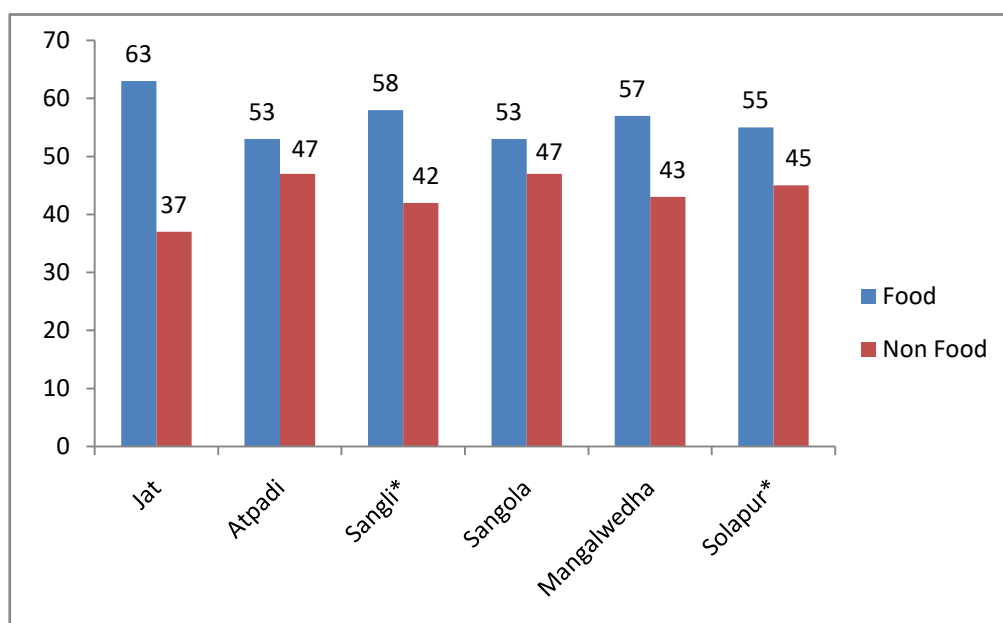


Figure 4: Taluka/Block-Wise Share of MPCE of Food and Non-Food Items in the Study Area

The average MPCE on Jawar in Sangli and Solapur districts farmers is Rs.135 (11%) and 141 (11%) respectively. The average MPCE on wheat of Sangli and Solapur districts is Rs.24 (2%) and Rs.31 (2%) respectively. However, the average monthly per capita consumption expenditure on rice, moong, urad, tur, milk liquid and products, sugar, salt, processed food and edible oil consuming farmers of all block is constant.

The MPCE of food items of Jat taluka is Rs.797 (63%), Atpadi taluka Rs.659 (53%), Sangola taluka Rs.704 (53%) and Manglwedha taluka Rs.708 (57%). The share of monthly per capita consumption expenditure of transport, communication & entertainment in the all talukas of study area is constant. Moreover, average MPCE on clothing, bedding and footwear of Jat taluka is Rs.136 (11%), Atpadi taluka Rs.123 (10%), Sangola

taluka Rs.139 (10%) and Mangalwedha taluka Rs.135 (11%). Similarly, MPCE on education in Jat, Atpadi, Sangola and Mangalwedha taluka is Rs.74 (6%), Rs.123 (10%), Rs.187 (14%) and Rs.117 (9%) respectively. The MPCE on education in Sangola taluka is high as compared to other talukas in the study area. The average monthly per capita consumption expenditure (MPCE) on non-food items of Jat taluka is Rs.471 (37%), Atpadi taluka Rs.593 (47%), Sangola taluka Rs.635

(47%) and the Mangalwedha taluka Rs.541 (43%) in sample area of the study.

e) *Size of Holding and Variation in Monthly Per Capita Consumption Expenditure*

The variation of average monthly per capita consumption expenditure (regarding the number of times) among the different types of households of farmers is shown in the table number five.

**Table 5:** Variation of Average Monthly Per Capita Consumption Expenditure by Size of Holding

Sr. No.	Types of Farmers	Small (1144)	Medium (1262)	Large (1519)
1	Small (1144)	0	1.10	1.33
2	Medium (1262)	1.10	0	1.20
3	Large (1519)	1.33	1.20	0

*Note:* Figures in parentheses denote the average monthly consumption expenditure (MPCE) of households of various categories of farmers

*Source:* Field Survey, 2015-16

It is observed from the table number five matrix that the average monthly per capita consumption expenditure of medium farmers is 1.10 times of the small farmers. Moreover, the average monthly per capita consumption expenditure of large farmers is 1.33 times of small farmers.

f) *Gini Coefficient Index and Lorenz Curve Analysis of Sample Households by MPCE*

The level of inequality in the distribution of MPCE among the households is analyzed with the help

of the Lorenz curve. The cumulative percentage of the households and cumulative percentage of MPCE of households on food and non-food items, if it is the same, it could be inferred that there is equality in the distribution of MPCE. Table no. 6 shows that 36 households (10 percent) account for just 6.39 percent of MPCE. Moreover, 72 households (20 percent) accounts for 13.72 percent of MPCE.

**Table 6:** Gini coefficient Index by the distribution of MPCE in the Sample Households

MPCE Range	No. of Households	Cumulative No. of Households	MPCE	Cumulative MPCE	Cumulative % of Households	Cumulative % of MPCE
up to 895	36	36	29469	29469	10	6.39
895 to 975	36	72	33818	63287	20	13.72
975 to 1042	36	108	36404	99691	30	21.61
1042 to 1090	36	144	38510	138201	40	29.96
1090 to 1164	36	180	40765	178966	50	38.80
1164 to 1250	36	216	43259	222225	60	48.18
1250 to 1360	36	252	46824	269049	70	58.33
1360 to 1505	36	288	51788	320837	80	69.56
1505 to 1855	36	324	59738	380575	90	82.51
above 1855	36	360	80649	461224	100	100
Individual	% of Households		Cumulative % of MPCE		Area Under Lorenz	
0	0		0		-	
1	0.1		0.06		0.003	
2	0.2		0.14		0.0095	
3	0.3		0.22		0.017	
4	0.4		0.30		0.025	
5	0.5		0.39		0.0335	

6	0.6	0.48	0.043
7	0.7	0.58	0.053
8	0.8	0.70	0.0635
9	0.9	0.83	0.0755
10	1	1	0.091
Total	-	-	0.414
Area A =	0.086		
Gini =	0.172		

Source: Field Survey, 2015-16

Similarly, 180 households (50 percent) accounts for only 38.80 percent of MPCE. It is clear that there is inequality in the distribution of average MPCE on food and non-food items. The figure five indicates that the curve is a little away from the egalitarian line hence the level of inequality in the distribution of MPCE among the

groups of farmers is very low. Gini coefficient or Gini index of concentration gives numerical expression of the results achieved from the Lorenz curve. Suppose, there is perfect equality in the distribution of MPCE, the Gini Coefficient will be zero, and it will be one if there is perfect inequality.

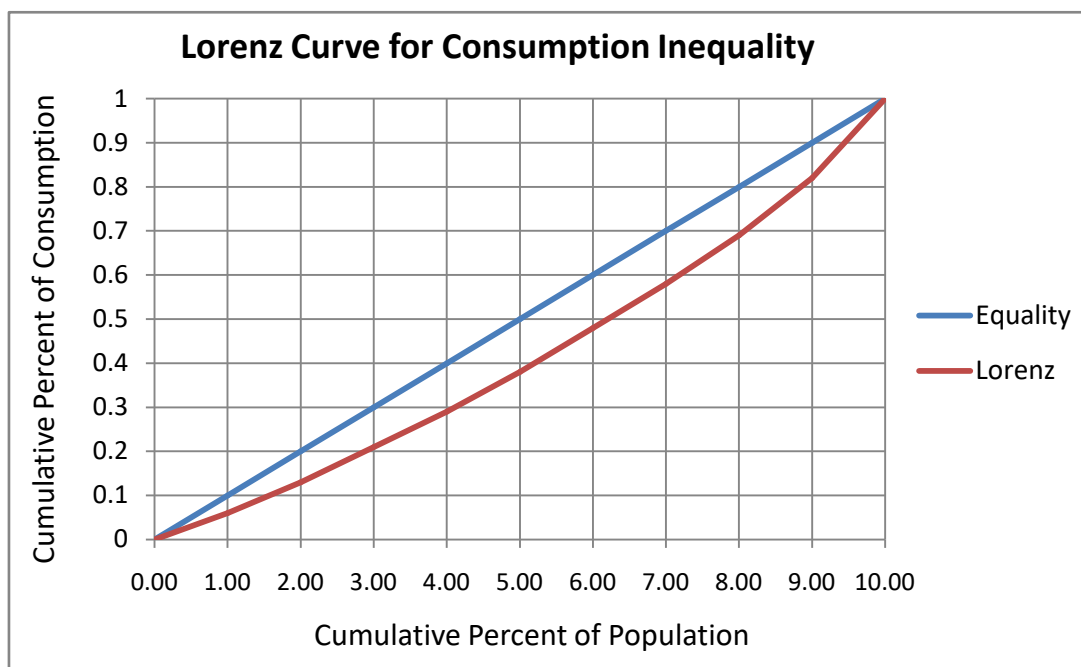


Figure 5: Lorenz Curve for the Distribution of MPCE among the Sample Households in the study Area

The Lorenz curve is constructed by plotting the cumulative percentage of MPCE of broad groups of food and non-food items against the cumulative percentage of households. The value of Gini coefficient ranges from zero to one. The lower Gini ratio implies a reduction in inequality. Present study states that in the study area Gini coefficient of MPCE is 0.172, which indicates that the inequality in the distribution of expenditures is lower. Certain components of expenditure as entertainment, transportation, furnishing, and equipment constitute a small proportion of average household expenditure and therefore have a probability almost one to be distributed unevenly among the population. So it may be concluded that the level of inequality in the distribution of MPCE among the sample households of Sangli and Solapur districts is low.

#### IV. CONCLUSION AND POLICY IMPLICATIONS

The monthly per capita consumption expenditure (MPCE) of food items is higher than the non-food items at almost all level. By classification of farmers into small medium and large expenditure on cereals was the major item of food expenditure i.e. 57%. The monthly per capita expenditure on jowar (10.83%), milk (13.96%) both these items were more than 24.89% and edible oil (6.06%). Monthly per capita consumption expenditure (MPCE) on cereals was 14.65% in the sample households of western Maharashtra. The share of these products in the total expenditure is higher during the period. But high prices are acting as a constraint in the consumption of value-added products. The purchasing power of people is highly influenced by

the changing the life styles, the standard of living, modernization and growing employment opportunities, etc. Monthly per capita consumption expenditure (MPCE) on food items of scheduled caste category farmers was Rs.647 (60.87%), OBC category farmers Rs.703 (57.96%) and general category farmers Rs.762 (55.62%) during the study period. The MPCE of highly educated farmers on food items (49.16%) was lesser than non-food expenditure (50.84%). Increase in the level of education led to increase in monthly per capita consumption expenditure on non-food items. The MPCE varies according to blocks, but expenditure on non-food items was lesser than the food items in all the major blocks of the study area. The 20 percent of households account for 13.72 percent of monthly per capita consumption expenditure with Gini coefficient as 0.172. So it is concluded that the level of inequality in the distribution of monthly per capita consumption expenditure (MPCE) among the sample households of Western Maharashtra was Moderate.

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## Coûts de Transaction et Analyse Stratégique Dans les Firmes

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**Abstract-** This paper proposes a procedure for the approximation of the transaction costs level in a firm as the difference between the total cost and the variable and fixed intrinsic costs. It shows that these costs take their place in the heart of the costs leadership strategy. The capitalistic intensity, the recruitment policy and the training policy can then be used to act on the transactional inefficiency. A theoretical model for the estimation of the contribution of each of those variables to the transaction costs is proposed.

**Keywords:** *transaction costs, transactional inefficiency, competitive strategy.*

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



*Strictly as per the compliance and regulations of:*





# Coûts de Transaction et Analyse Stratégique Dans les Firmes

Tamokwe Piaptie Georges Bertrand

**Résumé** - Cet article propose une procédure d'approximation du niveau des coûts de transaction dans une firme comme différence entre le coût total et les coûts variables et fixes intrinsèques. Il montre que ces coûts s'inscrivent au cœur de la stratégie de domination par les coûts. L'intensité capitalistique, la politique de recrutement et la politique de formation peuvent alors être utilisées pour agir sur l'inefficience transactionnelle. Un modèle théorique d'estimation de la contribution de chacune de ces variables au volume des coûts de transaction est proposée.

**Mots-clés:** coûts de transaction, inefficience transactionnelle, stratégie concurrentielle.

**Abstract** - This paper proposes a procedure for the approximation of the transaction costs level in a firm as the difference between the total cost and the variable and fixed intrinsic costs. It shows that these costs take their place in the heart of the costs leadership strategy. The capitalistic intensity, the recruitment policy and the training policy can then be used to act on the transactional inefficiency. A theoretical model for the estimation of the contribution of each of those variables to the transaction costs is proposed.

**Keywords:** transaction costs, transactional inefficiency, competitive strategy.

## 1. INTRODUCTION

Bien que le modèle néoclassique traditionnel ait été très utile pour analyser les marchés, il n'a pas permis d'expliquer la nature, les frontières et l'organisation des firmes. Il ignore notamment les questions liées à l'organisation de la production ainsi que les problèmes de conflits d'intérêt entre les différentes parties (Chemla, 1997). Mais près de trois quart de siècle après que Coase (1937) a montré l'importance des coûts de transaction dans l'explication de la nature de la firme et, alors même que les travaux dans le cadre de la nouvelle économie institutionnelle (Williamson, 1975, 1985) ont mis en exergue leur rôle déterminant dans l'explication de la frontière et de l'organisation des firmes, il est patent de constater que plusieurs manuels, même récents, d'économie et de gestion continuent de présenter la fonction de coût total comme consistant uniquement en deux composantes: les coûts variables et les coûts fixes. Ils ne font généralement allusion aux coûts de transaction que de manière subsidiaire<sup>1</sup>. Les coûts de transaction passent

alors pour être essentiellement réservés à l'usage des théoriciens spécialistes dont les nombreux travaux ne cessent pourtant de montrer leur pertinence dans l'analyse et la compréhension des décisions au niveau des firmes. Cette ignorance des coûts de transaction dans l'expression de la fonction de coût total serait liée au fait que les travaux qui leur sont consacrés ne se préoccupent pas de la façon dont ils peuvent être explicitement intégrés dans cette fonction. D'ailleurs, à l'exception de quelques-uns qui traitent des coûts de transaction liés aux opérations sur valeurs mobilières au niveau des marchés financiers (Deville, 200; Lesmond *et al.*, 1999), ces travaux ne se préoccupent pas non plus d'indiquer une méthode d'évaluation de ces coûts telle qu'elle puisse être pratiquement utilisée par les décideurs au sein des firmes. A cet égard, Brousseau (1989) note opportunément que l'un des problèmes empiriques majeurs auxquels se heurtent les néo-institutionnalistes c'est la difficulté de mesurer et même d'approximer le montant des coûts de transaction.

Le présent article propose une modeste contribution de solution à ce problème. De plus, il montre que les coûts de transaction doivent être au cœur des stratégies concurrentielles des firmes. L'approche adoptée consiste simplement à exploiter au mieux les débouchés analytiques offerts par l'interrelation qui existe entre la théorie des droits de propriété et la théorie des coûts de transaction. En proposant de mesurer les coûts de transaction de manière résiduelle comme la différence entre le coût total et les coûts variables et fixes intrinsèques dont une approche de calcul est suggérée, nous mettons en évidence le fait que les coûts de transactions sont au cœur de la stratégie de domination par les coûts. L'analyse de leurs principaux aspects- acquisition et utilisation- indique alors que la politique de recrutement, la politique de formation et l'intensité capitalistique sont des variables à la disposition d'un manager pour agir sur ces coûts, en réduisant le coefficient d'inefficience transactionnelle de sa firme.

Le reste de l'article est organisé en cinq sections. La section 1 présente la théorie économique des droits de propriété comme fondement de la portée stratégique des coûts de transaction. La section 2 montre que les coûts de transaction doivent

de Horngren, Foster, Datar et Teall (aux éditions Pearson/Prentice Hall) - ne mentionne explicitement les coûts de transaction qu'une seule et unique fois, précisément au niveau de la page 2.

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<sup>1</sup> Dans sa 14<sup>ème</sup> édition par exemple, l'un des manuels de Comptabilité de gestion les plus utilisés - Cost Accounting : A Managerial Emphasis,

explicitement apparaître comme une troisième composante dans l'expression de la fonction de coût total. Elle propose ensuite une approche d'évaluation de ces coûts dont sont déduites des implications stratégiques. La section 3 offre une analyse de la structure des coûts de transaction. De plus, elle propose un modèle théorique pouvant être utilisé pour estimer la contribution des variables explicatives mises en évidence par l'analyse structurelle effectuée. La section 4 conclut l'étude.

## II. LA THÉORIE DES DROITS DE PROPRIÉTÉ, BASE DE LA PORTÉE STRATÉGIQUE DES COÛTS DE TRANSACTION

Une firme peut se définir comme « un système de relations qui apparaît quand la répartition des ressources dépend d'un entrepreneur » (Coase, 1937). Concrètement, ces relations prennent la forme de contrats dont l'analyse est au cœur de la problématique de la nouvelle économie institutionnelle dans la mesure où leur négociation et conclusion engendrent des coûts. Eu égard à leurs sources, ces derniers sont qualifiés de coût de transactions. C'est ainsi que la théorie économique des coûts de transactions se retrouve intimement associée à la nouvelle économie institutionnelle. Cependant, « l'économie des droits de propriété dont l'objectif est de fonder économiquement ce "droit" a contribué de manière significative à l'économie des coûts de transaction » (Brousseau, 1989). L'économie des droits de propriété se fonde en effet sur le fait que les transactions donnent lieu à l'échange de droits de propriété plutôt qu'à l'échange de simples biens physiques. Les transactions se retrouvent donc ici aussi comme objet d'analyse. La nouvelle économie institutionnelle reprend à son compte l'analyse de la théorie économique des droits de propriété suivant laquelle les droits de propriété ne sont pas des relations entre les Hommes et les choses, mais des relations codifiés entre les Hommes qui ont rapport à l'usage des choses (Furutborn et Pejovitch, 1972). Il suffit de considérer que la codification est effectuée dans le cadre de contrats pour constater l'interconnexion qui existe entre la théorie économique des droits de propriété et la théorie économique des contrats. Cette interconnexion conduit les néo-institutionnalistes à considérer que l'efficacité d'une coalition est liée à la répartition des droits de propriété entre ses membres (Brousseau, 1989). Une distribution optimale de ces droits permet de protéger chacun de l'opportunisme des autres, d'établir des règles de répartition du surplus et de garantir un niveau d'incitation (Grossman et Hart, 1986). Or le chemin qui mène à une telle distribution passe nécessairement par des marchandages et transactions entre les différentes parties pour la spécification de ses clauses contractuelles. Ces marchandages sont l'occasion de

comportements stratégiques au sens de Schelling (1960) dans la mesure où chacun y essaie d'influencer le choix des autres d'une manière qui lui soit favorable par la modification de leurs attentes sur la façon dont il va se comporter personnellement. Foss (2003) préconise alors que les recherches économiques en matière de stratégie utilisent essentiellement des modèles dans lesquels les coûts de transaction sont le plus pris en compte. C'est ainsi que les coûts de transaction s'érigent en élément central de la stratégie concurrentielle d'une firme. Ils lui sont d'ailleurs d'autant plus importants qu'ils peuvent affecter cette stratégie concurrentielle à deux niveaux étroitement interdépendants: celui des relations directes de la firme avec ses partenaires interne ou externe et celui des relations indirectes entre la firme et ses concurrents.

Au niveau des relations directes entre la firme et ses partenaires, les coûts de transaction déterminent par exemple le choix des fournisseurs. Ce sont alors essentiellement des coûts de recherches et de négociations qui peuvent conduire à préférer un fournisseur à un autre en raison des économies qu'il permet de réaliser. Ces économies ont une incidence indirecte sur la position concurrentielle de la firme. Par suite, au niveau de la relation indirecte entre la firme et ses concurrents, les économies réalisées sur les coûts de transaction contribuent à la stratégie de domination par les coûts et peuvent même conduire à un réel avantage stratégique, entendue comme une situation dans laquelle la firme réaliserait des profits supérieurs à la moyenne normale dans l'industrie.

La contribution des économies sur coûts de transaction à une stratégie de domination par les coûts est potentiellement d'autant plus importante que ces coûts de transaction n'existent pas que dans les contrats entre la firme et ses fournisseurs (partenariats externes), ils existent également dans les relations internes à la firme (partenariats internes). Ils correspondent alors aux coûts engendrés par le dispositif de garantie, de contrôle et de déroulement des contrats. A cet égard, pour simplifier, on peut dire que, étant donné les partenariats possibles d'une firme, les coûts de transaction recouvrent en gros deux aspects: un aspect acquisition des facteurs de production au sens large et un aspect utilisation de ces facteurs. C'est la somme de ces deux aspects qui forme l'ensemble des coûts de transaction dont l'ignorance explicite dans la fonction classique de coût total et la rareté des méthodes de mesure semblent avoir jusqu'ici limité la portée stratégique.

### III. LES COÛTS DE TRANSACTION DANS LA FONCTION DE COÛT TOTAL, PROPOSITION D'UNE APPROCHE D'ÉVALUATION ET IMPLICATIONS STRATÉGIQUES

Considérons une firme produisant un output  $\theta$ . Sa fonction de coût total de court terme  $[C]$  est traditionnellement composée d'une partie variable,  $[VC]$ , et d'une partie fixe,  $[FC]$ .

$$\text{Soit: } C = VC + FC$$

Les  $VC$  correspondent généralement aux coûts d'acquisition des inputs intermédiaires et de location de la main d'œuvre nécessaires à la production de l'actif  $\theta$  alors que les  $FC$ , sont généralement des coûts d'acquisition des équipements fixes de production.

Ainsi définie, la fonction de coût total intègre à première vue toutes les charges supportées par la firme dans le processus de production de  $\theta$ .

Cependant, lorsqu'une firme doit affronter la concurrence des ses rivales, un problème majeur avec cette formulation réside dans son caractère trop global qui limite les possibilités d'analyse stratégique. En effet, si l'on peut bien s'en accommoder dans un cadre idéal de concurrence pure et parfaite avec nullité complète des coûts de transaction suivant le théorème de Coase, il y a un risque à s'appuyer sur une telle formulation en contexte de concurrence imparfaite. Ce risque est lié au fait qu'il est évident que cette formulation traditionnelle n'accorde que très peu d'égards aux coûts de transaction. D'ailleurs, on serait même fondé de se demander si cette formulation n'ignore pas simplement ces coûts. En effet, même en adoptant une posture de "optimiste" pour soutenir que les coûts de transaction liés à l'acquisition des facteurs de production sont pris en compte à la base dans leurs coûts d'achats, il demeure que les coûts de transaction liés à l'utilisation de ces facteurs ne sont comptabilisés par aucune des deux principales composantes dans la formulation traditionnelle de la fonction de coût total. Ce constat sous-tend la nécessité d'ajouter à l'expression de la fonction de coût total une troisième composante qui permettrait de tenir explicitement compte des tous les coûts de transaction inhérents à la production de  $\theta$ . En notant  $TC$  cette composante, l'expression de la fonction coût total serait désormais :

$$C = IVC + IFC + TC \quad (1)$$

Où  $IVC$  et  $IFC$  sont respectivement les coûts variables et fixes intrinsèques de production de  $\theta$ . Par définition, ce sont ceux que notre firme devra nécessairement supporter, même en l'absence de coût de transaction; i.e même en exerçant dans un cadre coasien idéal de base.

Lorsqu'on sait la place de choix que la stratégie de domination par les coûts occupe dans le

positionnement stratégique à long terme, il y a des raisons d'espérer que cette formulation nouvelle de la fonction de coût total soit de quelque utilité pour l'analyse et la définition de la politique générale dans les firmes. Une particularité importante de la formulation de la fonction de coût total en trois composantes au lieu des deux traditionnelles réside dans le fait qu'elle met clairement en exergue le fait que les coûts de transactions qui ont jusqu'ici été essentiellement réservés à l'usage des spécialistes de la théorie doivent désormais être couramment utilisés par les managers dans leur conception des stratégies de coûts. D'ailleurs nombre d'entre eux le font déjà implicitement, mais le plus souvent un peu comme Monsieur Jourdain faisait de la prose. Néanmoins, cette mise en lumière reste nécessaire dans la mesure où elle permet de prendre pleinement conscience de la grande importance stratégique de ces coûts dont la spécificité conduit le plus souvent à être hâtivement rangés dans la rubrique "frais généraux", au niveau des PME notamment. Contrairement aux coûts variables et fixes intrinsèques qui peuvent aisément être affichés par les fournisseurs et donc être à peu près facilement connus de toutes les firmes en concurrence, les coûts de transaction ne peuvent pas être affichés. Ils présentent un caractère insidieux de coûts privés, "sournois" et aléatoires puisque fortement tributaire de l'environnement des affaires ainsi que de l'habileté, du dévouement et du pouvoir de négociation des différentes parties. Dans un univers où les progrès des technologies de l'information et de la communication transforment chaque jour un peu plus les coûts variables et fixes intrinsèques en connaissances communes, le caractère "sournois" et donc secret des coûts de transaction leur confère davantage un statut d'instrument essentiel dans la définition des stratégies concurrentielles basées sur les coûts.

Mais si l'intérêt de tenir compte des coûts de transaction dans les stratégies de domination par les coûts d'une firme est ainsi clairement établi, il reste qu'il faut encore les évaluer pour pouvoir les exploiter dans ces stratégies ; tant il est vrai qu'on ne pilote que ce que l'on mesure, comme le disent fort à propos les contrôleurs de gestion. En réponse à cette préoccupation, on peut en obtenir une approximation du montant des coûts de transaction en suivant la procédure ci-après exposée.

A partir de (1) on a directement:

$$TC(\theta) = C(\theta) - IVC(\theta) - IFC(\theta) \quad (2)$$

Puisque  $C$  qui consiste en l'ensemble des charges directes et indirectes est forcément connu de la firme grâce à ses livres comptables, une approche de calcul des coûts de transaction serait de commencer par évaluer  $IVC$  et  $IFC$ . Pour ce faire, il faut raisonner par rapport l'ensemble de l'industrie à laquelle la firme

appartient afin de définir des normes de référence en matière de coût. Concrètement, à défaut de l'existence de normes idéales, on procèdera par benchmarking.

Sur cette base, en faisant l'hypothèse que les firmes de l'industrie considérée fabriquent des produits plutôt fortement substituables et ont accès aux mêmes technologies et facteurs de production, *IVC* et *IFC* seraient approximés par leur moyenne<sup>2</sup> chez l'ensemble des firmes en concurrence. Afin d'obtenir les valeurs pour ces benchmarks, les firmes peuvent s'accorder pour en confier l'estimation à des consultants aux compétences avérées, à l'image de ce qui se fait déjà pour l'estimation de la valeur boursière d'une entreprise<sup>3</sup>.

Ainsi calculés, les *IVC* et *IFC* apparaissent comme essentiellement exogènes à la firme. Par suite, la valeur estimée des coûts de transaction sera non pas une mesure absolue, mais plutôt une mesure relative calculée par rapport à la concurrence. A défaut d'avoir une mesure absolue entièrement propre à la firme, cette mesure relative paraît cependant suffisante dans l'hypothèse où l'objectif de la firme est d'améliorer sa position concurrentielle ou de la consolider. D'ailleurs, il ne semble pas exagérer de croire que tel est le cas par exemple dans les grandes industries mondiales comme celles du pétrole, de l'aéronautique, de l'automobile ou de l'électronique puisque les multinationales qui y opèrent disposent toutes d'une puissance financière suffisante pour accéder aux mêmes facteurs de production que leurs concurrentes. Par rapport aux coûts, l'avantage concurrentiel d'une firme sur les autres trouve alors sa source principalement dans une meilleure efficacité transactionnelle. Ainsi, face à la concurrence, il importe pour toute firme de maîtriser ses coûts de transaction. Cette maîtrise suppose une connaissance approfondie de la structure de ces derniers.

#### IV. ANALYSE DE LA STRUCTURE DES COÛTS DE TRANSACTION

L'approche résiduelle de calcul des coûts de transaction présentée dans le paragraphe précédent permet d'approximer leur niveau global dans une firme. Si elle lui donne une idée de l'ampleur de son inefficacité transactionnelle, la mesure ainsi obtenue n'offre pas à la firme suffisamment d'informations pour envisager des actions en vue de maîtriser ces coûts. Pour ce faire, la firme doit en effet non seulement connaître leurs principaux facteurs explicatifs, mais

aussi et surtout pouvoir estimer l'importance de la contribution de chacun au volume ses coûts de transaction. A cet effet, une analyse de la structure de ces coûts est nécessaire.

Reconsidérons notre firme initiale. Suivant la théorie économique des droits de propriété, une première étape consiste à considérer que les coûts de transaction sont à l'origine de la dissipation d'une certaine fraction de la valeur finale de l'actif  $\theta$  qu'elle produit. On peut alors écrire:

$TC(\theta) = e\theta$ ; avec  $e$  le coefficient moyen d'inefficacité transactionnelle dans la production de  $\theta$  exprimée en valeur.

Sur cette base, on obtient:

$$e = \frac{TC(\theta)}{\theta}$$

Le problème de la firme revient alors à minimiser  $e$ . Pour ce faire, elle doit en connaître les principaux déterminants. A cet égard, connaissant les principaux aspects des coûts de transaction, la seconde étape consiste à rechercher logiquement ces déterminants à travers chacun d'eux, à savoir : l'aspect acquisition et l'aspect utilisation.

##### a) L'aspect "acquisition" des coûts de transaction [ $TC_a(\theta)$ ]

En parcourant les manuels de comptabilité de gestion, on remarque que dans une grande majorité de ces manuels, le coût unitaire hors taxes (*CUHT*) d'un input est peu ou prou évalué à l'aide de la formule suivante:

$$CUHT = PUHT + FAA$$

Où *PUHT* est le prix unitaire hors taxes alors que *FAA* représente les frais accessoires d'achat consistant en la somme des frais de transport, d'assurance et d'intermédiaires.

D'emblée, on constate que cette évaluation ignore les frais de négociation et de préservation des contrats. La circonstance atténuante à la faveur de cette omission peut être trouvée dans le fait que ces frais, qui correspondent en fait aux coûts de transaction, sont généralement des charges indirectes dont l'affectation à un facteur de coût précis n'est pas aisée. Pourtant, il semble évident que l'évaluation du coût unitaire d'un facteur devrait les intégrer. Ceci est possible avec notre coefficient moyen d'inefficacité transactionnelle utilisé alors comme une espèce de clé de répartition.

En effet, soit  $j$  un facteur de production représentant le capital, les inputs intermédiaires ou le travail. Etant donné son coût total d'acquisition<sup>4</sup> [ $CA_j$ ] tel qu'il est traditionnellement évalué par la firme, cette

<sup>2</sup> On peut aussi considérer plutôt leur minimum.

<sup>3</sup> Soulignons que, calculés par industries, ces benchmarks pourront également être d'une grande utilité pour des analyses macroéconomiques dans la mesure où ils sont considérés ex post comme indicateurs des avantages comparatifs ponctuels des différents pays.

<sup>4</sup> Pour le facteur travail, il s'agira du coût de recrutement alors que pour les autres facteurs ce sera le coût d'achat.



dernière peut approximer le coût de transaction lié à cette acquisition par :

$$TC_a^j = e * CA^j$$

Alors, le coût de transaction sur chaque unité de  $j$  est donné par :

$$UTC_a^j = \frac{TC_a^j}{n_j}; n_j \text{ étant le nombre ou la quantité}$$

acquise de  $j$ .

La formule du coût unitaire hors taxes de  $j$  devient ainsi :

$$CUHT^j = PUHT^j + FAA^j + UTC_a^j$$

S'il est vrai que le calcul de  $UTC_a^j$  n'est par définition possible qu'ex post – à moins d'utiliser le coefficient d'inefficience transactionnelle de l'année antérieure pour les opérations de l'année courante – il est évident que sa prise en compte peut être source de nombreux avantages pour la firme. En effet, même dans l'hypothèse où  $UTC_a^j$  serait faible, on doit y prendre garde lorsqu'on a affaire à de grandes quantités du facteur  $j$  et qu'on se projette dans le long terme. Car,  $UTC_a^j$  peut alors devenir une véritable source de désavantage concurrentiel. En plus de son utilité dans l'élaboration de la stratégie concurrentielle de la firme, elle lui permet aussi d'avoir une vision plus juste de ses marges et peut éventuellement être source d'allègements fiscaux.

La théorie des coûts de transaction développée en économie néo-institutionnelle apporte ainsi une contribution directe à la comptabilité de gestion dans la mesure où elle démontre la nécessité d'accorder beaucoup plus d'attention à cette composante du coût qui, ignorée dans le calcul de certains coûts unitaires, échappe fatalement à la vigilance des managers. Pourtant, en raison du fait qu'ils sont par nature davantage subjectifs qu'objectifs, ces coûts de transaction dont le caractère secret et sournois a été souligné plus haut peuvent être à l'origine d'importants gaspillages si la firme n'y prend garde. Et ceci d'autant plus qu'ils présentent aussi la caractéristique singulière de pouvoir quelque fois bénéficier à la fois au représentant de la firme dans la transaction (partenaire interne) et à l'autre partie (partenaire externe). C'est dire qu'ils sont source d'aléa moral et donc favorable au développement de comportements opportunistes chez les représentants même de la firme. En conséquence, l'existence des coûts de transaction liés aux acquisitions induit un autre problème de gestion au niveau de la firme : celui de l'organisation du processus de production depuis l'acquisition des inputs jusqu'à l'écoulement des outputs. En effet, l'aléa moral implique

ici que, pour l'acquisition d'un même facteur de production, le niveau des coûts de transaction peut varier en fonction des employés ou représentants affectés à cette tâche par la firme. Cette dernière doit donc veiller à affecter ses représentants de manière optimale en fonction de leur dévouement pour escompter une utilisation efficiente de leurs compétences.

#### b) L'aspect "utilisation" des coûts de transaction $[TC_u(\theta)]$

L'analyse précédente montre qu'à partir de son aspect acquisition, le calcul des coûts de transaction n'indique pas de variables de décision susceptibles d'être utilisées par la firme pour les maîtriser. Cependant, il débouche sur la conclusion que, sans toutefois ignorer le rôle crucial que peuvent jouer les contraintes propres à l'environnement dans lequel elle évolue, par leurs caractéristiques intrinsèques, ces coûts peuvent avoir des origines dans une utilisation sous optimale de la main d'œuvre que la firme contrôle.

Dans une firme, l'utilisation de l'ensemble des inputs acquis s'effectue dans le cadre de contrats de travail avec les employés qui mettent en œuvre la production. Sous l'hypothèse qu'elle maîtrise parfaitement la combinaison technologique optimale de production, l'aspect utilisation des coûts de transaction de la firme trouvera l'une de ses sources principales dans l'organisation et la supervision du travail. Cette organisation et cette supervision seront d'autant plus difficiles que le processus de production est complexe. Les coûts de transaction liés à l'utilisation dépendent ainsi logiquement du degré de complexité du processus de production de l'entreprise. La pratique courante dans les firmes révèle qu'on peut à juste titre considérer que, pour un processus de production donnée, ce degré de complexité est assez bien indiqué par le nombre de tâches élémentaires qu'il requiert. Sur cette base, on peut définir un indice de complexité du management des ressources humaines  $[i_{cl}]$  comme étant le complément à 1 du rapport entre l'effectif des travailleurs  $[I]$  et le nombre total des tâches élémentaires de travail humain  $[t_i]$ .

$$\text{Soit : } i_{cl} = \left[ 1 - \frac{I}{t_i} \right]$$

Ainsi calculé, cet indice – dont zéro est la valeur de base – sera d'autant plus proche de l'unité que le degré de complexité est élevé dans la mesure où, plus nombreuses sont les tâches qu'un travailleur doit effectuer, plus difficiles en sont l'organisation et la supervision<sup>5</sup>.

<sup>5</sup> Les cas de  $i_{cl} < 0$  indiqueraient des situations de gaspillage liée à une surabondance du facteur travail. Si ces cas sont peu probables, il n'est pas impossible qu'on puisse les rencontrer notamment dans les services de certaines administrations.



Toutefois, s'il est relativement aisé d'obtenir des données sur l'effectif de la main-d'œuvre dans une entreprise, on ne peut pas en dire autant des statistiques sur le nombre des tâches élémentaires de travail humain. Et, même si quelques entreprises aux départements des ressources humaines bien organisés pourraient les avoir, on peut penser que leur nombre restera infime dans la mesure où il n'existe aucune obligation légale à tenir un répertoire exhaustif des tâches de production<sup>6</sup>. A partir du moment où les progrès technologiques et les développements de l'informatique appliquée à la production permettent de plus en plus de substituer le capital au travail indépendamment du degré de complexité des tâches, on peut interpréter la dotation en équipements d'une firme donnée comme un effort de lutte contre la complexité de la gestion des employés. Sur ce fondement on supposera que le capital  $[k]$ , qui dans une firme se charge de l'ensemble des tâches élémentaires de travail non humain, évolue en sens inverse du nombre total des tâches élémentaires de travail humain. Ainsi, le rapport  $[l/k]$  qui est par définition l'inverse de l'intensité capitaliste de la firme évoluera dans le même sens que l'indice de complexité du management des ressources humaines telle qu'on

puisse écrire<sup>7</sup> :  $i_{ct} = h\left(\frac{l}{k}\right)$ . Avec  $h'_l > 0$  en raison de la relation inverse entre  $k$  et  $t$ .

Cette approche de l'indice de complexité est davantage opérationnelle que sa première expression puisque le système comptable légal obligatoire pour toutes les entreprises fournit les informations sur la variable  $k$ .

Cependant, tel que défini, l'indice de complexité du management des ressources humaines reste relativement limité pour expliquer l'ensemble des coûts de transaction du processus de production de l'actif  $\theta$ . Il ne concerne en effet essentiellement que les défaillances de direction et tend même à supposer implicitement que toute inefficience trouverait sa source dans une organisation ou une supervision sous optimale. Pourtant, des inefficiences dans le travail, et donc des coûts de transaction, peuvent aussi naître

d'une qualification insuffisante de la main d'œuvre. Pour cette raison, il semble fondé de considérer le niveau moyen d'instruction  $[DE_c]$  et la dépense moyenne de formation  $[DF_c]$  dans chaque catégorie d'employés comme facteur explicatif potentiel des coûts de transaction.

Au total, l'analyse précédente conduit à écrire:

$$TC_u = \Phi_u\left(\frac{l}{k}, DE_c, DF_c\right); \text{ en escomptant que les}$$

dérivées partielles premières de cette fonction par rapport à ses trois variables explicatives seront respectivement : positive, négative et négative.

D'un point de vue analytique, cette formulation confirme à la fois la complémentarité et l'interdépendance des deux aspects des coûts de transaction dans la mesure où:

- d'un côté, le niveau des coûts de transaction liés à l'acquisition permet d'évaluer celui des coûts de transaction liés à l'utilisation à partir de la relation :

$$TC_u = TC - \sum_{j=1}^m TC_a^j; \text{ avec } m \text{ le nombre de types}$$

différents de facteurs acquis ; et

- de l'autre côté, l'analyse des déterminants des coûts de transaction lié à l'utilisation indique des variables de décision sur lesquelles une firme peut agir ; en l'occurrence : son intensité capitaliste, le niveau moyen d'instruction de ses employés et le budget moyen de formation qu'elle leur consacre. Ainsi, sous l'hypothèse de l'existence d'une forme linéaire de la relation entre  $TC_u$  et ses variables explicatives, on peut estimer la spécification suivante :

$$TC_{ut} = \beta_0 + \beta_1 \frac{l}{k_t} + \beta_{2c} DE_{ct} + \beta_{3c} DF_{ct} + \varepsilon_t$$

$\beta_1$ ,  $\beta_{2c}$  et  $\beta_{3c}$  sont alors respectivement les contributions aux coûts de transaction spécifient à l'utilisation de (*respectivement*) l'inverse de l'intensité capitaliste de la firme, du niveau moyen d'instruction de ses employés par catégorie et du budget moyen de formation qu'elle leur consacre dans chaque catégorie.

$\varepsilon_t$  est l'erreur de spécification alors que  $\beta_0$  qui est la constante peut par exemple être interprétée comme la contribution du niveau de synergie ou de l'esprit d'équipe entre les employés.

Le même modèle de panel pourrait d'ailleurs être utilisé pour évaluer les contributions des trois variables aux coûts de transaction globaux. Dans tous les cas, on doit escompter  $\beta_1 > 0$ ,  $\beta_{2c} < 0$  et  $\beta_{3c} < 0$  alors que le signe de  $\beta_0$  est indéterminable à l'avance.

Au prix de quelques calculs, un flash back sur une quinzaine d'années pourrait ainsi permettre à une firme d'estimer ce modèle et d'en tirer quelques enseignements à la fois sur son intensité capitaliste

<sup>6</sup> Un tel répertoire serait pourtant également d'utilité publique, notamment dans la conception des curricula de formation. Cela dit, il importe de mitiger cette limite en soulignant le fait que, la quasi-totalité des entreprises qui – en vue de consolider leur compétitivité internationale – obtiennent une certification qualité (suivant les normes ISO par exemple) sont en mesure de produire une liste quasi-exhaustive des tâches élémentaires de travail humain dans leurs activités, dans la mesure où la démarche de certification leur impose la rédaction de manuels des procédures de travail très détaillés.

<sup>7</sup> Il suffit de garder à l'esprit qu'une augmentation du rapport  $l/k$  suppose une baisse relative de  $k$  (et donc une hausse de  $t$ ; et de  $i_{ct}$  par suite).

idone et sur sa politique de recrutement et de formation dans les différentes catégories de ses employés en vue de réduire le volume de ses coûts de transaction.

## V. CONCLUSION

La théorie des coûts de transaction éprouve encore beaucoup de difficultés à s'imposer comme une théorie prévisionnelle de l'évolution des structures et comme un instrument de décision économique du fait d'une formalisation déficiente et des difficultés d'approximation du montant des coûts de transaction (Brousseau, 1989). Pourtant, dans leurs décisions de production et même dans la conception de la façon dont ils souhaitent mener leurs activités, les hommes d'affaires doivent tenir compte des coûts de transaction (Coase, 1992). La procédure d'approximation de ces coûts proposée dans cette étude montre que les limites soulignées par Brousseau et déjà reconnues par Williamson dans son ouvrage de 1985 peuvent être surmontées par une judicieuse conciliation entre les développements pertinents de la théorie économique et les enseignements pratiques de la comptabilité de gestion. Mettre ainsi la théorie des coûts de transaction au service de la comptabilité de gestion permet de montrer son utilité opérationnelle. C'est ainsi que notre analyse met en évidence sa portée décisionnelle en matière de stratégie concurrentielle ; précisément en ce qui concerne celle dite de la domination par les coûts. Les coûts de transaction qui sont le principal outil d'analyse de la nouvelle économie institutionnelle se révèlent alors être d'un véritable apport à l'analyse stratégique au niveau des firmes. Et même si ces dernières ont de tout temps utilisé l'intensité capitaliste, la politique de recrutement et la politique de formation de leur main d'œuvre pour améliorer leur efficacité productive, l'analyse effectuée ici aura au moins le mérite de proposer une approche de modélisation permettant d'évaluer l'impact de chacune de ces variables sur le niveau d'inefficacité transactionnelle relativement à la concurrence.

Dans un article sur le prix Nobel décerné à Coase, De Bandt et al. (1991) concluaient par cet appel du récipiendaire : « *il faut que nous fassions des travaux empiriques afin de découvrir les effets des coûts de transaction (...). En économie industrielle, notre grand besoin, c'est clair, c'est d'avoir davantage de recherches empiriques* ». Cet appel reste d'actualité. Et, pour y répondre efficacement, le travail de décloisonnement entre les Sciences Economiques et les Sciences du Management initié par ce Maître doit être continué. C'est dans ce cadre qu'a voulu s'inscrire cette contribution. Ainsi, la comptabilité – puisqu'il s'agit d'elle ici – pourra aussi produire les statistiques dont les nouvelles économies institutionnelle et industrielle ont besoin pour démontrer la validité empirique de leurs théories pertinentes.

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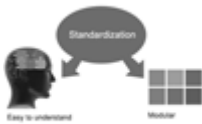
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4. Manuscript to be submitted must include keywords, an abstract, a paper title, co-author(s) names and details (email address, name, phone number, and institution), figures and illustrations in vector format including appropriate captions, tables, including titles and footnotes, a conclusion, results, acknowledgments and references.
5. Authors should submit paper in a ZIP archive if any supplementary files are required along with the paper.
6. Proper permissions must be acquired for the use of any copyrighted material.
7. Manuscript submitted *must not have been submitted or published elsewhere* and all authors must be aware of the submission.

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It is required for authors to declare all financial, institutional, and personal relationships with other individuals and organizations that could influence (bias) their research.

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Plagiarism is not acceptable in Global Journals submissions at all.

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Authors are solely responsible for all the plagiarism that is found. The author must not fabricate, falsify or plagiarize existing research data. The following, if copied, will be considered plagiarism:

- Words (language)
- Ideas
- Findings
- Writings
- Diagrams
- Graphs
- 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 corresponding author should mention the name and complete details of all co-authors during submission and in manuscript. We support addition, rearrangement, manipulation, and deletions in authors list till the early view publication of the journal. We expect that corresponding author will notify all co-authors of submission. We follow COPE guidelines for changes in authorship.

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Unless specified in the notification, the Editorial Board's decision on publication of the paper is final and cannot be appealed before making the major change in the manuscript.

### Acknowledgments

Contributors to the research other than authors credited should be mentioned in Acknowledgments. The source of funding for the research can be included. Suppliers of resources may be mentioned along with their addresses.

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## PREPARING YOUR MANUSCRIPT

Authors can submit papers and articles in an acceptable file format: MS Word (doc, docx), LaTeX (.tex, .zip or .rar including all of your files), Adobe PDF (.pdf), rich text format (.rtf), simple text document (.txt), Open Document Text (.odt), and Apple Pages (.pages). Our professional layout editors will format the entire paper according to our official guidelines. This is one of the highlights of publishing with Global Journals—authors should not be concerned about the formatting of their paper. Global Journals accepts articles and manuscripts in every major language, be it Spanish, Chinese, Japanese, Portuguese, Russian, French, German, Dutch, Italian, Greek, or any other national language, but the title, subtitle, and abstract should be in English. This will facilitate indexing and the pre-peer review process.

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.***

All manuscripts submitted to Global Journals should include:

### **Title**

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**

Authors must list all the abbreviations used in the paper at the end of the paper or in a separate table before using them.

### **Formulas and equations**

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

### **Tables, Figures, and Figure Legends**

Tables: Tables should be cautiously designed, uncrowned, and include only essential data. Each must have an Arabic number, e.g., Table 4, a self-explanatory caption, and be on a separate sheet. Authors must submit tables in an editable format and not as images. References to these tables (if any) must be mentioned accurately.



## 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.

## PREPARATION OF ELETRONIC FIGURES FOR PUBLICATION

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).

For scanned images, the scanning resolution at final image size ought to be as follows to ensure good reproduction: line art: >650 dpi; halftones (including gel photographs): >350 dpi; figures containing both halftone and line images: >650 dpi.

Color charges: Authors are advised to pay the full cost for the reproduction of their color artwork. Hence, please note that if there is color artwork in your manuscript when it is accepted for publication, we would require you to complete and return a Color Work Agreement form before your paper can be published. Also, you can email your editor to remove the color fee after acceptance of the paper.

## 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.

**5. Use the internet for help:** An excellent start for your paper is using Google. It is a wondrous search engine, where you can have your doubts resolved. You may also read some answers for the frequent question of how to write your research paper or find a model research paper. You can download books from the internet. If you have all the required books, place importance on reading, selecting, and analyzing the specified information. Then sketch out your research paper. Use big pictures: You may use encyclopedias like Wikipedia to get pictures with the best resolution. At Global Journals, you should strictly follow here.





**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 through 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.



- 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.



**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

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*Written material:* You may discuss this with your guides and key sources. Do not copy anyone else's paper, even if this is only imitation, otherwise it will be rejected on the grounds of plagiarism, which is illegal. Various methods to avoid plagiarism are strictly applied by us to every paper, and, if found guilty, you may be blacklisted, which could affect your career adversely. To guard yourself and others from possible illegal use, please do not permit anyone to use or even read your paper and file.



CRITERION FOR GRADING A RESEARCH PAPER (COMPILATION)  
BY GLOBAL JOURNALS

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Topics	Grades		
	A-B	C-D	E-F
<i>Abstract</i>	Clear and concise with appropriate content, Correct format. 200 words or below	Unclear summary and no specific data, Incorrect form Above 200 words	No specific data with ambiguous information Above 250 words
<i>Introduction</i>	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
<i>Methods and Procedures</i>	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
<i>Result</i>	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
<i>Discussion</i>	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
<i>References</i>	Complete and correct format, well organized	Beside the point, Incomplete	Wrong format and structuring



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