

# **STRATEGII MANAGERIALE**

## **MANAGEMENT STRATEGIES**

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# EXPLORING RELATIONSHIP BETWEEN ORGANIZATIONAL LEARNING AND INTERNATIONAL BUSINESS PERFORMANCE

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## Abstract

*International Corporations globally are seeking ways of being ahead of other competitors in the industry of operations. Companies ranging from production to service firms in globally strive harder to meet the challenges posed to them by environmental changes. Also the consulting industry is an integral part of service industry due to the sum they contribute to the growth of the economy. The study tried to situate positions whether organizational learning could serve as a strategic tool for enhancing organizational performance as regards employee commitment and organizational competitiveness. 240 copies of questionnaire were administered to selected international audit service firms considered for the study in Nigeria to get primary data that treated appropriate research questions and hypotheses were tested accordingly. The study found that opportunity for individual learning makes employees in the global firms to be committed and that organizational conditioning has significant effect on competitiveness. The study recommends that international service firms should endeavour to direct more resources to the area of organizational learning in order for them to be able to achieve better global industry relevance.*

*Keywords: Organizational Learning, Organizational Competiveness, Commitment, Corporate Performance*

JEL CODES: M1, M12.

## 1. Introduction

The quest for industry leadership and global business continuity has put a competitive demand on business managers to come up with outstanding innovative learning platforms. Few organizations are able to remain the same for very long. The reason for this is that companies must constantly adapt to the ever changing external business environment and market situation. Most organizations strive to do things differently and better in order to differentiate their offer from those of the competitors in the minds of the customers and clients. In this way they can gain competitive advantage and so maintain the loyalty and support of their stakeholders. This is essential for growth and survival. For example, technology constantly develops; legislation changes and community interests evolve. Market dynamics change as consumer demands and expectations alter, often as the result of new fashions; new competitors come into the market; or existing competitors become more aggressive. The organization itself learns from its collective experience of success and failure and develops good practice in the management of its processes and systems.

Organizational learning can be referred to as a process of acquiring, maintaining and sharing of knowledge within an organization for the purpose adapting to the dynamic business environment. Thus, organizational learning is the application of knowledge for a purpose and learning from the process and from the outcome. For simplification sakes, organizational learning can be defined as process in which an organization involves itself in learning (i.e a learning organization). Organizational learning has emerged as one of the most outstanding concepts in strategic management. It has received increased attention from managers and practitioners alike as a means to address how firms respond to rapidly changing environments (Crossan and Guatto, 1996). Many researchers have suggested that the only sustainable competitive advantage may be an organization's ability to learn faster than its competitors (De

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Geus,1988; Slater 1995). Hence, the creation and sharing of knowledge; the continual enrichment of their intellectual capital and the development of learning capabilities rest at the core of their strategy. Therefore, they have to prepare their employees according to the changing needs of customer in the wake of changing technology and optimal use of scarce resources. They have to develop each function and employee to outperform the competitors and this requires developing and maintaining a learning culture and adaptability to change.

### **1.1 Statement of Research Problems**

Although organizational learning has become an increasingly important and popular topic in both the academic and the popular business press, the field has been troubled with conceptual ambiguity and with a dearth of practical, empirical research. These two deficiencies have limited the impact of what many believe could be a rich mine of both theoretical insights and practical interventions. According to Njugun (2009), there is a narrow conceptualization of organizational learning as it relates to strategy. Strategy research has been criticized for its overly analytical orientation, top management bias, lack of attention to action and learning, and neglect of the elements that lead to the creation of strategies. Organizational learning has therefore been disconnected from strategy because it has been viewed as an emergent trial-and-error, even random process; a learning model suggests that the acquisition and processing of information about alternatives takes place in a relatively costly process of search'; and it viewed as a more rational process within the domain of decision-making and choice.

In addition, in employer-employee relationship, trainings are mainly performed occasionally, and not connected with organizational strategy, nor do they have some strategic significance. They are mostly enforced when business problems occur or are perceived that are considered relievable or solvable by organizing a training, course or seminar for some of the employees. Employees view the training as an imposed obligation, rather than a way to maximize their potential and they do not realize that by improving their performances and innovation of their knowledge they may contribute to better business results of the organization they belong to. Unfortunately, top managers do not realize this as well. From their relationship with the employees as the employees are still treated as an expense, rather than assets worthy of investing. Lima and Filion, (2011),

Based on this, the study intends to answer if there is significant relationship between individual learning and employee's commitment and if organizational conditions have effects and organizational competitiveness? In support of these unanswered questions the following hypotheses were formulated.

**Ho<sub>1</sub>** There is no significant relationship between individual learning and employee's commitment.

**Ho<sub>2</sub>** Organizational conditions have no effects and organizational competitiveness.

## **2. Literature Review**

### **Conceptual Framework**

#### **• Nature of Learning in International Organizations**

Learning has been referred to as the way new knowledge is being created in order to improve oneself. Learning also means the process of conceiving, reflecting and acting out what has been conceived. Learning organizations develop as a result of the pressures facing modern organizations and enables them to remain competitive in the business environment. Peter Senge and his colleagues were the brain behind the concept of Learning Organization (Senge, 1994) which encourages organizations to shift to a more interconnected way of thinking. He advised that Organizations should become more like communities that employees can feel a commitment to. They will work harder for an organization they are

committed to. A learning organization is one that seeks to create its own future; that assumes learning is an ongoing and creative process for its members; and one that develops, adapts, and transforms itself in response to the needs and aspirations of people, both inside and outside itself

The concept of organizational learning is often confused with the concepts of learning organization, knowledge management and/or organizational knowledge. Distinction between organizational learning and the learning organization is explained to the extent that organizational learning refers to the study of learning processes of, within and between organizations, largely from academic point of view. On the other hand, the learning organization is considered as an entity an ideal form of organization, which has the capacity to learn effectively and hence to prosper (Tsang, 1997). Organizational learning draws much of its appeal from the presumption that organizations are capable of intelligent behavior, and that learning is a tool for intelligence, though sometimes an intriguingly unreliable one. The basic image is that organizations collect experiences, draw inferences, and encode inferences in repositories of organizational knowledge, such as formal rules and informal practices. In this view, organizations are shaped by complex learning processes which combine current experiences with lessons learned in the past.

Organizational learning includes the process of acquiring, maintaining and sharing of knowledge within an organization for the purpose adapting to the dynamic business environment. Thus, organizational learning entails the application of knowledge for a purpose and learning from the process and from the outcome. For simplification sake, organizational learning can be defined as process in which an organization involves itself in learning (i.e a learning organization). That is, organizational learning is the ‘activity and the process by which organizations eventually reach the ideal of a learning organization’ .Organizational learning further extends to the ability of an organization to gain insight and understanding from local and international experience through experimentation, observation, analysis, and willingness to examine both successes and failures.

Organizational learning also assists in “the detection and correction of error” (Argyris and Schon, 1978), however organizational learning needs to go beyond detecting and correcting errors. Organizational learning can be described as a dynamic process of creation, acquisition and integration of knowledge aimed at the development of resources and capabilities that contribute to organizational performance (Ollo-Lopez and Aramendia-Muneta, 2012). Organizational learning is a very useful instrument used for gaining and sustaining competitive advantage. Organizational learning is the effective way of making use of past experience and adapting to environmental changes.

#### • **Step involved in Organizational Learning**

According to Skervaj and Dimovski (2006), Organizational learning is a sequence of three phases: information acquisition, information interpretation and behavioural and cognitive changes.

##### **i. Information Acquisition:**

This is the process by which firms actively seek out and gather useable information (Kohli and Jaworski, 1990). Information can be acquired from three distinct sources (Slater and Narver, 1995). First, organizations can acquire information through direct experience. These experiences can have either an internal focus (e.g., process improvement) or an external focus (e.g., primary market research). Second, firms can gather information based on the experience of others. For example, Kohli and Jaworski (1990) suggest that informal discussions with customers are often fruitful in terms of supplying new market intelligence. Third, information can be acquired from the organization’s own memory mechanisms. Although as a fundamental outcome of organizational learning, memory also serves as a warehouse for information within the firm. In fact to a large extent, the contents of a firm’s

memory play a significant role in the type of market information that is acquired and how it is interpreted (Moorman and Miner, 1997). The purpose of information acquisition is to limit uncertainties (Daft and Lengel, 1986).

**ii. Information Interpretation:**

Organization that has only acquired information is not involved in learning; it must ensure that the information acquired is well understood by the persons who will be making use of the information. This will involve the process of communication and the use of the right terms and right language in which information can easily flow within the organization.

**iii. Behavioural and Cognitive changes:**

Organizational learning reflects in ‘accompanying changes’ (Garvin, 1993). If no behavioural or cognitive changes occur, organizational learning has in fact not occurred and the only thing that remains unused is potential for improvements (Fiol and Lyles, 1985; Garvin, 1993). When discussing cognitive changes two levels of learning can be observed. Lower-level learning reflects changes within organizational structure, which are short-term and only partially influence organization. Higher-level learning reflects changes in general rules and norms (Fiol and Lyles, 1985). In essence, organizations stressing learning must first acquire information, interpret it to fully understand its meaning and transform it into knowledge. At the same time, they must not forget the most important part – to implement behavioural and cognitive changes – in order to convert words into action.

**iv. Information Quality:**

It is not enough for organizations to acquire and interpret information; the quality of information acquired is also very important for enhancing the quality of decisions and services of an organization. This is a measurable variable for organizational learning in recent research. Eppler (2003) pointed that information quality is important in terms of reducing information overload focusing towards comprehensive, accurate, clear, applicable, concise, consistent, correct, easily accessible information with possibility for users to self-adjust format and content of reports.

**Types of Learning**

Argyris and Schon (1978) proposed three major types of learning:

**i. Single Loop Learning**

This error involves detecting and correcting errors (i.e performance gaps) enabling organizations to act upon present policies and objectives. Here, outcomes are measures against organizational norms and expectations. It is appropriate for the routine and repetitive jobs because it helps get everyday job done

**ii. Double Loop Learning**

This Learning occurs when the organization is willing to question long-held assumptions about its mission, customers, capabilities, or strategies.

**iii. Deutero Learning**

This type of learning is concern with how single loop and double loop learning are carried out. Deutero-learning is a proactive learning processes where there is a continuous effort to strive for perfection.

**• Characteristic of Organizational Learning**

According to Peter Senge, a learning organization exhibits five main characteristics: systems thinking, personal mastery, mental models, a shared vision, and team learning.

- i. System thinking:** This simply signifies that organizational learning should be viewed from a wholistic angle. That is, putting into consideration all the departments, processes and activities carried out within an organization. Learning should be focused on just one aspect of a firm but it should encompass the whole system.

- ii. **Personal mastery:** this refers to the commitment of an individual in the process of learning. Organizations learn only through individuals who learn. Individual learning does not guarantee organizational learning. But without it no organizational learning occurs' (Senge 1990). That is, there is no way organizational learning can take place without the involvement of individual because it is the individual that makes the whole. Personal mastery can also be a competitive advantage for a firm whose workforce can learn more quickly than the workforce of other organizations. Individual learning is acquired through staff training and development; however, learning cannot be forced upon an individual who is not receptive to learning.
- iii. **Mental models:** These are 'deeply ingrained assumptions, generalizations, or even pictures and images that influence how we understand the world and how we take action' (Senge 1990). This has to do with unlearning certain things that one have been accustomed to from individual culture, beliefs, values and norms and then embracing new skills and developing new orientations. In creating a learning environment it is important to replace confrontational attitudes with an open culture that promotes inquiry and trust. To achieve this, the learning organization needs mechanisms for locating and assessing organizational theories of action. Unwanted values need to be discarded in a process called 'unlearning'.
- iv. **Shared vision:** Visions built should be the one that is accepted by everyone in the organization and also common to individual visions. The development of a shared vision is important in motivating the staff to learn, as it creates a common identity that provides focus and energy for learning. The most successful visions build on the individual visions of the employees at all levels of the organization, thus the creation of a shared vision can be hindered by traditional structures where the company vision is imposed from above. Therefore, learning organizations tend to have flat, decentralized organizational structures.
- v. **Team learning:** This is when several individuals are involved in learning together as a group. This brings forth good result for the organization and members will grow more rapidly than going through the learning process alone. This is built on personal mastery and shared vision but requires individuals to engage in dialogue and discussion; therefore team members must develop open communication, shared meaning, and shared understanding.

- **Organizational Learning Processes**

As summarized by Argyris and Schon (1978), Organizational Learning Processes are discovery, invention, production, and generalization. Sydner (2006) also agrees that successful learning occurs when organizations engage in all four processes, that is, they discover errors or dissonance between their desired state and their current state; diagnose the causes of gaps and invent appropriate solutions to alleviate them; produce the solutions through organizational actions; and draw conclusions about the effects of the solutions as well as generalizing the learning to other relevant situations. Garvin et al., (2008) also identified that learning processes includes the generation, collection, interpretation, and dissemination of information and experimenting with new ideas. Based on this contribution, Snyder (2006) says that knowledge must be shared in systematic and clearly defined ways among individuals, groups or whole organizations and can move laterally or vertically within a firm. The knowledge sharing process can be internally focused toward taking corrective action, and externally oriented by interacting with subject-matter consultants, customers. Together, these processes ensure that essential information moves quickly and efficiently into the hands and heads of those who need it.



### • **Individual Learning to Employee's Commitment**

**Individual learning** is the ability of individuals to pursue self-development. It requires individuals take personal responsibility for their own learning and development through a process of assessment, reflection, and action. Individual learning helps the employee continually update skills and remain marketable in the workplace. Commitment according to Jaw and Liu (2004) is not only a human relation concept but also involves generating human energy and activating human mind. Employee's commitment is represented as an affective commitment of an individual to the organization. There are three component of commitment according to Allen and Meyer (1993): affective, continuous and normative commitment. High commitment work practice according to Guest, Michie, Conway and Sheehan (2003) is an approach to managing employees, which emphasizes is on the need to develop organizational commitment amongst employees based on the assumption that it will lead to positive outcomes such as low labour turn over, absenteeism, better motivation and improved performance.

### • **Organizational Performance and Organizational Competitiveness**

Organizational performance is defined in terms of quality, productivity, profitability, organizational competitiveness, and employee commitment indicators. Pemberton and Stonehouse (2000) pointed out that, organizations develop new knowledge and core competencies in order to gain competitive advantage through organizational learning. One of the reasons behind this research work is to test if organizational learning actually improves organizational performance through competitive advantage. Competitive advantages that are inimitable ought to be characterized with complexity. Complexity in this sense means that it must have a lot of resources or parts contributing towards it. Complexity results from the interrelationship between skills, and between skills and assets. Complexity arises from core competencies which entails ambiguity and results in a barrier to imitation. For an organization to be successful in sustaining a competitive advantage, it must be able to match its strength and key success factors (KSF) which are industry specific. Organizations with high ratings of KSF outperform competitors. Garvin et al. (2008) also found that organizational condition is strongly influenced by the behavior of leaders which makes the organization competitive. People feel encouraged to learn when leaders provide opportunities to speak and facilitate the promulgation of 'dialogue and debate'. This is the job of leaders to consider different viewpoints to feel employees encouraged present new ideas and options.

## **2.2 Theoretical Framework**

The following theories are related to the concept of organizational learning which refers to a dynamic process of creation, acquisition and integration of knowledge aimed at the development of resources and capabilities that contribute to organizational performance. The theories include:

### **2.2.1 Complexity theory**

Darwin, Johnson, and McCauley (2002) provide a convincing survey of the emergence of complexity theory within the organisation behaviour literature. Capra (1996) traces the emergence of the concept of self-organization form the early years of 'cybernetics'. Darwin, Johnson and McCauley (2002) also note that the interest in within management studies has derived from the attempt to understand problems relating to planning systems which appear not to predict the future when we look at the weather forecasts, for example, certainly those beyond the hours of duration. Fraher (2005) seek to show how organizations adapt not by valuing consensus above all but rather by stimulating innovation through processes emphasizing tension, conflict, contention and debate. Emery (2004) goes well beyond this position in presenting an analysis of open systems theory-based action research as an enabler of learning and change. Emery's starting point is that learning is essential to sustainable change. Second she

argues that to achieve sustainable change practitioner must work with people at all levels of organisation involved; from senior executives to customer-facing staff. Moreover all levels and functional areas must be involved in some sort of process in which they can engage with this learning. This creates problems for some practitioners who may, for example, be members of an 'elite' with their own 'language', frameworks and meaning systems. In reality it can be hard work to operate collaboratively, at least in the perception of the often thousands of employee involved and impacted by a set of intended changes, whatever the intentions of those involved. For sustainable change to be achieved every step of the process must lead to learning which engages and energizes action but people learn at different rates and through different learning styles. Also, and inevitably, people positioned differently in any large organization have very different opportunities depending on many factors.

### **2.2.2 Leavitt Organizational Change Theory**

Leavitt's model is useful to describe and explain organizational resistance. An organization's elements, according to Leavitt (1965), include its structure, its technology, its people and its tasks. A change in one element may result in changes in the others. For example, changing the technology by introducing IT may generate change in other elements of the organization. Similarly, change in the basic tasks performed by an organization is almost inevitably accompanied by a change in technology, that is, modifications in the way in which tasks are accomplished. Managers may bring IT into a unit to facilitate change in a particular task by changing the method of performing the task: to make the task easier to complete, to enhance accuracy, to achieve better access to information, and/or to obtain greater control over the task. These changes may require modifications in other elements of the organization such as the people performing the task. Employees may require training to learn the new method, they may ask for changes in their job titles to reflect their changed duties, which, in turn, impact the organization's structure. In general, the ultimate way to reduce resistance is to change all the elements simultaneously. Organizational resistance causes many system failures. There is a need to "unfreeze" organizations before implementing a new system (Keen, 1981; Kolb and Frohman, 1970). Elements of the organization must adjust in order to benefit from introducing new systems. For example, workers' attitudes and values may have to change accordingly. Top level commitment may also be a key for managing the social adjustment that accompanies the change in the organization.

### **2.4 Empirical Framework**

Yalabik, Chen, Lawler and Kim (2008), came about four key lessons learned and three biggest causes of failure which he got from his work, whose objectives is to provide real-life lessons from the experiences of project teams recently or currently involved in business process re-engineering projects. The three main reasons for the astonishing high 70% failure rate of all business change initiatives. The gap between the strategic vision and a successful programme implementation and the lack of a practical change management model and tools to bridge that gap, the "hidden and built in resistance of change" of organization cultures, and the lack of processes and change management methodologies to address this, several academic researches on human resource management practices suggested that high commitment human resource practices will increase organizational effectiveness by creating a condition whereby employees become highly motivated and involved in the organizational activities aimed at achieving organizational goals (Boxall, Macky and Rasmussen 2009).

Findings by Opoku and Fortune (2011) revealed that change-efficiency can improve greatly when management realise that "people do not resist their own ideas" open information sharing, teams and networks, knock power hierarchies flat when it comes to rigid innovation and change. By looking at how things change in nature, the authors observed that major changes in the environment can precipitate a ubiquitous process of transformation. Essentially

the system moves away from efficient control and refinement and disintegrates into creative chaos. As all the various dormant mutations and experiments begin to assert themselves in the evolutionary school, many fail, but a few of them ‘fit’ successfully and may reproduce. Thus, they move through a transformational phase, back into a higher level of control. Watching the system as a whole, it appears to move through four distinct cyclical phases, which run as a response to events shifting in the environment, or the “change field” self-organising perturbations occur spontaneously, old ways disintegrate. The system then moves into a creative, “free for all” state of chaos, eventually new people, groups, ideas, and for actions emerge, cluster and maybe resonate, time, energy, resources and management can now be applied to enable the new systems to synergise and develop. Profits occur as higher order control and efficiency rule temporarily. Then depending on the stability of the environment, or market competition, it all starts over again as a continuous cycle of change.

### 3. Methodology

The first phase of the research examined existing literature on organizational learning and how it enhances organizational performance. The study adopted survey method with the aid of questionnaire to get data from respondents which is basically the employees of two leading international firms among the top four audit firms in Nigeria. The purpose of the survey was to get primary data. The motive to use questionnaire is the ability to reach a large target group in a practical and efficient way. A pilot study was also be used to test the quality, clarity, time scale and bias of the questionnaire as pointed by Naoum (2002).

Due to difficulty in studying the whole population, the researcher considered simple random sampling technique in which each individual of the population has the equal chance or probability of selection of the individuals for constituting a sample as to get firsthand information from the respondents; to this end a total of two hundred and forty (240) questionnaires were distributed to represent the entirety of the service firms population. The reliability test of the instrument was conducted using test re-test reliability approach which yielded  $r = 0.81$  and internal consistency was measured by Cronbach Alpha of 0.854. See the distribution table below:

**Table: 1                      Distribution of respondents and response rate**

<b>Respondents Occupation</b>	<b>Questionnaire administered (sampled)</b>	<b>Percentage of total response (%)</b>
Partner	16	7.5
Senior Manager	24	11.2
Manager	14	6.5
Senior	73	34.1
Audit Assistant	87	40.7
Total	214	100.0
<b>Gender/Category</b>	<b>Questionnaire administered (sampled)</b>	<b>Percentage of total response (%)</b>
Male	121	56.5
Female	93	43.5
No of Returned	214	89
No of Not Returned	26	11
Total no of Questionnaires	240	100

Source : Field Survey 2017

#### 4. Data analysis and Hypothesis Testing

**Table 2: The Descriptive statistics of Organizational Learning and Corporate Performance**

Responses	Total (N)	Mean
<b>Individual Learning and Organizational Condition</b>		
The investment of our organization in individual learning has encouraged employees' loyalty to the organization.	214	4.46
Employees' Personal development plans are encouraged by the firm.	214	3.84
Employees are sometimes compensated when they engage in individual learning that would benefit the organization.	214	3.57
The organization ensures that employees are carried along on the current issues of the firm.	214	3.89
The company ensures environment is conducive for employees to operate efficiently.	214	3.86
<b>Corporate Performance</b>		
<b>Level of Employee Commitment and Organizational Competitiveness</b>		
	<b>Total (N)</b>	<b>Mean</b>
Employees are committed to the goals of the organization through continuous learning.	214	3.78
Employees are motivated to be committed to the organization because of the organization's culture of learning.	214	3.47
The opportunity for continuous training in the organization has reduced employees' turnover.	214	3.58
The condition of our organization has enhanced the competitiveness of our organization.	214	3.73
The learning environment of our organization is conducive for industry competition.	214	3.55

Source : Field Survey 2017

#### Hypothesis One

Ho<sub>1</sub> There is no significant relationship between individual learning and employee's commitment.

<b>Correlations</b>			
		INDIV LEARNING	EMPLOYEE COMMITMENT
INDIVLEARNING	Pearson Correlation	1	1.000(**)
	Sig. (2-tailed)		.000
	N	214	214
EMPLOYEECOMMITMENT	Pearson Correlation	1.000(**)	1
	Sig. (2-tailed)	.000	
	N	214	214

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

#### Coefficient of Determination (C.O.D)

The coefficient of determination is obtained using the formula  $C.O.D = r^2 \times 100\%$

Where r=Pearson Correlation

Thus;

$$C.O.D = (1.000)^2 \times 100\%$$

$$C.O.D = 1 \times 100\%$$

$$C.O.D = 100\%$$

#### Interpretation of results

The Pearson correlation of  $r=1.000$  therefore implies 100% shared variance between individual learning and employee's commitment. The relationship between the variables (individual learning and employee's commitment) was investigated using Pearson correlation coefficient. The results from the table above show that there is a significant correlation of (1.000) between both variables at a 0.0001 level of significance

Thus, as obtained from the table { $r=1.000$ ,  $p<0.0001$ ,  $n=214$ }

### Decision

Haven found out that there is a significant relationship between individual learning and employee's commitment., we therefore reject the null hypothesis ( $H_0$ ), and accept the alternative hypothesis ( $H_1$ ).

### Hypothesis Two

$H_{o2}$  Organizational conditions have no significant effects on organizational competitiveness.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817(a)	.667	.666	.42301

a Predictors: (Constant), ORGCONDITION

This table above is the model summary. It shows how much of the variance in the dependent variable (organizational competitiveness) is explained by the model (organizational competitiveness). In this case the R square value is .667. Expressed by a percentage, this means that our model explains 66.7% of the variance in the dependent variable of organizational competitiveness. The adjusted R square shows .666, while the error of estimate indicates .42301 which signifies the error term that was not captured in the model.

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	76.152	1	76.152	425.580	.000(a)
	Residual	37.935	212	.179		
	Total	114.086	213			

a Predictors: (Constant), ORGCONDITION

b Dependent Variable: ORGCOMPETITIVENESS

### Decision

This table shows the assessment of the statistical significance of the result. The ANOVA table tests the null hypothesis to determine if it is statistically significant. From the results, the model in this table is statistically significant (Sig =.0001) and hence the null hypothesis should be rejected.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	.559	.164		3.416	.001
	ORGCONDITION	.845	.041	.817	20.630	.000

a Dependent Variable: ORGCOMPETITIVENESS

This table also shows which if the variables included in the model contributed to the prediction of the dependent variable. This study is interested in comparing the contribution of the independent variable; therefore beta values are used. In this table, the beta co-efficient of the independent variable is .845. This means that change in organizational condition contributes strongly to explaining the dependent variable which is organizational competitiveness.

### Discussion on Findings

The result of hypothesis one which confirms that there is a significant relationship between individual learning and employee's commitment is tangential to the findings of Boxall & Macky, 2009) suggested that high commitment human resource practices will

increase organizational effectiveness by creating a condition whereby employees become highly motivated and involved in the organizational activities aimed at achieving organizational goals thereby developing themselves individually alongside.

The result of hypothesis two further proved that Organizational conditions have significant effects on organizational competitiveness which is similar to the research of Garvin et al. (2008) who found that that organizational condition is strongly influenced by the behavior of leaders which makes the organization competitive. People feel encouraged to learn when leaders provide opportunities to speak and facilitate the promulgation of ‘dialogue and debate in an organization’. This is the job of leaders to consider different viewpoints to feel employees encouraged present new ideas and options, this further pointed that Nigeria findings as regards organizational conditioning of corporations is similar to past findings. Therefore poor organizational conditioning has the tendency to make a business not to be competitive in the current dynamic business world.

It can be abridged and construed from this study that the following applies to the Nigerian business terrain:

- i. Since it has been discovered that there is a significant relationship between individual learning and employee’s commitment. Organizational learning scholars posit that compatibility with the environment is an essential condition for organizations to remain competitive and innovative, a state that is vital to their long-term development and survival. This need for compatibility is a basic premise in strategic management and according to Fiol and Lyles (1985), the need for compatibility means that organizations should regard the ability to learn, unlearn and relearn from past, present and potential future behaviour.
- ii. Also, competitive advantage can be viewed as the relative advantage a firm gains on one particular resource (such as profitability or market share) by virtue of its ability to capitalize on other resources” (Smith et al., 1997).
- iii. Moreover, Collis and Montgomery, (1995) pointed Sustainable competitive advantage is the ability to offer superior customer value on an enduring or consistent basis, a situation in which competitors are unable to easily imitate the firm’s capacity for value creation. Competitive advantage can result from the possession of internal competencies such as learning capabilities, and other resources that is used to achieve competitive advantage.

### **Conclusion and Recommendations**

The success of organizations today depends on their ability to understand the business environment in which they are operating. Businesses all over the world go as far as possible to acquire equipments and products that they perceive would aid their business transactions and performance. This study provides information for organizations to know the essence of organization learning for certain business functions so that result can be achieved with less stress. The is also poised to assist new entrants into the industry to know the inherent value of organizational learning and outsource such activity where they cannot handle all services alone but delegate part of business responsibilities to another party via building and sustaining business relationships that is poised to make business process to be easy. It will also be an opportunity for learning and training organizations to venture into the areas in which the needs of service industry would be met.

Based on the findings of this research work, the following recommendations are given here below

- i. Findings in this study have showed that there is a relationship between individual learning and employee’s commitment. Therefore organizations must keep engaging in organization learning to get employees commitment which will indirectly enhance corporate performance.

- ii. Organizations should ensure information technology aspect of their business that they have no competence to manage should be outsourced to reputable firms in order to compete efficiently in the competitive industry and affect business performance positively since it has been proven that organizational conditions have effects and organizational competitiveness.
- iii. Finally consulting or international audit service firms as well as other kind of organizations should involve in extensive employee empowerment through trainings to encourage sustenance of organizational growth in the competitive business environment.

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# MACROECONOMIC POLICIES AND FORESTRY IN ROMANIA

Alina Georgeta & Ailincă<sup>1</sup>

**Abstract:** This paper discusses the potential impacts of macroeconomic policies of Romania on forestry and indirectly from forestry to macroeconomic policies. After the 1989 Revolution, macroeconomic policies returned from a centrally controlled economy to a liberalized economy, and the impact of macroeconomic policies (including laws and political decisions) on forestry development have been rather negative. Privatizations that led to the dismantling of energetic and industrial complexes, lack of commitment and lack of public accountability which led to deindustrialization, massive collective and individual lay-offs and the degradation of the agricultural sector and the gradual loss of the economic and biological patrimony of the country were the dominant elements that characterized the Romanian macroeconomic policies in the last two and a half decades until now. Thus, the article tries to extract a series of theoretical and practical elements on the two issues addressed: macroeconomic policies and the forests situation in Romania.

**Keywords:** macroeconomics, impact, forestry, forest economics.

**JEL Classification:** E61, Q01, Q23

## 1. Introduction

According to the Report on Romania's State of Forests in 2013, the total area of Romania's national forest fund was 6,539 thousand hectares, accounting for 27.4% of the country's surface, below the European average (32%). Romania has considerable areas of natural, virgin and quasi-virgin forests. The area of virgin forests, according to government authorities, was 5898.92 hectares (evaluated over a period between 2007 and 2017), while the quasi-virgin forests area was 12397.84 hectares. Of course, the value of the forest fund exceeds the contribution made to the wood and forestry exploitation and forestry in general, the role and functions of Romania's forests being also in the direction of soil stabilization, drought and floods control, forest protection curtains, greenhouse gas sequestration, biodiversity, the regeneration of degraded lands and, in general, in mitigating the effects of climate change, but also in terms of providing the energy resource or fulfilling important social and cultural functions. Therefore, it is essential to see not only the beneficial effect of Romania's forests on the society: environment, climate and economy, but also vice versa, of macroeconomic policies - implicitly reflected in the evolution of some macroeconomic indicators of Romania - on the situation of forests.

## 2. Literature overview

The literature captures a rather incomplete analysis of the link between economics and ecology, which can be explained in objectives of different interest and sometimes divergent perspectives for the two categories of economists and ecologists. Economists often seem to exclude the global and complex nature of ecological effects on the economy, while ecological realities are different and do not allow aggregation from one ecosystem to another. This aspect is noted by Sohngen et al. (2007), which considers that ecologists take into consideration and incorporate in their models the importance of economic decision makers (implicitly the alternative ways of economic development) for observing the impact on ecological systems, but often exclude the feed-back of ecological systems on the economy. Equally, economists do not seem to be interested in all the implications that the complexity of ecological systems can have on economic decisions. However, a series of previous studies (Aaheim et al., 2010, van Vuuren et al., 2006, Sohngen and Mendelsohn 2003, etc.) address the subject of impact of climate change on forestry, integrating economic and ecological

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models, focusing more or less on adapting to climate change within regions and identifying the consequences of the global environmental and economic impact on forests.

Thus, if we refer to the situation of forests, the economic implications go beyond the level of the implications of the material value of the cut wood and of the additional wood products, entering into extremely serious biodiversity, environmental, cultural and social issues, some relatively subtle, (e.g. desertification, landslides, natural disasters, rural unemployment, depopulation, material and human losses caused by the reduction in the quantity and quality of the forest etc.). It should be noted that the disappearance of the areas covered with forest vegetation can lead to the alarming increase of the special climatic phenomena and to the increase of the anthropic pressures both in terms of their intensity and their frequency of occurrence. The forest is a renewable source of diverse products (raw materials needed by the pharmaceutical industry, resins, medicinal and aromatic herbs, edible mushrooms, fauna, berries, seeds, shrubs, etc.), as well as beneficial effects impossible to quantify financially, being extremely complex ecological system. In some studies (e.g., Amacher et al., 2005), it is noted that mitigation of climate change can be achieved through a coherent and responsible forest management, outlining the need to maintain forest diversity and permanent reforestation as wood harvesting.

### **3. Methodology**

This article studies mainly the impact of Romania's macroeconomic indicators on forests; in the opposite direction, the macroeconomic implications of the changes in the parameters describing the realities of forestry should be regarded with caution, especially since the contribution of agriculture, forestry and fishing represents only a small part of the Romanian economy (below 5% of GDP, for the 2015-2017 period, according to National Institute of Statistics of Romania or NIS). However, on the one hand, according to the NIS, the contribution of the agricultural, fisheries and forestry sector to Romania's GDP is increasing in the last period (2015-2017), and on the other hand, forestry is an integral part of the Romanian economy. Thus, the adaptations of the forestry sector to the Romanian macroeconomic realities can be proved, at least in part, by a relatively simple econometric analysis. This article uses national and international statistical databases such as those of the National Institute of Statistics of Romania, the National Bank of Romania and Eurostat. The analysis period varies depending on the availability of the data, but for the econometric analysis, the period 2004-2016 was followed, the frequency of the data being annual, imposed by the systematization and relevance of the macroeconomic indicators. The conclusions drawn may indicate the methodological reserves required by a limited set of data.

### **4. Results and discussions**

After the 1989 Revolution, macroeconomic policies have returned from a centralized economy to a liberalized economy, and the impact of macroeconomic policies (including political laws and decisions) on forest development has been rather negative. Privatizations that led to the dismantling of energy and industrial complexes, lack of commitment and lack of public accountability led to deindustrialisation, massive collective and individual redundancies and the degradation of the agricultural sector, as well as to the gradual loss of the country's economic and biological heritage, were the dominant elements characterized Romania's macroeconomic policies in the past two decades and a half to the present. Fiscal-budgetary reforms, often incomplete and incoherent, changes in direction in monetary policy, but also agreements signed with international institutions, especially with the IMF, have led to extremely painful conjectural and structural restructuring for Romania's economy and especially for citizens. These macroeconomic policies, generally weak and lacking in vision, have led people to look for livelihoods in agriculture, resulting in migration to rural areas

(especially the elderly population) or emigration abroad (especially the younger population for work). This has led to limited natural and human resources in rural areas, especially since the policies and laws for restitution of agricultural and forest land have not generated much benefit for the descendants of the old owners, but rather for the various intermediaries and speculators. Although it appears to be a minor and somewhat isolated problem in agriculture, the current natural disasters that are occurring with a frightening fervor in our country draw attention that forests are not so much an individual resource but rather an element of collective survival at national level, regional and even planetary.

Thus, if we follow the evolution of annual deforestation in Romania, we observe (according to Table 1) that during the period 2000-2010 the annual growth rate was positive. Timber production also increased significantly over the period 2005-2015, roundwood processing increased in the period 2005-2015, while the gross added value of the forestry industry at base prices (in million / EUR) declined significantly in 2015 compared to 2005. This shows inconsistency in the proper management and valorisation of the forest fund in our country as well as in the export of unprocessed wood products or with minimal processing and thus with low added value.

**Table 1 Several Eurostat indicators relevant to the situation of the forestry industry in Romania**

	2000	2005	2010	2015	Growth rate (%)*
Annual deforestation as a share of net annual growth (annual net increase, 1 000 m3 over shell)	28591.07	28703.62	29259.98		2.34
The production of round wood (1000 m3)		14501.00	13111.64	15314.70	5.61
The total production of timber (1000m3)		4321.00	4323.00	5935.81	37.37
Woodworking by type of wood and assortment (thousand cubic meters)		13970.00	13111.64	15314.70	9.63
Gross value added of forestry industry at basic prices (mil ECU / EUR)		314.29	446.21	127.77	-59.34

Source: Eurostat, author's calculation, Growth rate, \* refers to the growth rate of the last year for which data are available relative to the first year for which data are available.

Moreover, the growth rate of the forest fund (thousands of hectares) in the period 2010-2015 was lower than the growth rate of the total volume of harvested wood (thousands of cubic meters) (Table 2), indicating other elements of policy inconsistency public and private forests management of Romania.

Within this framework, undergoing in a continuous updating, the legislation, in order to best respond to the role and functions that forests should fulfill, has often failed to mitigate the negative effects of inefficient management. Sometimes, it generated controversies and disputes over the legal regime of some forest areas.

In the total forestry fund, the share of the state owned forestry fund is dominant (approximately 47% of the total forestry fund), but the share of the private property forestry fund is gradually increasing. Following the restitution of forest land, there has been a diversification of ownership, not always beneficial to society, especially in the medium and long term.

In addition, observance of the forestry regime in the absence of the forest inspector and regular inspections becomes problematic, as in recent years there has been an increase in the illegal cutting of the forest fund both in public and private ownership. At the same time, harvesting a considerable amount of wood (as being accidental products (including tree stands) and hygiene products) points out that besides the legal cuts due to the natural drying phenomenon, also certain forms of masking the illegal cuttings. Equally, illegal cuts can be partly justified by the lack of state support for the protection of forest owners (e.g. to facilitate guarding, payment of the value of products that the owners do not harvest in situations due to certain specific unfavorable conditions, facilitation of association of forest owners, support for combating diseases and pests of forests, supporting the ecological reconstruction of agricultural land by afforestation, etc.) and less proper management of forest roads and access roads to wooded areas. However, according to Romania NIS data (see Table 2), artificial regenerations, although fluctuating between 2010 and 2015, recorded a growth rate of 17.22% in 2015 compared to 2010, which may create some feelings of optimism on better management of forests.

**Table 2 Several indicators of Romania National Institute of Statistics relevant to the situation of the forestry industry in Romania**

	2010	2011	2012	2013	2014	2015	Growth rate (%) (2015 compared to 2010)
Total forest fund (thousands of hectares)	6515	6522	6529	6539	6545	6555	0.61
Forests area (thousands of hectares)	6354	6365	6373	6381	6387	6399	0.71
Total volume of harvested wood (thousand cubic meters)	16992	18705	19081	19282	17889	18133	6.71
Total artificial regeneration (hectares)	10106	11499	11026	10437	12508	11846	17.22
Surface covered with regeneration cuts (hectares)	99229	107690	109615	109738	100981	98453	-0.78

*Source:* Romania National Institute of Statistics, Statistical Yearbook of Romania 2016, author calculation of growth rhythm.

At the same time, at least for the energy resources (biomass), Romania is a wood importer, and the impact of the international price changes in Romania will therefore depend on the world and regional market of firewood, including what is happening with forests in other countries amid climate change. Given that more than 3 million Romanians are currently heating up with firewood at import tariffs over those practiced in Serbia, Poland, France and even Germany, an emergency solution would be to that the state to facilitate, through Romsilva, the population's access to a cheaper and reasonably priced firewood (exceeding the threshold set of 15% of the woods harvested in the state forests), and on a horizon of several years switching to gas heating or facilitating the purchase of renewable heating sources and, in cities, putting into (re)operation the centralized heating sources.

If we look at the situation of the forest fund and the area of the forests correlated with the main macroeconomic indicators of Romania for the period 2004-2016, we can observe (Table 3) that, excluding the correlation between the macroeconomic indicators between them and the forest indicators among them, the correlation matrix shows somewhat awaited results.

For example, between 2004 and 2016, the area of forests is strongly correlated negatively with the average interest rate of banks, non-banking, non-governmental clients, which indicates a mature and responsible process of society rather than an ad-hoc correlation. As Romanian society moved to a liberalization of the financial and capital market, interest rates on loans gradually slowed down over time. Public debt has seen an upward trend as the modernization needs of the Romanian society have increased, inflation has fallen sharply on the background of a relatively restrictive monetary policy, and the exchange rate has seen an upward trend driven by incoherence in economic policy and commercial - the competitiveness of Romanian products is supported by price and, to a lesser extent, by quality. At the same time, awareness of ecological problems has become even more important, so the importance of maintaining and increasing the area of forests has become noticeable for the entire Romanian society. It is important to note that correlation does not imply causality, so caution is required in interpreting, beyond the fact that the data set is extremely low.

**Table 3. The matrix of correlation between indicators of the forests situation and macroeconomic indicators of Romania**

	<i>GDP<sub>r</sub></i>	<i>HICP</i>	<i>AER RON/EUR</i>	<i>GGD</i>	<i>Def guv</i>	<i>CAB</i>	<i>AABIR</i>	<i>NoEmpl</i>	<i>FA</i>	<i>FF</i>	<i>FF Pub</i>	<i>FF Priv</i>	<i>WVTH</i>
FA	-0.29	-0.90	0.73	0.85	-0.17	0.45	-0.91	-0.13	1				
FF	-0.30	-0.89	0.71	0.83	-0.19	0.41	-0.90	-0.11	1	1			
FF Pub	0.39	0.79	-0.75	-0.81	0.34	-0.41	0.83	0.12	-0.97	-0.97	1		
FF Priv	-0.38	-0.81	0.74	0.82	-0.32	0.41	-0.84	-0.12	0.98	0.98	-1.00	1	
WVTH	-0.15	-0.48	0.67	0.77	0.08	0.42	-0.48	-0.47	0.68	0.68	-0.69	0.69	1

Source: NBR and NIS of Romania data, author calculations, color code: - very light gray interval [0.75; 1], - light gray interval [0.50; 0.75), - gray average range [0.25; 0.50), - dark gray interval [0; 0.25). Notes: GDP<sub>r</sub> - real GDP (% change as of 2005, data refer to industrial production), HICP - Inflation (HICP) (average annual change rate %), CSRON / EUR average exchange rate of the period, DP - Gross government debt (% of GDP), Defguv - Government deficit / surplus (% of GDP), CAB - Current account balance (net) non-governmental clients (% pa), RMDA - Average active bank interest rate, non-banking, non-governmental clients (% p.a.), NoEmpl - Number of employees in the economy (thousands of persons), FA – Forests area (thousand hectares), FF - Total forestry fund (thousands of hectares), FFPub – Public Forest Fund (thousands of hectares), FFPriv - Private Forest Fund (thousands of hectares), WVTH- Wood volume totally harvested (thousands of cubic meters).

Based on the correlation matrix, it has been taken into account only the link between forest-specific indicators in relation to macroeconomic indicators, considering that the former may be influenced by the latter, although, as we have seen above, the effects of poor forest management at the level of a country can have strong negative effects in many plans, far exceeding the economic sphere. Thus, in the calculation of the regression equation for the relation between the forest area and a series of macroeconomic indicators, we followed only the indicators with a relatively strong correlation (interval [0.75, 1] and [0.50, 0.75) respectively) (Table 4).

**Table 4 The result of the regression equation considering the link between the forests' area and the average bank interest rate (% pa) (AABIR), inflation (HICP) (average annual change rate %), gross government debt (% of GDP), period average exchange rate (AER<sub>RON / EUR</sub>)**

SUMMARY OUTPUT	
<i>Regression Statistics</i>	
Multiple R	0.98
R Square	0.95
Adjusted R Square	0.93
Standard Error	16.38
Observations	13

ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	4.00	42449.90	10612.47	39.54	0.00
Residual	8.00	2147.33	268.42		
Total	12.00	44597.23			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95,0%</i>	<i>Upper 95,0%</i>
Intercept	6141.52	124.16	49.47	0.00	5855.21	6427.82	5855.21	6427.82
AABIR	-8.98	2.69	-3.33	0.01	-15.20	-2.77	-15.20	-2.77
HIPC	3.24	4.45	0.73	0.49	-7.01	13.50	-7.01	13.50
GGD	-0.52	1.81	-0.29	0.78	-4.70	3.65	-4.70	3.65
AER <sub>RON/EUR</sub>	77.05	44.12	1.75	0.12	-24.68	178.79	-24.68	178.79

*Suorce:* NBR și Romania's NIS data, author's calculation

Thus, the simple linear regression model proposed in the study of forest surface evolution (Yt) is analyzed according to AABIR, HICP, GGD and AER<sub>RON / EUR</sub> (Xt) and has the following simplified formula:

$$SP = f(\text{AABIR, HICP, GGD, AER}_{\text{RON/EUR}}) \text{ sau}$$

$$SP = c(1)+c(2)*\text{AABIR}+c(3)*\text{HICP}+c(4)*\text{GGD}+c(5)*\text{AER}_{\text{RON/EUR}} +\varepsilon$$

Analyzing the value of the determination coefficient or R<sup>2</sup>, which is used to measure the intensity of the correlation between the endogenous variable and its determinants, it is observed that the value of 0.95 is very good. At the same time, with respect to the adjusted R<sup>2</sup>, it is equal to 0.93 at the sample level, suggesting a very strong correlation between the variables in the model.

One of the problems of any regression model is how to determine the parameters. In this case, we used the generalized least squares technique provided by the Excel Data Analysis toolkit. The use of this tool allowed estimation of model parameters. The values of the estimated coefficients in the sample are c (1) = 6141.52, c (2) = -8.98, c (3) = 3.24, c (4) = -0.52 and c (5) = 77.05. The coefficient c(1) shows the value of the forest area if the value of the other variables is zero, the coefficient c (2) shows the level of the forest surface growth when the bank active interest rate increases by one unit, the coefficient c(3) shows the level of growth of forests when inflation increases with one unit. The coefficient c (4) shows the level of growth of forests when public debt increases by one unit, and the coefficient c (5) shows the level of forest growth when the exchange rate between the national currency and the euro increases by one unit. Based on the values of the coefficients, it is noted that the sign is positive for inflation and the exchange rate, so the correlation of each of these indicators with the surface of the forests is direct, while we can say that we have an inverse correlation between the forest area and the public debt respectively between the forests and the active bank interest rate. Based on the results in Table 4, it is noted that although most of the coefficients are significantly different from zero, they have an associated probability or a p-

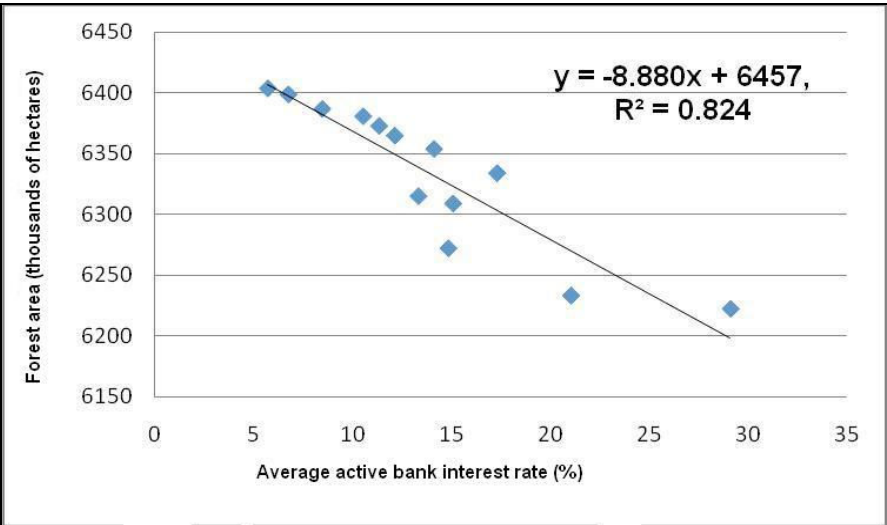
value well above 0.05, and only AABIR, except c (1), has a p-value probability of 0.01, which confirms that only this is significant in the total statistical population and that only for this indicator, the null hypothesis H0 is rejected. Thus, for this model (2) the model was correctly specified, identified and evaluated.

Thus, it can be considered that the influence on the dependent variable comes from only one factor, and the most commonly used method is the scatter graphic representation.

Therefore, in the first figure, the relationship between the average bank lending interests rate (% p.a) (AABIR) and the area of forests (thousands of hectares) (FA) was graphically represented (see Figure 1). Observing the value of the determination coefficient or  $R^2$ , we can say that the intensity of the correlation between the endogenous variable and the determinant variable is very good ( $R^2 = 0.824$ ). Noteworthy, if we look at the situation in the opposite direction, the independent variable being the surface of the forests, and the dependent variable the average interest rate of the banks, the equation changes to  $y = -0.092x + 601.7$ , the indicators keeping an inverse correlation in both cases.

If we analyze the link between the publicly owned forest fund and the following indicators: average commercial bank interest rate (%), gross public debt (% of GDP) and inflation (HICP) (annual average change rate %) (Table 5) we find that only for public debt the p-value probability is 0.03, which confirms that only this indicator is significant in the total statistical population and that only for this indicator, the null hypothesis H0 is rejected. Thus, for the public debt only, the model was correctly specified, identified and evaluated.

**Figure 1. The Link between the Average Active Bank Interest Rate (% pa) (AABIR) and Forest area (thousands of hectares) (FA)**



Source: NBR and Romania’s NIS data, author calculations

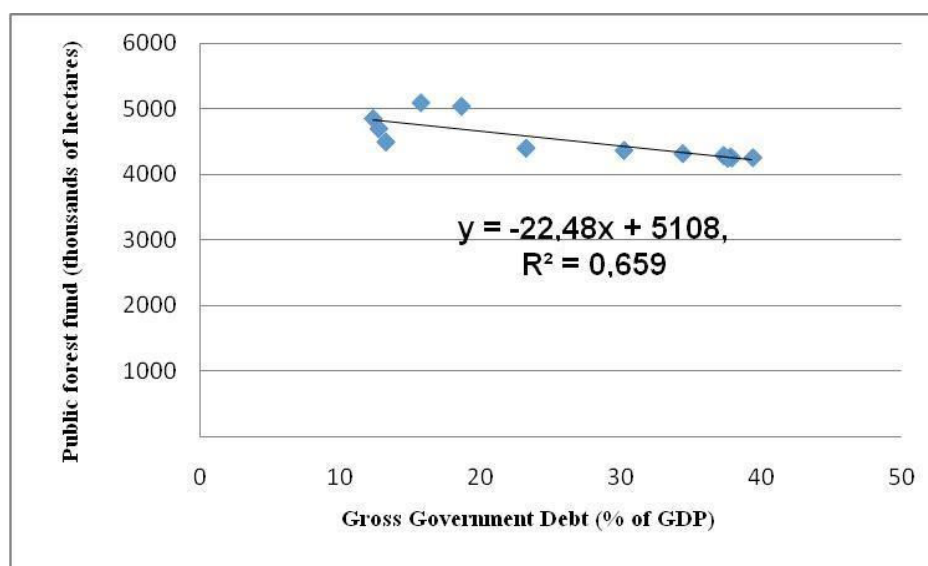
**Table 5 The result of the regression equation on the link between the publicly owned forest fund and the average active bank interest rate (% pa) (AABIR), gross public debt (% of GDP) and inflation (HICP) (average annual change rate %)**

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.91							
R Square	0.82							
Adjusted R Square	0.76							
Standard Error	150.10							
Observations	13							
ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>			
Regression	3.00	944816.53	314938.84	13.98	0.00			
Residual	9.00	202781.77	22531.31					
Total	12.00	1147598.31						
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95.0%</i>	<i>Upper 95.0%</i>
Intercept	4510.52	247.01	18.26	0.00	3951.74	5069.29	3951.74	5069.29
AABIR	41.34	20.36	2.03	0.07	-4.72	87.40	-4.72	87.40
GGD	-15.37	5.79	-2.66	0.03	-28.46	-2.27	-28.46	-2.27
HICP	-33.39	38.28	-0.87	0.41	-119.98	53.19	-119.98	53.19

Source: NBR and Romania's NIS data, author calculations

Again, in order to better exemplify the link between public debt (% of GDP) and the state property (thousands of hectares), we can use a scatter chart (Figure 2). The value of the determination coefficient or  $R^2$  ( $R^2 = 0.659$ ) is much lower in this situation, but it retains an important explanatory value for the correlation and determination of the analyzed elements.

**Figure 2. Link between gross government debt (% of GDP) and public forest fund (thousand hectares)**



Source: NBR and Romania's NIS data, author calculations

The last regression equation used from an economic perspective can have a more meaningful meaning in the sense that it links the Wood volume totally harvested (thousand cubic meters) (WVTH) and gross government debt (% of GDP) (GGD), as well as the RON /



EUR exchange rate (average of the period) ( $AER_{RON/EUR}$ ). The equation has the following simplified formula:  $WVTH = (GGD, AER_{RON/EUR})$ .

Analyzing the value of the coefficient of determination or  $R^2$  of the equation set above we find that the intensity of the correlation between the endogenous variable (WVTH) and its determinants is relatively good (0.62). At the same time, with respect to the adjusted  $R^2$ , it is equal to 0.54 at the sample level, suggesting a somewhat satisfactory correlation between the variables in the model.

The values of the coefficients estimated at the sample level in this case are:  $c(1) = 19364.75$ ,  $c(2) = 125.10$  and  $c(3) = -1305.19$ . The coefficient  $c(1)$  shows what would be the value of the total volume of the harvested wood (thousand cubic meters) if the value of the other variables would be zero, the coefficient  $c(2)$  shows the level of increase of the total volume of the harvested wood (thousand cubic meters) when the public debt increases by one unit, and the coefficient  $c(3)$  shows the level of increase of the volume of total wood harvested (thousand cubic meters) when the Leu / Euro exchange rate increases by one unit. Based on the values of the coefficients, it is noticed that the sign is positive for the public debt, so the correlation of the public debt with the volume of the total harvested wood (thousand cubic meters) is direct, while we can say that we have an inverse correlation between the volume of wood total harvested (thousand cubic meters) and exchange rate. Based on the results in Table 6, it is noted that although the coefficients are significantly different from zero, they have an associated probability or a p-value well above 0.05 or slightly above 0.05 in the case of public debt. For this reason, we can assume that the proposed indicators do not allow the rejection of the null hypothesis. Thus, so further attempts will be needed to find more appropriate parameters.

**Table 6 The result of the regression equation in relation to the total volume of harvested wood (thousand cubic meters) and the gross government debt (% of GDP) and the RON / EUR exchange rate (average of the period)**

SUMMARY OUTPUT								
<i>Regression Statistics</i>								
Multiple R	0.79							
R Square	0.62							
Adjusted R Square	0.54							
Standard Error	789.99							
Observations	13							
					<i>Significance</i>			
ANOVA	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>F</i>			
Regression	2.00	10132420.5	5066210.25	8.1	0.01			
Residual	10.00	6240826.72	624082.67	2				
Total	12.00	16373247.2	3					
	<i>Coefficien</i>	<i>Standard</i>	<i>t</i>	<i>P-</i>	<i>Lower</i>	<i>Upper</i>	<i>Lower</i>	<i>Upper</i>
	<i>ts</i>	<i>Error</i>	<i>Stat</i>	<i>value</i>	<i>95%</i>	<i>95%</i>	<i>95,0%</i>	<i>95,0%</i>
Intercept	19364.75	5112.69	3.79	0.00	7972.96	54	6	54
GGD	125.10	58.32	2.14	0.06	-4.85	255.06	-4.85	255.06
			-			2263.8	4874.2	2263.8
$AER_{RON/EUR}$	-1305.19	1601.82	0.81	0.43	-4874.26	9	6	9

Source: NBR and Romania's NIS data, author calculations

It should be noted that all the results obtained with regard to Romania should be interpreted with caution, the link between numerous forest indicators and a series of macroeconomic variables may contain a number of forceful, especially interpretative

elements, considering that the available data set is extremely limited. However, the outcomes of this article can help to create a clearer, more honest and inclusive horizon in understanding the impact of policy implications and macroeconomic realities on the various important ecological and economic spheres such as forests. The adverse impact, though harder to evaluate and quantify economically, may prove to be even more valuable, with the possibility of developing alternative scenarios of involvement in forest management policies and obtaining macroeconomic outcomes (for example, an active, stimulation of regeneration and, implicitly, wood harvesting in forests can lead to a better contribution of this area to the creation of GDP).

## **5. Conclusion**

This article is an initiative to explore, collect, process and link information on the state of forests in Romania in relation to macroeconomic policies and developments. The main purpose of the study is to provide a better understanding of the realities and relationships between macroeconomics (implicit society) and forests, thus facilitating a series of adjustments, reforms and scenarios on the future of macroeconomic policies and forest management policies in Romania.

The article analyzes predominantly the impact of Romania's macroeconomic indicators on forests and less a link in the opposite direction, considering that the contribution of agriculture, forestry and fishing to real GDP support is modest. Thus, the adaptations of the forestry sector to the Romanian macroeconomic realities can be proved, at least in part, by a relatively simple econometric analysis, using national and international statistical databases for a period from 2004 to 2016. Following a limited series data, the conclusions drawn from the analysis should be interpreted with reservations.

At the same time, following the evolution of the annual forest deforestation in Romania, it can be noticed that during the period 2000-2010 the annual growth rate was positive and the production of timber and round wood processing increased in the period 2005-2015, while the gross added value of the forestry industry at base prices (in million / EUR) declined significantly in 2015 as compared to 2005. Equally, the growth rate of the forest fund (thousands of hectares) over the period 2010-2015 was below the growth rate of the total volume of harvested wood (thousands of cubic meters), proving an unsatisfactory forest management policy in our country.

Looking at the situation of the forest fund and the forests' surface in relation to the main macroeconomic indicators of Romania for the period 2004-2016, based on the correlation matrix, we can note that, excluding the correlation between the macroeconomic indicators between them and the forest indicators among them, the correlation matrix indicates somewhat expected results. For example, between 2004 and 2016, the area of forests is strongly correlated with the average interest rate of banks, non-banking, non-governmental clients, which indicates rather a growing up process of Romanian society because interest rates on loans gradually were decreasing in time. Also, the government debt registered an upward trend as the modernization needs of the Romanian society increased, the exchange rate was increasing due to the incoherence in the economic, monetary and commercial policies, and the inflation was shaped in a decreasing direction on the grounds of relatively restrictive monetary policy. Equally, the awareness of ecological problems and the importance of maintaining and increasing the area of forests have become noticeable in Romanian society.

Looking at the results of the regression equation linking forests area of the active interest rate, inflation, exchange rate and government debt, it is clear that only for the average active interest rate the model was correctly specified, the forests area indicators and the active interest rate, retaining a strong correlation, but in the opposite direction. At the same time,

analyzing the link between the publicly owned forest fund and the following indicators: the average interest rate of commercial banks, gross government debt and inflation, we might conclude that only in the case of government debt the model was correctly specified. Practically, the two regression equations demonstrate a possible link between the total forests area (and respectively of the public property forest fund) with the issue of private indebtedness (the commercial bank's interest rate) and respectively with government debt (the evolution of public debt as percent of GDP). If in the former case the significance of the link is less obvious, in the second it clearly highlights a flagrant deficit of strategy in the management of the public property forest fund as an effective means of reducing or moderating the increase in government debt. This remark can also be supported by the strong and direct correlation between the evolution of the total volume of harvested wood (thousand cubic meters) and the gross government debt (% of GDP), thus the increase in the volume of extracted wood not leading to the reduction of the public debt.

Taking into account that the available data set is extremely small, the results obtained for Romania need to be interpreted with caution, sometimes leading to forced interpretations. However, the article may provide important theoretical and practical openings on the link between policy developments and implicitly the main macroeconomic parameters and the situation of forests in Romania.

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# EXPLORING THE NEXUS BETWEEN INNOVATION AND EMPLOYEE PERFORMANCE – EMPIRICAL EVIDENCE FROM NIGERIAN MANUFACTURING INDUSTRY

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## Abstract

Innovation reflects the tendency of a firm to enhance, appreciate and acquire new ideas, novelty, experimentation and the creative processes that may result in new products, services or technological process. The choice of appropriate innovation mix required to enhance organizational performance therefore becomes germane. This study examined the impact of innovation mix in developing countries. Survey research design was used in the study. Data for this research was obtained from Primary sources through the aid of a structured questionnaire. Krejcie and Morgan formular were used to estimate the sample size. 368 copies of questionnaires were administered, out of which 309 were found to be useful for the analysis representing valid response rate. The data were analyzed using descriptive statistics and inferential statistics of partial least square structural equation model (PLS-SEM). The hypothesis was tested at 0.05 alpha levels. Findings revealed that there is a significant relationship between innovation mix and market performance ( $R^2 = .643$ , &  $P < .000$ ). Three components of innovation mix, product ( $\beta = .310$ ,  $t = 4.269$ ,  $p < .000$ ) process ( $\beta = .178$ ,  $t = 3.047$ ,  $p < .002$ ) market ( $\beta = .317$ ,  $t = 4.720$ ,  $p < .000$ ) were found to be significantly related to market performance while the fourth component, organization ( $\beta = .080$ ,  $t = 1.390$ ,  $p < .165$ ) was not significant. The findings of the study revealed that indeed the adoption and implementation of innovative practices makes an organization not only to be proactive to changes but also initiate positive changes that consequently leads to competitive advantage, improved market performance and sustainable performance. It was recommended that organizations should continuously maintain, sustain and improve innovative practices since it is an indispensable tool for improved market performance. Based on the findings of this study, the study concluded that innovative performance is the main vehicle to convey the positive effects of innovation types to market performance. It was recommended that organizations should continuously engage in market innovation practices in order to generate extra value for their customers whilst thriving to cut costs, increase productivity and sustain competitive edge in today's market.

**Keywords:** Organization Innovation, Competitive Advantage, Strategy, Performance, Entrepreneurship

## 1. INTRODUCTION

Innovation and creativity in the workplace have become increasingly important determinants of organizational performance, success, and longer-term survival. As organizations seek to harness the ideas and suggestions of their employees, it is axiomatic that the process of idea generation and implementation has become a source of distinct competitive advantage (Anderson, De Dreu, & Nijstad, 2004; Zhou & Shalley, 2010). Creativity and innovation at work are the process, outcomes, and products of attempts to develop and introduce new and improved ways of doing things. The creativity stage of this process refers to idea generation, and innovation to the subsequent stage of implementing ideas toward better procedures, practices, or products. Creativity and innovation can occur at the level of the individual, work team, organization, or at more than one of these levels combined, but will invariably result in identifiable benefits at one or more of these levels-of- analysis. Whereas creativity has been conceived of as the generation of novel and useful ideas, innovation has generally been argued to be both the production of creative ideas as the first stage, and their implementation as the second stage (Amabile, 1996; Shalley & Zhou, Oldham, 2004).

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Innovation and creativity are considered to be over-lapping constructs between two stages of the creative process; both are necessary for successful entrepreneurship (Martins and Terblanche, 2003). According to Heye (2006), innovation can be defined as the implementation or transformation of a new idea into a product, service, or an improvement in organization or process. It is a process of continuous renewal involving the entire, enterprise and is an essential part of business strategy. Zairi (1994) confirmed that innovation is the new way of delivering quality products and services to customers both consistently and with economic viability in mind. Creativity on the otherhand refers to the production of novel and useful ideas (Amabile, 1996). According to Okpara (2007), creativity is a process by which a symbolic domain in the culture is changed. For example, creativity involves new songs, new ideas, and new machines. He added that creativity is marked by the ability to create and bring into existence, to invest into a new enterprise and to produce through imaginative skills. In a nutshell, creativity encompasses innovation.

Industry is born of a need to make a profit. For that it requires creativity and innovation to thrive. Indeed the value that creativity and innovation brings to an organization cannot be overstated. The OECD and Eurostat, (2005) posits that innovation is central to the growth of output, productivity and a basic factor of competitiveness. Job and Sanghamitra (2006) argue that innovation benefit companies beyond improved efficiencies or sales growth. We can no longer afford relegating creativity and innovation solely to the ‘creative industries’ if we are to adjust and thrive in a global market. Creativity requires development of specific organizational capabilities which deviates from the existing ones. Anderson and Markides (2006) states that for competitive advantage, there is need to come up with a differentiated strategy. As such, thinking ‘out of the box’ has become a recurrent mandate from enlightened shareholders. There has been increasing pressures on organizational stakeholders from the strategic to operational levels to be creative and innovative with their contributory solutions. However the challenge with creativity and innovation is that you cannot mandate innovation per se, or squeeze it out of employees. This is a collaborative process which makes imperative the creation of an enabling environment and value systems.

One of the germane feature in the 21<sup>st</sup> century is globalization which has created inherent opportunities in terms of access to supply chains and new markets thereby also intensifying competition. To compete effectively therefore, organisations need to innovate successfully. The key then to competitiveness no longer lies in re-applying past successes or the traditional ‘way of doing business’ but in fostering organizational capacity for tolerance and the competencies required to nurture creativity and contain the ambiguities and uncertainties innovation brings. Despite the forgoing importance on the role of organizational innovation and its strategic importance in facilitating improved organizational performance. A review of empirical literature revealed that much of the research that has been done concentrated in advanced world, the body of research work available in developing countries like Nigeria on seems to be few. Thus, a dearth in research. It is against this backdrop that this research investigated the nexus between organizational innovation and performance of selected firms in Nigerian Manufacturing Industry.

## **2. LITERATURE REVIEW**

### **i. Conceptual Crystallization**

#### **a. Creativity**

There are many definitions of creativity. A number of them suggest that creativity is the generation of imaginative new ideas (Newell and Shaw 1972), involving a radical newness innovation or solution to a problem, and a radical reformulation of problems. Other definitions propose that a creative solution can simply integrate existing knowledge in a different way. A third set of definitions proposes that a creative solution, either new or

recombined, must have value (Higgins, 1999). A novel idea is not a creative idea unless it is valuable or it implies positive evaluation. Also, according to dt ogilvie (1998), imagination, which involves the generation of ideas not previously available as well as the generation of different ways of seeing events, is important to achieve creative actions

To combine this variety of definitions, we can say that creativity involves the generation of new ideas or the recombination of known elements into something new, providing valuable solutions to a problem. It also involves motivation and emotion. Creativity “is a fundamental feature of human intelligence in general. It is grounded in everyday capacities such as the association of ideas, reminding, perception, analogical thinking, searching a structured problem-space, and reflecting self-criticism. It involves not only a cognitive dimension (the generation of new ideas) but also motivation and emotion, and is closely linked to cultural context and personality factors.” (Boden, 1998).

According to Boden (1998), there are three main types of creativity, involving different ways of generating the novel ideas:

- a) The “combinational” creativity that involves new combinations of familiar ideas.
- b) The “exploratory” creativity that involves the generation of new ideas by the exploration of structured concepts.
- c) The “transformational” creativity that involves the transformation of some dimension of the structure, so that new structures can be generated.

Creative thinking in a disciplined manner can play a real role in innovation. “Creativity and innovation are normally complementary activities, since creativity generates the basis of innovation, which, in its development, raises difficulties that must be solved once again, with creativity...It is not possible to conceive innovation without creative ideas, as these are the starting point. (European Commission 1998). Innovation results when creativity occurs within the right organizational culture. The right organizational culture is one that provides through creativity processes (creative techniques) the possibilities for the development of personal and group creativity skills. We can define creativity IMT as the establishment of skills by implementing creativity generation techniques.

## **b. Innovation**

Innovation is a strategic tool for firms to survive and gain competitive advantages in the global marketplace. Innovative firms can improve their performances, defeat their competitors and provide value to their stakeholders. Innovation is a source of competitive advantage for a firm (Zawislak, Alves, Tello-Gamarra, Barbieux, Reichert, 2012). According to Oslo Manual (OECD, 2005), an innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations.

To Kuratko and Hodgetts (2004), innovation is the creation of new wealth or the alteration and enhancement of existing resources to create new wealth. Innovation is also seen as a process of idea creation, a development of an invention and ultimately the introduction of a new product, process or service to the market (Thornhill, 2006). At present, this concept is applied in every facet of social lives and activities. This makes the innovation concept become more multidimensional and intricate. Innovation is also considered as an effective way to improve firm’s productivity due to the resource constraint issue facing a firm (Lumpkin and Dess, 1996). Bakar and Ahmad (2010) add that the capability in product and business innovation is crucial for a firm to exploit new opportunities and to gain competitive advantage. Product, process, marketing and organization are the various types of innovation. A theme that runs through both the academic and managerial literature is that at the core of organizational innovation, there is the need to improve or change a product or process. Innovation revolves around change, yet not all change is innovative; the change must be substantial and meaningful to a stakeholder.

## **ii. Theoretical Review - Resource Based View Theory**

Theoretically, the central premise of RBV addresses the fundamental question of why firms are different and how firms achieve and sustain competitive advantage by deploying their resources.

Resource Based View emerged as an alternative to the strategic management theories explaining competitive advantage of an enterprise with its market position. The founder of Resources Based View was Edith Penrose who noticed that competitiveness of a firm varies considerably within one industry. Thus scientific community draws their attention to specific resources of a firm that are hard or even impossible to imitate by competitors. Those specific resources are intangible, rare and difficult to imitate and replace. Later the notion of dynamic capacity was developed. Those are the capacities that allow creating new knowledge and adapting to changing environment. Dynamic capabilities can be accepted as the most important resource since they provide assistance in production of new knowledge. Among dynamic capabilities are innovation oriented culture, ability to implement innovations, social capital in terms of cooperation with other market players and entrepreneurial orientation willingness to take reasonable risks and ability to observe new business opportunities. The assessment of innovations demand agreement on clear and coherent indicators of innovative activity of an enterprise.

The resource-based view (RBV) indicates that, firms with valuable, rare, and inimitable resources have the potential of gaining competitive advantage (Barney, 1999). A sustainable competitive advantage (e.g. in terms of low costs/prices, better service, faster delivery, innovativeness) can be described as the development of a unique product market combination, by using resources and taking specific strategic decisions concerning the business. Unique resources or combinations of resources (sometimes also referred to as distinctive capabilities or core competencies) can be categorized as uncodified institutional knowledge (in networked people; in embedded processes) versus sunk costs and irreversible investments (investments in reputation; in legal protection; in specialized assets) (Van der Heijden, 2000).

## **iii. Empirical Review**

Alzuod and Kharabsheh (2015) carried out a research which was aimed at examining the influence of managerial innovation on firm performance in Jordanian Commercial Banks. The study conceptualized managerial innovation as consisting from three dimensions: management practices, management processes and organizational structures. The dependent variable of the study was firm performance which was assessed through an integrated approach that combined financial and non-financial indicators: profitability, market share, returns on investment, customer satisfaction and quality of services. Data was gathered by using a questionnaire survey. The questionnaire was distributed to a sample of 200 branches' managers from branches of Jordanian commercial banks. 135 usable questionnaires were returned. Multiple and simple regression analysis were used to analyses the data. The results illustrated that managerial innovation. The study found that managerial innovation has a positive influence on firm performance in Jordanian Commercial Banks. It also found that there is positive influence between management practices, management processes and organizational structures on firm performance in Jordanian Commercial Banks. The study found that management processes dimension has the strongest influence on firm performance. Conclusion and recommendation were provided.

Olugho (2015) carried out a research which investigated how innovation affects business performance in small and medium-sized enterprises (SMEs) in an up-and-coming market, like Nigeria. Data was collected from 200 respondents of six SMEs companies based in Nigeria. Innovation was measured using the OECD Oslo scale (2005). The study demonstrated that there is a high correlation among factors used to measure innovation. And secondly, innovation was found to influence business performance.

Njeru (2012) carried out a study which sought to investigate the extent of entrepreneurial mindset or the lack of it and its effect to the performance of small manufacturers in Nairobi Industrial Area. The focus of the research was to measure the entrepreneurs' mindset exhibited through innovativeness, business alertness and creativity and how these attributes contributed to the performance of a business enterprise. The research focused on a population of 625 small and medium manufacturers based in Nairobi industrial area from whom a sample of 230 firms were selected through stratified random sampling method. A questionnaire was used to collect the data. The SPSS software was used by the researcher to run a descriptive statistical analysis and to establish the relationship between the variables. Pearson's correlation analysis was used. The study revealed that business alertness, innovativeness and creativity respectively played a great role in business performance. Gender and age plus the size of the business were not significant on entrepreneurial mindset and hence not significant on the firm's performance. It was not however clear as to what exactly creates the entrepreneurial spirit is an individual entrepreneurs and this is an area where further research has been recommended. Similarly, the researcher recommended that all stake holders in economic development review strategies to emphasis on events, policies and programmes that promote entrepreneurial mindset to the players in the market. The study revealed that entrepreneurial mindset or lack of it has a major effect on business performance and if any economy is bended towards development and growth, it would have to embrace this concept.

Iyayi, Akinmayowa, & Enaini (2012) using a theoretical exposition investigated the influence of corporate innovation on entrepreneurial development. To achieve this purpose a review of extant literature on innovation and creativity, concept of corporate innovation process of corporate innovation, approaches to corporate innovation, corporate innovation strategies, and entrepreneurial development influence of corporate innovation on entrepreneurial development was made. The review was concluded by the conceptualization of corporate innovation and entrepreneurial development in a model framework. The analysis indicated that corporate innovation enhances entrepreneurial development and we therefore submitted that corporate innovation should become on integral part of any enterprises if entrepreneurial development must be sustained

Gudyanga (2013) investigated the relationship between creativity, innovation and organisational culture: achieving external adaptation by leveraging an innovative enabling culture. The study also sought to explore and advance practical recommendations on how an organisation's innovative and creative potential can be leveraged through culture to ensure organisational adaptation. The study proposed that the decline of the organisation under study was due to its failure to adapt or navigate the environment. Descriptive statistics, Pearson correlation and Regression analysis were used to address research questions and test the hypotheses. Survey results of ART Corporation sample showed that the dominant culture type at ART Corporation is the Hierarchy culture with a mean score of 3.65, sd 0.43. Overall ART Corporation has a lower organisational adaptation index with a mean score of 2.50. sd 0.92. Significant relationships were found between Organisational Culture and Innovation culture ( $r = 0.56, p < 0.00$ ), Organisational culture and creativity and innovation ( $r = 0.32, p < 0.01$ ); the Innovation culture construct and innovation and creativity index ( $r = 0.67; p < 0.00$ ), however an inverse relationship was found between innovation and creativity and organisational adaptation ( $r = -0.43, p < 0.001$ ). A low significant relationship was found between organisational adaptation and organisational culture  $r = 0.20, p < 0.11$ . After controlling for mediation the variance explained by organisational culture changed from 4.2% to 14.44% that is the link with organisational adaptation increased significantly ( $\beta = 0.38, p < 0.01$ ) thus failing to satisfy the conditions necessary to determine mediation. Secondary analysis with specific organisational culture dimensions produced significant correlations with the strongest being



dominant characteristics  $r=0.52$ ,  $p<0.00$ . The results indicate that ART Corporation need to focus on its organisational culture to leverage organisational adaptation.

Audrey (2016) examined the impact of innovation on performance of small and medium enterprises (SMEs) in Tanzania: a review of empirical evidence. This explanatory study uses a desktop methodology to investigate the world wide existing empirical studies results on the relationship between Innovation on Small and Medium Enterprises (SMEs) performance. The literature survey reveal that the studies on innovation and its effect on performance are observed to have concentrated to Western, Middle and Far East and very little empirical evidence is noticeable in Africa. The issue of innovation and how it relate to firm's performance and specially SMEs is therefore yet to be exhaustively explored. The results from review further find that no consistent results on whether the innovations altogether influence firms performance. The conclusion is therefore not generally viable. The nature of the empirical results reported in this paper indicates a need for such studies especially in Africa where the research fissure is widely observed in this area. The paper is thus a wakeup call for empirical studies that assess the impact of innovation on SMEs performance in Africa and Tanzania in particular where the studies of this nature are rarely found in the review of literature conducted in this paper.

Namusonge, Muturi & Olaniran (2016) examined the role of innovation on performance of firms on the Nigerian stock exchange. The central objective of the paper is to look at the relationship between innovativeness and firm performance in Nigeria. The target population is 176 firms listed in the Nigerian Stock Exchange with financial returns as at August, 2014. Out of the population, a sample of 60 firms was taken. Methods of statistical analyses include mean, standard deviation, and Pooled, Random and Fixed regression models based on the preferences suggested by the Hausman specification test results. The results of panel analysis of the relationship between Entrepreneurial Orientation dimension – Innovation, and performance of firms listed in the Nigerian Stock Exchange, with returns on assets and returns on equity as proxy revealed a negative relationship between innovation and returns on assets and innovation and returns on equity. This results, confirmed a study conducted in 2007 in Nigeria on 88 SMEs earlier mentioned.

Rangarirai, Linet, Thondhlana and Kakava (2013) carried out a research on Innovation in SMEs: A review of its role to organisational performance and SMEs operations sustainability. A descriptive survey was used as the research design. SMEs in manufacturing were grouped into sectorial strata and a sample of 30 SMEs across all sectors was selected. Questionnaires and interviews were used to solicit for relevant data. Collected data was presented and analysed using tables, bar charts and pie charts as extracted from Statistical Packages for Social Sciences (SPSS). The hypothesis test was conducted using the SPSS package. On the findings, innovation was found as one of the major attributes which aid SMEs to remain competitive. Findings also points to a strong link between innovation and SMEs operations sustainability. Other research findings reveal managerial characteristics as the most factor which affect SMEs operations positively. However, environmental factors such as government support were considered to be inadequate for the operations of SMEs.

Otache and Mahmood (2015) did a research on entrepreneurial orientation and performance of Nigerian banks: the mediating effect of teamwork Data were collected from 297 bank managers through a self reported questionnaire. SmartPLS-SEM was used to analyze the data collected and test the hypotheses formulated. The results of the structural model indicated a positive and significant relationship between entrepreneurial orientation and performance. Further evaluation of the structural model showed that teamwork fully mediated the relationship between entrepreneurial orientation and organizational performance.

### 3. METHODOLOGY

The study population consists of the staff of selected firms in the Nigerian Food and Beverage Sector and Conglomerate namely Cadbury Nigerian Plc, FlourMills Nigerian Plc, Nestle Nigerian Plc,, UACN Nigerian Plc, and Unilever Nigerian Plc). This survey research is mainly based on primary data collected from employees. A sample was drawn from the population because it is almost impossible to survey the entire population, hence; a sample size of three hundred and fifty five (355) respondents constitutes the sample size for questionnaires that were administered to the staff respondents out of which only three hundred and nine (309) were found to be useful. Data collected from the questionnaire were analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques. Structural equation model was used to show the degree of relationship that exists between organizational innovation and organization performance.

#### Hypothesis

Ho: - Innovation mix does not have significant impact on employee performance of selected firms in Nigerian Food and Beverage Sector

H1a: Market innovation does not have significant impact on employee performance of selected firms in Nigerian Food and Beverage Sector

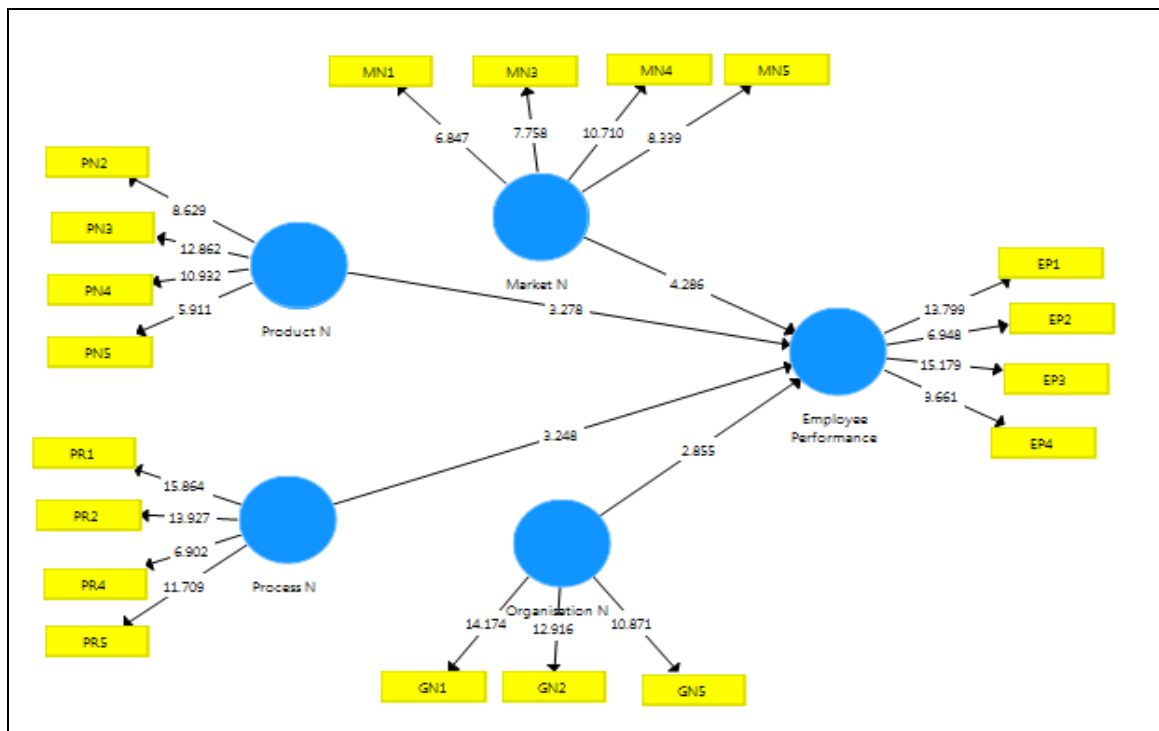
H1b: Organisational innovation does not have significant impact on employee performance of selected firms in Nigerian Food and Beverage Sector

H1c: Product innovation does not have significant impact on employee performance of selected firms in Nigerian Food and Beverage Sector

H1d: Process innovation does not have significant impact on employee performance of selected firms in Nigerian Food and Beverage Sector

### 4. RESULTS AND DISCUSSION OF FINDINGS

**Figure 1 Results of Bootstrapping on Structural Model (Employee Performance)**



**Table 1 Results of Hypotheses Testing (Employee Performance)**

Hyp.	Relationship	Beta	S.Error	T - value	P -value
H <sub>1a</sub>	Market N -> Employee Performance	0.313	0.074	4.286	0.000
H <sub>1b</sub>	Organization N ->Employee Performance	0.177	0.062	2.855	0.004
H <sub>1c</sub>	Process N ->Employee Performance	0.165	0.051	3.248	0.001
H <sub>1d</sub>	Product N ->Employee Performance	0.228	0.069	3.278	0.001

**Note:** Four of the hypotheses are supported based on their T-values (T-value  $\geq 1.96$ ).

Hypothesis 1a predicted that market innovation is related to employee performance. Result (Table 1, Figure 1) revealed a significant positive relationship between market innovation and employee performance based on performance ( $\beta = 0.313$ ,  $t = 4.286$ ,  $p < 0.000$ ), supporting Hypothesis 1a.

Hypothesis 1b predicted that organization innovation is related to employee performance. Result (Table 1, Figure 1) revealed a significant positive relationship between organizational innovation and employee performance ( $\beta = 0.177$ ,  $t = 2.855$ ,  $p < 0.001$ ), therefore, the Hypothesis 1b is supported.

Hypothesis 1c predicted that process innovation is related to employee performance. Result (Table 1, Figure 1) revealed a significant positive relationship between process innovation and employee performance ( $\beta = 0.165$ ,  $t = 3.248$ ,  $p < 0.001$ ). In this regards, the hypothesis 1c is supported.

Finally, in examining the influence of product innovation on employee performance, result indicated that product innovation had a significant relationship with employee performance ( $\beta = 0.228$ ,  $t = 3.278$ ,  $p < 0.001$ ), support Hypothesis 1d.

The findings of this study are consistence with previous studies on the employee performance. Gokmen and Hamsioglu (2011) and Costa and Cabrel (2010) who studied the effect of differentiated knowledge source and learning process on technology capacity to innovate and competitive performance using selected Brazilian export companies. The study found the existence of a positive relationship between knowledge, innovative capabilities and competitive performance.

## **5. CONCLUSION AND RECOMMENDATIONS**

Organizations are said to be operating in a turbulent and hyper competitive environment, and it is their desire to continue to operate successfully by creating and delivering superior value to their customers while also learning how to adapt to a continuous and dynamic business environment. Organization innovation is a sine qua non for all organizations because it will put them in a position to survive the dynamism and complexities in the environment. Innovation is a strategy that is widely accepted by most organizations in contemporary economies. It concludes that innovation is a key determinant of entrepreneurial performance, also the type and degree varies across industries. Therefore, every company seeking competitiveness and improved performance should consider the inclusion of appropriate innovation strategies for the realization of desired outcomes.

Based on the findings of this study, organizations need to pay more attention to organizational innovations, which have a crucial role for innovative capabilities Since innovation strategy is an important and major driver of firm performance and should be developed and executed as an integral part of the business strategy. Organizations should recognize and manage the innovations in order to boost their operational performance. It is therefore recommended that organizations should have a well conceived strategic vision and it must be communicated to all employees. It is imperative to emphasize that all employees

should be carried along in implementation and implantation of organizational innovation that will prepare the company for the future, establish long-term direction and indicate the company's continuous intent to position itself as a market leader in the industry. It is therefore recommended that organizations that wants to continually operate in this 21<sup>st</sup> century dynamic, turbulent, discontinuous and competitive business environment must embrace innovation in order to meet the ever changing needs of its consumers.

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# EMPIRICAL ANALYSIS OF THE RELATIONSHIP BETWEEN MACROECONOMIC FACTORS AND STOCK RETURNS IN NIGERIA

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## Abstract

This research work is aimed at ascertaining the causality among stock returns, inflationary rate, and money flow alongside with currency conversion rate in Nigeria. This work used quarterly data 2000Q1 – 2016Q4. Pairwise econometric technique was employed for data estimation. Return on stock alongside with inflationary rate were seen to have no causal relationship but return on stock was seen to be mutually related with currency conversion rate. The findings further showed that returns on stock has a unidirectional causation with money flow. The findings also showed that inflationary rate and conversion rate have unidirectional causation. The results implied that financiers can employ macroeconomic factors to predict the of movement stock in Nigeria.

**Keyword:** Currency conversion, money flow, return on stock, inflation

## JEL Classification:

## 1. INTRODUCTION

The behavior of stocks with unequivocal stress on the forces that upset returns on stock has become an emblematic concern in accounting and finance research. Financial analysts are of the opinion that stock earnings and the undeniable value of assets at large are generally expected to react to macro-economic factors. There are material explanations for the perspicacity that respective returns are affected by extensive diversity of unexpected dealings.

Anecdotal proof reveals that some dealings have more ubiquitous impact on value of asset than others (Chen, Roll and Ross, 1986). Consequently various heights of inquiry as to what should elucidate the structure of a performing stock market have emerged. To this end numerous asset pricing models have been advocated for elucidation and evaluation of returns on equity. Extent literature reveals that one-factor Capital Asset Pricing Model (CAPM) is the prevailing asset pricing model in some quarters. Proponents of CAPM contend that beta ( $\beta$ ), a dimension of methodical threat with relation to stock movement can be employed to ascertain the performance of stocks. Suffices to say that CAPM model is founded on the notion that the anticipated return on any asset is directly related with only one major factor, that is, its market beta. This solitary assumption is known to be the major shortcoming of the CAPM hence the introduction of a more encompassing and multi-faceted model that accounts for multifactor became imperative thus Arbitrage pricing technique (APT) was developed.

The APT model built by Ross (1976) thrives on the assumption that stock movements are affected by non-correlated common factors and a precise factor that is totally autonomous of other factors. APT allows the researchers to select whatever factors that provide the finest elucidation for the data. APT emanates from a completely dissimilar classes of assumption, as it principally does not place emphasis on efficiency of portfolios but rather establishes a line of causality between the returns on each stock and the prevalent and persistent macro-indicators against unsystematic turbulences in the market (Brealey et al., 2006). To be exact, APT infers that the return on asset can be divided into- anticipated return and an unanticipated. APT forecasts that “over-all news” will affect the performance index of all stocks but by dissimilar amounts.

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Azeez and Yonezawa (2003) opine that the employment of macroeconomic variables are beneficial because they are construal from economic standpoint and they also enhance intromission of extra information, connecting asset price performance with macroeconomic activities. Despite the series of researches done in the pass, it is obvious that the issues surrounding factors that influence stock performance are yet to be resolved.

Outcomes of prior researches on the influence of key economic indicators on earnings from stock are conflicting across countries. Obviously, developing nations are at present unable to present enough empirical evidence on this subject. There have also been divergent results in respect to which of these variables cause emblematic stock movement (Humpe and Macmillan 2007; Mukherjee and Tuftee 1998; Nishat and Shaheen 2004; Maghayereh 2002; Al-Sharkas 2004; Fama 1991). This study thus fills the gill gap in knowledge on the suitability of causation among stock returns, inflationary rate, money flow and conversion rate of local currency by applying APT. The objective of this study is to ascertain the causality between macroeconomic factors and stock returns.

## LITERATURE REVIEW

### 2. Empirical Review

Ibrahim (1999) in Malaysia investigates stock movements and macroeconomic variables relationship. The researcher employs pairwise estimation technique to evaluate data gotten from the field. The outcome of his study shows that movement in conversion rate of local currency leads to significant changes in prices of stock in the short run.

Udegbumam and Eriki (2001) in Nigeria investigate inflation and performance of stock relationship. Their outcome confirms that inflation negatively influences performance of stock.

Muradoglu and Argac (2001) perform a research work to establish the association among stock returns, overnight interest rate, the money supply, and conversion rate of indigenous currency, from 1988 to 1995. Their findings revealed that entire monetary variables co-integrate with returns on stock for sub-period. Their findings infers that returns on stock are reactive to all the variables used for the study.

“Li and Wearing (2002)” in Kuwait employing Least Square estimation methodology carry out a work to establish inflation and prices of stock relationship. The outcome of study reveals that both variable are negatively related.

Maghayereh (2003) employs Johansen’s (1990) methodology to ascertain if key economic indicators have any link with market price index in the Jordanian capital market. Their study employs VECM. Its outcome confirms that entire macro-elements are emblematical for forecasting the prices of stock, which infers that the “Jordanian stock exchange market” violated the market efficiency theory.

Using quarterly data, Ahmed (2008) examines the long and short run link of key economic indicators with prices of stock in India. It was discovered that money supply has direct link with prices of stock in the long run but on the other hand interest rate exhibits insignificant relationship with of prices of stock.

Aydemir and Demirhan (2009), perform a study to ascertain if there is any significant link between market indices and currency conversion rate applying granger evolution technique. Their finding shows that price indices of stock is mutually related with foreign exchange rate. “Federova and Pankratov (2010) “in Russia using EGARCH model investigate the relationship macro elements and performance of stock. Their outcome establishes the existence of direct link of stock market with oil prices and conversion rate of local currency to American dollar.

“Asaolu and Ogunmuyiwa” (2010) examine the link amidst price movement and “key economic indicators “in Nigerian “Key economic indicators” used include external debt,

industrial output, interest rate, investment, exchange rate, foreign capital inflow and fiscal deficit. The outcome of the study establishes the existence of a weak linkage of key economic indicator with price movement in Nigeria.

Masuduzzaman (2012) investigates the connection of returns on stock with macroeconomic factors in German and the UK. The study covers a period of thirteen years, 1999-2011 and employs Johansen co-integration diagnostic test and “Impulse response function.” The outcome establishes a direction connection macroeconomic with returns on stock in long run and short run.

Abraham (2012) examines the key economic indicators and returns on stock relationship in Nigeria for twenty-three years. The study was specifically aimed at ascertaining the connection between returns on stock, exchange rate, interest rate and inflation, “Error Correction Model” was used for estimation of data gathered. Its outcome establishes that returns on stock is negatively related with exchange rate in the short run. Its outcome confirms that exchange rate has positive relationship with returns on stock in the long run.

Nkechukwu, Onyeagba and Okoh (2013) in Nigeria evaluate key economic factors and price movement relationship for twenty-seven years, 1980-2013. Least square evolution technique was used to analyze data collected from field. The outcome of study confirms price of stock to be directly connected with macroeconomic variables in the “long run”.

Issahaku, Ustarz and Domanban (2013) investigate the causation among stock returns on and macro-elements in Ghana for the periods, January 1995 to December, 2010. The study used “Engle and Granger” evaluation technique. Their results in the long run reveal that returns on stock is directly related with inflation, currency flow and Foreign Direct Investment (FDI), inflation and money supply while in the short run stock returns directly related with inflation, currency flow and interest rate.

Abdulkarim (2014) scrutinizes macro-elements/ stock performance relationship in Nigeria. ‘Time serial data’ between 1991 and 2003 were used. Least Square multivariate method was employed to evaluate data gotten from field. The results reveal that returns on stock is not related with any of the economic variables.

Inyama and Nwoha (2014) investigate the correlation that exist amidst price movement in the Nigeria and macroeconomic variables. The study spans from 2000 to 2012. “Granger causality” estimation technique was employed to evaluate the data. The outcome confirms that stock prices have positive relationship with currency conversion rate and inflationary rate but has insignificant relationship interest rate.

Zaighum (2014) carries out a study to investigate the relationship between returns on stock for selected nonfinancial quoted companies on “Karachi Stock Exchange” and macroeconomic factors. The study used panel data and OLS regression technique. The outcome establishes that returns on stock has negative relationship with consumer price index, and money supply.

In Kenya, Ouma and Muriu (2014) scrutinize the connection returns on stock return with macroeconomic variables for ten years, 2003- 2013 using the APT and CAPM). The multivariate regression method was applied to ascertain connection of dependent variables with the independent variables. The finding shows that return on stock is directly connected with macroeconomic variables. .

Barakat, Elgazzar and Hanafy (2016) examine if key economic indicators have any link with returns on stock for two unspecialized markets (Tunisia and Egypt) from “January 1998 to January 2014”. The outcome confirms the presence of mutual causation amidst interest rate, market index, rate of inflation, local currency conversion rate and currency flow in Egypt. All macroeconomic factors used except inflation have causation with stock performance in Tunisia



Okoro (2017) investigates the correlation of macro-elements with returns on stock in Nigeria. Least Square regression was used as data analysis technique. It was discovered that a combination of currency conversion rate, inflation, currency supply Gross Domestic Products and interest rate have no emblematic effect on returns of stock in Nigeria.

Kabeer (2017) using data obtained from “SAARC countries” and China to ascertain if returns on stock is related with macroeconomic variables. To achieve this study author used least square regression technique. It was discovered that inflation and foreign exchange are positively related with returns on stock while in Bangladesh. It was discovered that returns on stock is not related with FDI. For the other category, India and China, inflation and foreign exchange are highly correlated while returns on stock has weak correlated with FDI.

### Model specification

The model is specified below;

$$SPR = F (INF, EXCH \text{ and } MS) \quad (1)$$

The above equation mathematically as;

$$SPR = a + \beta_1 INF + \beta_2 CONRT + \beta_3 CF + u \quad (2)$$

Where: SPR= Share price returns measured as the % change in the stock market all share index

INFL = inflation measured with consumer price index, CONRT = conversion rate, this variable is computed from the dollar-naira basis, CF = Currency flow, that is, money supply per quarter. The error correction model (ECM) of share price returns is thus specified:

$$\begin{aligned} \Delta(SPR) = & \Delta(f_0) + f_{1i} \sum_{i=0}^k \Delta(INF_{t-i}) + \\ & f_{2i} \sum_{i=0}^k \Delta(CONRT_{t-i}) + f_{3i} \sum_{i=0}^k \Delta(CF_{t-i}) + \\ & f_4 [SPR_{t-1} - f_0 - INF_{t-1} - CONRT_{t-1} - CF_{t-1}] + e_{1t} \\ \Delta(SPR) = & \Delta(f_0) + f_{1i} \sum_{i=0}^k \Delta(INF_{t-i}) + \\ & f_{2i} \sum_{i=0}^k \Delta(CONRT_{t-i}) + f_{3i} \sum_{i=0}^k \Delta(CF_{t-i}) + \\ & f_4 ecm(t-1) + e_{1t} \quad (6) \\ & \text{where, } ecm(t-1) = SPR_{t-1} - f_0 - INF_{t-1} - CONRT_{t-1} - CF_{t-1} \end{aligned}$$

Where,  $\Delta$  is first difference operator.

## METHODOLOGY

### 3. DATA ANALYSIS METHOD

The study used secondary data extracted from Nigerian stock exchange and Central Bank of Nigeria statistical bulletin. Quarterly data of three macroeconomic variables alongside with one stock exchange variable for seventeen years were collected (2000-2016). The three macroeconomic factors used for the study are: exchange rate, rate of inflation and currency flow. The period was chosen because it is synonymous with the financial crises which occurred globally. This crisis affected the most developed stock markets across the globe.

Data collected were subjected to pre-test and posttest. We tested for presence of unit root in order ascertain whether the variables are stationary or non-stationary. Johansen test used ascertain the long term association among the series and “Pairwise Granger causality was employed to find out the causation in series.

## PRESENTATION AND ANALYSIS OF DATA

**Table 1 The ADF unit root test for the Variables at Levels at 5% sig level with intercept**

Variable	ADF value	Critical value	PP test value	Critical value
ASINDEX	-2.071	-2.939	-1.662	-2.938
EXRT	-1.564	-2.939	-1.309	-2.947
CPI	-0.609	-2.949	0.638	-2.947
M2	-2.378	-2.949	-2.468	-2.947

\*\*Significant at 5%

**Table 2 The ADF unit root test for the variables at 1<sup>st</sup> difference at 5% sig level at intercept.**

Variable	ADF value	Critical value	PP test value	Critical value
ASINDEX	-3.267**	-2.942	-3.423**	-2.939
EXRT	-3.378**	-2.953	-4.876**	-2.949
CPI	5.465**	-2.953	-6.736**	-2.949
M2	-3.743**	-2.953	-5.807**	-2.949

Tables 1 discloses stationary at levels and with intercept. It further divulges that entire used exceed the critical values at 5% significance levels using the ADF test statistics and the Philip Perron statistics respectively. Specifically, ASINDEX (ADF =-2.071, PP = -1.662), EXRT (ADF=-1.564, PP=-1.309) CPI (ADF=0.669, PP=0.638), M2 (ADF=2.378, PP=-2.468) are exhibit a value that is less than their critical values at 5% hence the hypothesis that the data is stationary was rejected.

Table 2 displays the outcome for stationary test at first variance with intercept only. As observed ASINDEX (ADF =-3.267, PP = 3.423), EXRT (ADF=-3.378, PP=-4.876), CPI (ADF=5.465, PP=6.736), M2 (ADF=-3.743, PP=-5.807). Relating each variables with respective ADF and PP- critical values indicates that entire variables achieved stationarity using both the “ADF and PP test “statistic at 5% level.

**Table 3: Co-integration Test (Engle and Granger Procedure)**

Variable	Trace Sta	CV	Hypothesized	Max-Eigen	CV	Hypothesized
ASINDEX	51.166	47.856	None**	21.466	27.584	None**
EXRT	29.700	30.797	At most1**	29.775	21.131	At most1**
CPI	9.924	15.494	At most2	9.521	14.264	At most2
M2	0.403	3.841	At most 3	0.403	3.841	At most 3

Source: Researcher's computation

\*\* Detonate rejection at 5%sig level

The table 2 shows that Johnson co-integrated test to ascertain if the variables are co-integrated. The test reveal that is at least one co-integration series among the macroeconomic variables used.

**Pairwise causality test**

We verified for the absence of “Granger causality” employing the following models:

$$Y = a_0 + a_1 Y_{t-1} + \dots + a_p Y_{t-p} + b_1 X_{t-1} + \dots + b_q X_{t-q} + \mu \quad (1)$$

$$X = c + c_1 X_{t-1} + \dots + c_p X_{t-p} + d_1 Y_{t-1} + \dots + d_q Y_{t-q} + \mu \quad (2)$$

Testing:  $H_0: b_1 = b_2 = \dots = b_q = 0$ , a test that  $X_t$  does not cause Granger-cause  $Y_t$

$Y_t$  similarly testing  $H_0: d_1 = d_2 = \dots = d_p = 0$

For Granger causality estimation, two variables are normally analyzed together, while testing for their interaction. All possible results are: One way relationship between  $Y_t$  and  $X_t$ , One way relationship between  $X_t$  and  $Y_t$ , Bi-directional causality and No causality

**Table 4: Results of Pairwise Granger causality**

Ho	F-statistics	p-value	Type for Causality
INFL does not Granger Cause SP	1.238	0.298	No causality
SP does not Granger Cause INFL	1.474	0.238	
MS does not Granger Cause se SP	3.81079	0.0282	Uni-directional causality
SP does not Granger Cause	0.51053	0.6030	
EXRT does not Granger Cause SP	4.67351	0.0133	Bi-directional causality
SP does not Granger Cause EXRT	5.04673	0.0097	
MS does not Granger Cause INFL	0.75501	0.4748	No causality
INFL does not Granger Cause MS	0,40555	0.0696	
EXRT does not Granger cause INFL	6.21881	0.0037	Uni-directional causality
INFL does not Granger Cause EXRT	2.20606	0.1198	

Source: Researchers’ computation

The empirical outcome establishes that inflation has no mutual causation with stock returns, similarly, returns on stock has no causation with inflation rate. Furthermore, it was observed that returns on stock exhibit one-way causation with money supply. This infers that money supply expansion will cause increase in investments in stocks but movement in stock returns will not cause emblematic variation in currency flow. The result also shows that bi-directional causality exit amidst conversion rate and stock performance. This implies that change in currency exchange rate will cause a significant movement in stock returns.

Movement in stock returns also caused an emblematic alteration in conversion rate. Additionally, it was observed that alteration in inflation did not cause any emblematic variation in currency flow. Also, findings confirms there is a one-way causation amidst exchange rate and inflation rate. This infers that alteration in conversion rate will cause an emblematic variation in inflation but alteration in inflation will not cause an emblematic alteration in exchange rate.

### Empirical Analysis of Error Correction Estimates

The estimated EC coefficient is -0.879 and it is significant at 1% level with a t-ratio of 5.932. The size and sign of the coefficient so conformed to economic theory, with inference that adjustment towards equilibrium each time there is a perturbation to share price returns emanating from changes in inflation rate, conversion rate of the naira-dollar exchange rate and currency flow. This also authenticated absence of serial correlation as made manifest in the D-W statistic of 2.011.

The F-ratio of 152.6 denotes overall significance of the ECM estimation at 1% level. In effect, our estimated ECM exhibit robust explanatory power. Thus, 74.1% of total variation in share price returns have been explained by the ECM. The Ramsey reset test reported 0.003 with a high probability value which revalidates success in correction for serial correlation in our estimation.

The results explicitly show significance of one-period lag of conversion rate between naira-dollar exchange rate with coefficient of -0.015 whose t-ratio stood at 2.136. The current conversion rate also do not pass significance test with a t-ratio of 2.052. The positive sign accompanying these coefficients upholds that a higher conversion rate has had stimulant effect on share price returns.

Current and one-period coefficients of currency flow are 0.132 and 1.053. These coefficients are statistically significant with t-ratios of 2.451 and 5.972 respectively. Thus, a 10% rise in currency flow induces 13.2% rise in share price returns at current period. This signifies profitable effect of the amount of money in circulation in Nigerian stock market.

Similarly, coefficients of inflation rate at both current and lagged period are statistically insignificant with t-statistic of -1.792 and -1.725 respectively. In effect, conversion rate and currency flow are significant determinants of share price returns in Nigeria stock market.

**Table 5: Results of Error Correction Equation**

Variables	Coefficients
$\Delta(f_0)$	0.172 (1.954)***
$\Delta(CF)$	0.132 (2.451)**
$\Delta(CF(-1))$	1.053 (5.972)*
$\Delta(CONRT)$	0.013** (2.052)
$\Delta(CONRT(t-1))$	0.015** (2.136)
$\Delta(INF)$	-0.014 (-1.792)
$\Delta(INF(t-1))$	-0.009 (-1.725)
$ecm(t-1)$	-0.879 (2.932)**
<i>Adjust R<sup>2</sup></i>	0.741
<i>D-W</i>	2.011
<i>F stat</i>	152.6(0.000)
<i>Ramsey R.</i>	0.003(0.245)

Source: Authors' estimation with Eviews

In final analysis, the results show that the inflation is an insignificant determinant of the share price returns while currency flow, that is amount of money in circulation within a quarter and average exchange rate of naira to dollar are significant determinants of share price returns in Nigeria.

## 5. CONCLUSION

Stock market performance and without any doubt asset prices at large are normally assumed to react to major economic activities. There are justified grounds for one to assume that each stock price is affected by an extensive change in unforeseen activities and that some activities tend to have more inescapable relationship with asset prices than others. Hence some degree of inquisitiveness has emerge as to what should be the determinant of stock performance in an ideal market.

Against this background we applied pairwise Granger causality estimation method to the ascertain causation between returns on stocks macroeconomic factors. The outcome establishes that variation in inflation rate does not cause variation in stock returns, movement in stock returns do not lead to emblematic alteration in inflation. Similarly, it was observed that alteration in currency conversion rate causes an emblematic alteration in returns of stocks. It was also observed that movement in stock returns cause an emblematical variation in currency conversion rate. The results further show that variation in flow of money will alter returns on stock significantly but variation in stock returns will not cause an emblematical variation in money.

The study implies that macroeconomic factors are veritable variables for predicting stock performance in the Nigeria. The result also implies that stock movement in the market can used by the Apex bank to articulate fiscal guidelines while investors be use macroeconomic factors to predict stock performance per time.

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# FEMALE ENTREPRENEURS IN BUSINESS RANKINGS

Isac Claudia<sup>1</sup>

## Abstract

*The importance of entrepreneurship as an engine of economic growth represents a principle for the operation of some powerful economies. Thus, in this paper we have determined the place of businesses owned by women and their place in national and international rankings. Therefore, I have revealed some defining elements for the setting up of international business rankings, and continued with reporting statistics of women who own businesses and who are enlisted in the most famous tops from Romania and from the world's economic environment. We have also presented the operational issues regarding the successful development of businesses run by women and at the end of the paper I have synthesized several elements that have positively influenced the evolution of businesses owned by women*

**Key words:** entrepreneurship, international business rankings, economic environment

**JEL Classification:** D-21, M-21

## 1. Introduction

In Romania, during the communist period, the term entrepreneur was similar to subcontractor, i.e. natural or legal entity that undertakes, based on contractual terms and conditions, to perform various works for the benefit of another company, in the exchange of an amount established beforehand. Currently this term shall be assimilated to that of trader representative for the market economy that adopts an active and innovative behaviour, which is characteristic to economic systems based on competition, risk and private initiative. In this sense, the entrepreneur is synonymous with business person i.e. the entrepreneurship as innovative action, as an engine of a strong economic development. Romanians show reduced entrepreneurial spirit compared to other European countries. Among the reasons for this situation is the lack of *Entrepreneurial Education* as a school subject and the cooling off of entrepreneurship during the communist era.

## 2. Forbes Rankings – from business to sensational

I did this introduction on the entrepreneurial education because this paper starts an analysis of how women in present society end up in the international rankings of richest women. The tops are influenced by the culture and education of people, thus if in America the top Forbes businesswomen work in the financial investment field, IT, mass media or commerce, in Asian countries the specific fields are heavy industry and agriculture.

In order to complete the image of entrepreneurship in a country it is necessary to analyze the role of women in these tops, their investments' portfolio, building of wealth, age, training, family etc.

In the modern business environment, the Forbes tops have become eagerly awaited both due to the sensational news and from the perspective of investment portfolio analysis. Few are aware, however, that **Forbes is, in fact, a business.**

**Forbes** is an American Publisher, known especially for the magazine that bears the same name, published once every two weeks. The magazine is well known for its annual lists: *Forbes 400*: — the list of most wealthy Americans, *Forbes Global 2000* — the list of the largest companies in the world — and *Billionaires' List* – the top 100 richest people of the planet.

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Forbes Company was established in the year 1917 by B. C. Forbes, who was in charge until his death in 1954. However, Forbes has remained a family business, assessed in 2006 at 1 billion US dollars, whose advertising revenue were valued at 250 million dollars annually. The main competitors are *Fortune* magazines also published once every two weeks and that publishes annual lists of a similar nature, *BusinessWeek* and *The Economist*.

The magazine sold on average 894,886 copies in 2005 and the main subjects of the magazine are businesses, money, business leaders behind the companies, etc. The first top powered by Forbes of the richest people of the planet was published 31 years ago. The list then included 140 billionaires, while today there are more than 2,200 people on the annual list.

Forbes magazine was released in Romania on 23<sup>rd</sup> March, 2009 by Adevarul Holding media, being the tenth international edition of Forbes and the only edition that has the same periodicity as Forbes USA (bi-monthly). The copies sold of the first issue totaled 63,500 (out of which 4,623 were free of charge and 19,190 were at a cost), reaching 21,000 copies in January 2010.

### 3. Businesswomen in Romanian rankings

In order to complete the image of entrepreneurship in a country it is necessary to analyze the role of women in these tops, their investments' portfolio, building of wealth, age, training, family etc.

Forbes list of the richest people in Romania in 2015, 2016 and 2017 includes 4 women who run various businesses and hold stable positions in the rankings.

**Table 1: Top 4 richest women in Romania**

Name and Surname	2015	2016	2017
Anca Vlad	23	15	13
Veronica Gușă de Drăgan	16	16	14
Olimpia Moica	105	97	100
Luchi Georgescu	102	100	101

The analysis of the value of assets shows that for 4 businesswomen the period 2015-2017 was marked by continuous growth, without spectacular increases, with an average growth rate of about 10% per year. Considering their place in the ranking this has not undergone radical changes either, just a swapping of places between Anca Vlad and Veronica Gușă de Drăgan in the first part of the top and between Olimpia Moica and Luchi Georgescu ranked 100<sup>th</sup>.

**Table 2: Net worth in mil. Euros of the 4 richest women in Romania**

Name and Surname	2015	2016	2017
Anca Vlad	165-170	240-250	270-300
Veronica Guță de Drăgan	200-210	220-230	220-230
Olimpia Moica	50-52	54-56	55-57
Luchi Georgescu	50-52	53-54	55-57

In the year 2017 in the top 100 there were only three women, Anca Vlad occupying the 13<sup>th</sup> position, Veronica Guță of Drăgan at no.14 and Olimpia Moica at no 1000 outranking Luchi Georgescu who was classed 101.

Further on there is a brief presentation of these women on order to be able to create a profile of the top 100 female entrepreneur:

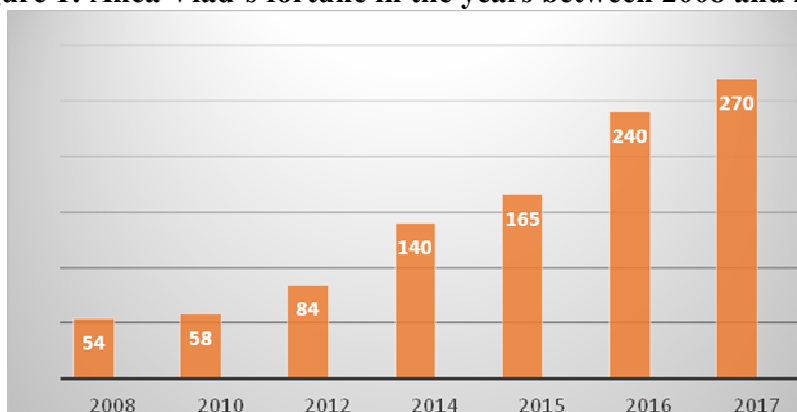
- **Anca Vlad este** is a graduate of the Academy of Economic Studies, specializing in International Economic Relations in the year 2017. She is 60 years old and is ranked No. 13 in the top richest people in Romania with an estimated fortune of 270-300 mil. Euros. Her evolution is spectacular: in 2010



she occupied the 127<sup>th</sup> position with a net worth of 58-60 million Euros and in the last 8 years she has managed to increase her fortune almost 5 times;

- **Veronica Gușă de Drăgan** aged 44 is sitting 14<sup>th</sup> with an estimated fortune of 220-230 million Euros, sourcing her wealth from the LPG production and energy. Veronica Gusa de Dragan, the richest woman in Romania in the 2010-2013 charts maintains a constant position in 2015-2017. She moves up in the rankings from no 16 to 14 with same net worth of 220-230 million, after Anca Vlad;
- **Olimpia Moica** a graduate of the Faculty of Law in Bucharest (class of 1979), has been running AEM Timisoara for more than 24 years producing electricity and gas meters. She is 66 years old and her net worth is estimated at 54-56 million Euros.
- **Luchi Georgescu** is 60 years old, has an estimated fortune of 53-54 million deriving from vineyards where she owns over 1500 acres of vines in Cotești, Odobești, Panciu and Huși and also has ten wineries, three industrial platforms, a cold cuts and sausage company called Meda, a construction company and three warehouses. In the past three years she has started to invest in hospitality buying 2 hotels in Venus seaside resort: Favorit and Melodia.

**Figure 1: Anca Vlad's fortune in the years between 2008 and 2017**



Obviously, besides these four women who run their own companies together with a management team, there are still many women in these rankings who have built and developed important businesses together with their partners or parents. In the the 2017 ranking, it is worth mentioning the following:

- The Rapotan family ranks no 24 with a net worth of 170-180 million Euros derived from house building materials: Arabesque, Mr. Bricolage's franchise network or their own MatHaus brand;
- Păunescu family listed 23rd with a fortune of 170-180 million Euros from mass media businesses, namely Media Pro studios in Buftea, holding the majority of shares of ProTV, Gazeta de Sud newspaper;
- The Copos family lands at no 25 at 170-175 million euros from tourism and food industries. The tourism business segment - Ana Hotels Grup and Ana Pan factories - is run by George Copos and his daughter Alexandra Copos;
- The Talpeș family on the 31<sup>st</sup> position with a fortune estimated at 140-145 million Euros from IT businesses, founders of the Bitdefender Security solution which is sold worldwide and offer protection for over 500 million. They have also set up the following companies: Ascenta and Softwin.
- Marcu family ranked 59<sup>th</sup> at 85-90 million euros, operating in the medical field, respectively the MedLife network listed on the stock exchange and two years ago they also took over the medical services division Polisano

- the Dans' with a net worth of 65-67 mill. Euros sourced from metallurgical industry, Dan Steel Group being the market leader of wire products, wire mesh, nails, etc.

In conclusion, if we were to look at some of the characteristics of the most successful female entrepreneurs, it can be noticed that they have established their own businesses (except for Veronica Guşa de Dragan), they play an active part in business management, are over 60 (except for Veronica Guşa de Dragan) and have pursued higher education. It is also worth mentioning their activities within the social and cultural environment, especially Anca Vlad who, besides the cultural businesses, has many philanthropic activities.

#### 4. Female entrepreneurs in the Forbes Worldwide Ranks

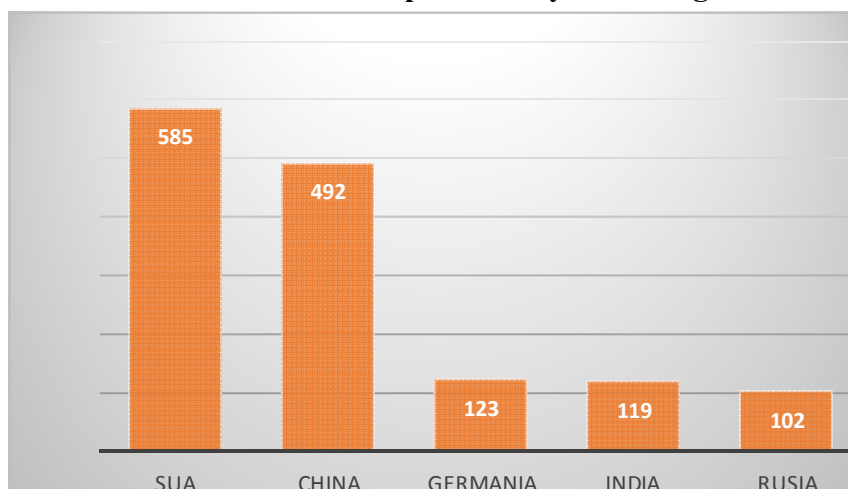
In general, women are underrepresented on corporate boards. Women hold only 17% of board positions in US Fortune 500 Organizations. In European countries women constitute only 17% of the directors of large listed companies and only 12% of these own the business. Women have the highest skills and labor market power. Females in corporate leadership make up a small but important subset of the larger population of women within business.

Based on these arguments, I consider it appropriate to analyze the position of women in Forbes Ranks. Thus, the Forbes Top (measuring the net worth up to 9<sup>th</sup> February 2018) places the Amazon founder, Jeff Bezos at the top with a fortune of \$112 billion, followed by Microsoft owner, Bill Gates with a net worth of 90 billions of dollars this year, going up from \$86 billion, and Warren Buffett who has a \$84 billion fortune. The ranking of the 32nd annual edition of the world's billionaires top marks a record of 2,208 qualified people. America has the most billionaires in the country, with 585 followed by China. Germany has the highest share in any European country, with 123 people. India has 119 billionaires and Russia 102. There are 53 billionaires in the UK, according to Forbes, going down from 54 in 2017. For the first time, a billionaire from Hungary and one from Zimbabwe land on the list (figure 2).

As for women, the richest woman sitting at 16th in the Forbes rankings is the American Alice Walton, daughter of the founder of the American Walmart giant, for whom the evaluation was made based on the collection of artwork they hold. She is followed closely, at 18th, by Françoise Bettencourt Meyers from L'Oréal Paris.

The fortune of \$27 billion of Jacqueline Mars aged 77 pushes her 34th due to her significant shares in the largest candy maker, Mars, the company her grandfather set up in 1911 in his own kitchen. This top also shows Yang Huiyan at no 43, the only Asian woman with real estate businesses, and at 58 Laurence Powell Jobs, the widow of Steve Jobs, the inventor of Apple.

**Figure 2: Number of billionaires per country according to Forbes 2018 Tops**



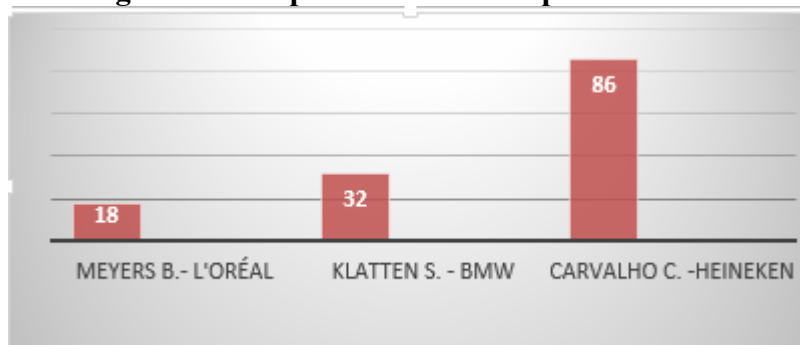
Also at no 69 one can find the Australian Gina Linehart sourcing her fortune from coal, followed at 83 by the American Abigail Johnson with shares in financial investments

and at 86 by the Dutch Charlene de Carvalho-Heineken. Looking further down the top, it is noticeable that men hold the positions up to no 176 where India's first business woman, Savitri Jindal lands on the list with businesses in the steel industry.

This top Forbes also shows other aspects of female entrepreneurship. For example, America ranks first among the richest people, with a share of 26.49% of the total, but the share of women is only 17% of all Americans, as shown in a study by George Town Institute for Peace, Women and Security, where the US is only ranked 22 in terms of business development opportunities and business security.

Regarding the situation of European women who are in the top Forbes100, it remains relatively the same as in 2017, with a slight increase of approx. 4% of the assessed fortunes.

**Figure 3: European women in Top Forbes 2018**



As shown in the previous figure, in the top Forbes 100 in 2018 there are three European women: the French Françoise Bettencourt Meyers (L'Oréal, ranked 18th), the German Susanne Klatten (BMW, 32nd position) and the Dutch Charlene de Carvalho-Heineken (Heineken, no. 86); also the youngest billionaire in the world is a woman, the Norwegian Alexandra Andresen, aged 21, with a fortune of \$ 1.4 billion, ranked 11<sup>th</sup> in Norway.

### **5. Women entrepreneurs - social and politics in Top Forbes Romania**

A World Bank study shows that over 50,000 SMEs are controlled by women in the country's growth poles, such as Cluj, Timis, Constanta, Bihor and Bucharest. Given that the average funding is 100,000 euros obtained through the credit lines granted by an investment division of the World Bank, the International Finance Corporation (IFC), there would be a 5 billion euro financing potential for women entrepreneurs.

In Romania, women account for 9.7% of non-executive directors of large listed companies and 25.4% of senior executives of large listed companies. But the female business environment in Romania has grown over the last three years, and companies run by women have an annual growth rate of the turnover 2% higher than the national average of Romanian companies. Encouraging equality between women and men has become a European policy, thus the Commission encourages state companies to volunteer to increase the number of women in leadership positions.

In conclusion, female entrepreneurs in Romania are concerned with or are busy running their own businesses and cannot be found on the political stage and have no interest in media appearances.

Female entrepreneurs find themselves less popular in the other charts. For example, among the most influential women in Romania, there are many women who have public functions or are actresses, such as Princess Margareta, Codruta Kovesi or Maia Morgenstern and Anca Vlad, due to her mass media businesses.

One of the evidences of entrepreneurial maturity of women in Romania lies in the investment behavior and the way in which they relate to financial products and in the fact that they are a 'driving force' of growth for certain sectors of economy, since their main fields of

investments are health, education and trade, but also some areas symbolically called 'heavy industries' such as energy or the media.

### **Conclusions**

To conclude, if we were to look at some of the characteristics of the most successful female entrepreneur, one can notice that they have set up their own businesses (except for Veronica Gușa de Dragan), they take active part in the management of the business, they are over 60 years old (the exception is Veronica Gușa de Dragan) and they have pursued higher education. It is also worth mentioning their activity in the social and cultural field, especially Anca Vlad who, besides the cultural affairs, has many philanthropic activities in this field and in the social one.

At present, there is a positive picture of the evolution of female entrepreneurship and management, and from the perspective of their development, the following can be noticed: entrepreneurial actions of women are increasingly publicized; there are special entrepreneurship courses dedicated to women; there are more tools from the state to stimulate the development of businesses run by women.

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Capital.Top 300 cei mai bogați oameni din România

# ASSESSMENT OF FINANCIAL PERFORMANCE OF SELECTED MONEY DEPOSIT BANKS IN NIGERIA: A RATIO ANALYSIS APPROACH

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## Abstract

*The study assessed and compared the financial performance of Zenith Bank Plc and Guaranty Trust Bank Plc two top banks in Nigeria for the period 2012-2016. Secondary data obtained from the annual reports of the two banks were subjected to statistical computation. Descriptive statistics in form were used to present the results. The findings revealed that Zenith Bank Plc management focused more on liquidity and risk asset quality while Guaranty Trust Bank Plc management emphasized more on profitability. The authors therefore, recommend that the balance/mix of liquidity and profitability objectives is important for the banks to deliver superior financial performance to their shareholders.*

**Keywords:** *Liquidity, profitability, financial performance, dividend per share*

**JEL Classification:** *M40, M41*

## 1. Introduction

Financial analysis is a logical way to present overall financial performance of firms. It supports managerial decision-making process. Financial analysis involves comparing a firm's performance to other firms and evaluating trends in the firm's financial position over time. Financial analysis enables a firm to identify deficiencies and take corrective actions. Financial ratios are mostly used to analyse the financial performance of business organisations especially financial institutions. Ratio analysis is a systematic use of ratio to determine current financial condition, historical performance, strength and weakness of the firm and to interpret financial statement. Ratio analysis is a powerful tool for financial analysis which aid management in decision making and control. Business organizations can evaluate their financial performance in terms of liquidity, profitability and viability using ratios. Ratio analysis is used to evaluate a company's efficiency, profitability, liquidity and solvency (Islam, 2014). Banks support economic growth and development in Nigeria. Thus, it is important to evaluate the performance of banks to ensure that they continue to remain liquid, profitable to meet divergent stakeholders' expectations. Therefore, various stakeholder needs to know about the financial performance of the banks. A general belief is that a firm's financial performance depends on certain key financial factors i.e. turnover, profit and the variables which are found in the statement of financial position, have a direct and indirect relation with each other. The goal of this study is to evaluate and compare the performance of two banks (Zenith Bank Plc and Guaranty Trust Bank Plc) in Nigeria for the period 2012-2016 using selected financial ratios. In this study, some of the ratios that are peculiar to banks will be used to evaluate the financial performance of the two banks.

### 1.1 Overview of the Banks

#### Zenith Bank Plc

Zenith Bank Plc was established in May 1990, but the bank started operations in July of the same year as a commercial bank. The Bank was listed on the Nigerian Stock Exchange (NSE) on October 21, 2004. The bank is a multinational bank with headquarter in Lagos, Nigeria. Zenith

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Bank Plc has over 500 branches and business offices in Nigeria, with subsidiaries in the United Kingdom, Zenith Bank (UK) Limited, Ghana, Zenith Bank (Ghana) Limited; Sierra Leone, Zenith Bank (Sierra Leone) Limited; Gambia, Zenith Bank (Gambia) Limited. The bank also has representative offices in South Africa and The People's Republic of China. Zenith Bank Plc blazed the trail in digital banking in Nigeria; scoring several firsts in the deployment of Information and Communication Technology (ICT) infrastructure to create innovative products that meet the needs of its customers. The Bank grew its shareholder's fund of ₦20million in 1990 to ₦704.50billion as at year end 2016. Today, the Bank continues to thrive on the strong values, brand equity, corporate culture of professionalism and service excellence which are the foundations upon which the bank was built.

### **Guaranty Trust Bank Plc**

Guaranty Trust Bank Plc was established as a private limited liability company on July 20, 1990. The bank obtained a license to operate as a commercial bank on August 1, 1990. The Bank commenced operations on February 11, 1991. It became a public limited company on April 2, 1996, with the listing of its shares on The Nigerian Stock Exchange on September 9, 1996. The Bank's principal activity remains the provision of commercial banking services to its customers, such as retail banking, granting of loans and advances, corporate finance, money market activities and related services, as well as foreign exchange operations. The Bank has the following overseas subsidiaries: Guaranty Trust Bank (Gambia) Limited, Guaranty Trust Bank (Sierra Leone) Limited, Guaranty Trust Bank (Ghana) Limited, Guaranty Trust Bank (United Kingdom) Limited, Guaranty Trust Bank (Liberia) Limited, Guaranty Trust Bank (Cote d'Ivoire) S.A, Guaranty Trust Bank (Kenya) Limited, Guaranty Trust Bank (Rwanda) Limited, Guaranty Trust Bank (Uganda) Limited; as well as GTB Finance B.V. Netherlands.

## **2. REVIEW OF LITERATURE**

### **2.1 Theoretical Framework**

#### **Stakeholder Theory**

Freeman (1984) defines a stakeholder as "any group or individual who can affect or is affected by the firm's objectives". This group or individual are shareholders, employees, suppliers, customers, governments, trade associations, communities and political groups among others. Fitzgerald & Storbeck (2003) suggest that each stakeholder group has its own interest in relation to the company and they value set of goals. Stakeholder theory offers a comprehensive way of measuring performance (Santos & Brito, 2012) because it focuses on creating value for different groups. Clarkson, (1995) suggests that shareholders and employees should always be present in any analysis. Other stakeholders like suppliers and customers have a direct exchange relationship with the firm. Pleasing all parties equally may be an unachievable task, so managers need to prioritise. Blattberg (2004) criticized stakeholder theory for assuming that the interests of the various stakeholders can be, at best, compromised or balanced against each other. The interests of key stakeholders must be aligned with the strategic objectives of the firm. Ratio analysis can be used to assess financial performance and the satisfaction of at least one group of stakeholders.

### **2.2 Empirical review**

The goal of financial management is to maximise shareholders 'wealth in the long run. Financial statements show both a firm's position at a point in time and its operations over some past period. However, their real value lies in the fact that they can be used to assess and predict future performance of a firm. From an investor's standpoint, predicting the future is what financial statement analysis is all about, while from management's standpoint, financial statement analysis

is useful to anticipate future conditions and for planning actions that will improve future performance. Almumani (2014) examined the performance of Saudi banks that were listed in stocks market for the period 2007-2011 using ratios. It was found that increasing of assets, operating expenses, and cost to income causes a decrease in Saudi bank's profitability, while increasing of operating income causes an increase in the profitability of Saudi Banks. Edmister, (1972) developed and empirically tested various methods for analysing financial ratios to predict the failure of small business. Kumbirai & Webb, (2010) examined the performance of banks in South Africa (2005-2009). They used financial ratios to measure liquidity, profitability, and credit quality performance of five large banks in South Africa.

### **3. Research Methodology**

#### **3.1. Research Design**

This study adopts a descriptive financial ratio analysis to access and compare the financial performance of two banks in Nigeria during the period 2012-2016 (5years). The selection of this period was based on the latest period of available data and to covers the period when the banks comply with the adoption of international financial reporting standards (IFRS). The two banks are quoted on the Nigerian Stock Exchange (NSE).

#### **3.2. Data Collection & Sampling**

Data were collected from the annual reports and websites of the sample banks. Charts were used to present the results of this study. Selected ratios were used to measure profitability, liquidity, asset credit quality and investors ratio (dividend per share). There are 21 banks operating in Nigeria. The sample banks were selected based on Banker Magazine's 2017 Global Banks' ranking which ranked Zenith Bank Plc and Guaranty Trust Bank Plc highest among Nigerian banks. More so, the two banks started operation almost in the same period (they considered as peers in the banking industry). Thus, this can allow meaningful comparison.

#### **3.3 Variables and their measurement**

##### **Profitability Performance**

Profitability is widely used as a measure of bank performance. These ratios are employed to evaluate the ability of the firm to generate earnings in comparison with its expenses and other relevant costs during a specific time period. Firm's profitability is determined by taking into consideration all expenses and income taxes, firm pricing policies, the efficiency of operations, profitability on assets and shareholders of the firm (Van Horne & Wachowicz, 2005). A profitability ratio that is relatively higher when compared to the competitor(s), industry averages, guidelines, or previous years' same ratios, means an indicator of better performance of the bank (Islam, 2014). This study uses these criteria to judge the profitability of the Zenith Bank Plc and Guaranty Trust Bank Plc. Profitability is measured using the following ratios:

**Return on Assets (ROA) = net profit/total assets.** Indicates the ability of the bank to get deposits at a reasonable cost and invest them in profitable investments (Ahmed, 2009). This ratio shows how much net income is generated using the bank's total assets. It is widely used to measure managerial performance (Ross, Westerfield & Jaffe, 2005). A higher ratio implies better managerial performance and efficient utilization of the assets of the firm. To increase ROA Banks can either increase their profit margins or asset turnover. Bank can't increase profit margins and asset turnover at the same time because of competition and trade-off between turnover and margin.

**Return on Equity (ROE) = net profit/ total equity.** ROE is the most important determinant of bank's profitability and growth potential. It is the rate of return to shareholders or the percentage return per equity invested in the bank. Return on equity indicates the

profitability to shareholders of the Bank after all expenses and taxes (Van Horne & Wachowicz, 2005). ROE is used to measure managerial efficiency (Sabi, 1996). A higher ROE indicates a better managerial performance, though, a higher ROE may be as a result of financial leverage or higher ROA. Financial leverage creates an important difference between ROA and ROE in that financial leverage always magnifies ROE (Islam, 2014). This will always occur if the ROA (gross) is more than the interest rate on debt (Ross, Westerfield & Jaffe, 2005).

**Cost to Income Ratio (C/I) = total cost /total income** measures the income generated per cost. It measures how much the bank spends to generate income. This ratio indicates how a manager can efficiently operate the bank activity by lowering cost against income generated from operation. The lower the C/I ratio, the better the performance of the bank.

#### **Liquidity Performance**

Liquidity shows the ability of the banks to settle their financial obligations as they fall due. According to Samad (2004) “liquidity is the life and blood of a commercial bank”. Financial liabilities are attracted through retail and wholesale distribution channels. The following ratios are used to measure liquidity;

**Cash & Portfolio Investment to Deposit Ratio (CPIDR) = Cash & Portfolio Investment / Deposits.** This ratio shows the proportion of short-term obligations that could be met with the bank's liquid assets in case of sudden withdrawals. The higher the CPIDR the better the liquidity position of the bank. A higher CPIDR boosts the trust of the depositors in the bank as the depositors know that bank is not only having enough cash but also made some investments in securities portfolio and supposedly earning some positive returns on those portfolio investments, and depositors have confident that if the bank needs cash it may sell the portfolio investments in the secondary market (Islam, 2014).

**Net Loans to total asset ratio (NLTA) = Net loans/total assets** NLTA measures the proportion of assets that are tied up in loans. Net loan to total assets ratio (NLTA) is a measure of the liquidity condition of the bank. Whereas Loan to Deposits is a ratio in which liquidity of the bank is measured in terms of its deposits, NLTA measures the liquidity of the bank in terms of its total assets. The bank with low NLTA is also considered to be more liquid as compared to the bank with higher NLTA. However, a high NLTA means more profitability and risk. The higher the ratio, the less liquid the bank is.

**Loans to Deposit Ratio (LDR) = Loans/total deposits.** Loan to deposit is the most important ratio to measure the liquidity condition of the bank. Bank with low LDR is considered to have potentially lower profits, excess liquidity and hence less risk as compared to the bank with high LDR. However, high LDR indicates that a bank has taken more risk by granting excess loans and risk of not being able to meet depositors' claims. A high figure denotes lower liquidity.

#### **Asset Credit Quality (Credit Performance)**

Credit risk is one of the major risks faced by banks. This can be described as a potential loss arising from the failure of borrowers to perform according to the contractual arrangement with the bank. The failure may arise due to unwillingness of the borrower or decline in economic condition etc. While it is expected that banks would have some bad loans, it is important for banks to reduce such losses (Casu et al., 2006). Credit performance evaluates the risks associated with the bank's asset portfolio i.e. credit quality. To measure credit quality of the banks, the author used the following ratio:

**Non-performing Loans to Total Loan (NPLTL) = Non-performing Loans /Total loans.** This ratio indicates the proportion of the total loans that that has been either in default or close to being in default.



### Investor ratio

**Dividend Per Share (DPS) = Dividend/numbers of ordinary share issued** Sujata, (2009) asserts that dividend is the distribution of earnings (past or present) in real assets among the shareholders of the firm in proportion to their ownership. They are usually paid from the company profits/ earnings base on the firm's dividend policy. Dividend per Share (DPS) is the sum of dividends declared by a company divided by the number of outstanding ordinary shares Issued. According to Hashim, Shahid, Sajid & Umair (2013), companies pay dividends to reduce the rise in agency cost and to encourage investors to invest in firms. Firms that pay more dividends have easy access to the capital markets.

## 4. Data analysis and Discussion

This section of the research work present and discusses the results.

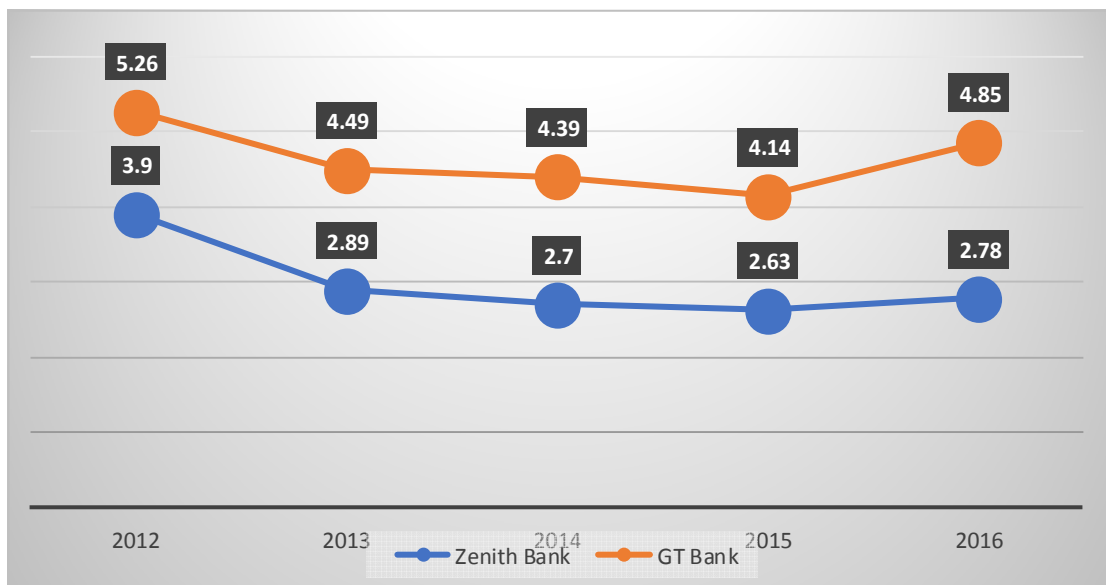
### 4.1. Profitability Performance

In the banking industry, the risk-reward tradeoff is constantly present. Granting high margin loans to high-risk customers may increase profitability in the short term but it also exposes banks to default risk and the probability of future losses. Figure 1 shows the return on assets of Zenith Bank Plc and Guaranty Trust Bank Plc for 5 years.

#### i. Return on Assets (ROA) = net profit/total assets

Figure 1 shows ROA graph for the two banks from 2012-2016. Zenith Bank Plc ROA was 3.93 % in 2012, declined to 2.89 % in 2013, 2.70 % in 2014, 2.63 % in 2015 and a marginal rise to 2.78 % in 2016. In the case of Guaranty Trust Bank Plc, ROA declined from 5.26 % in 2012 to 4.49 %, 4.39 % and 4.14 % respectively in 2013, 2014 and 2015. In 2016 ROA rose to 4.85 %. The decline of ROA (2013-2015) is due to huge investment in assets e.g branch expansion and information technology capabilities. The results indicate that Guaranty Trust Bank Plc performed better than Zenith Bank Plc in terms of ROA. Thus, the management of GT Bank Plc is more efficient in using its assets to generate income compared to Zenith Bank Plc.

**Figure 1. Return on Assets of sample Banks based on annual reports**

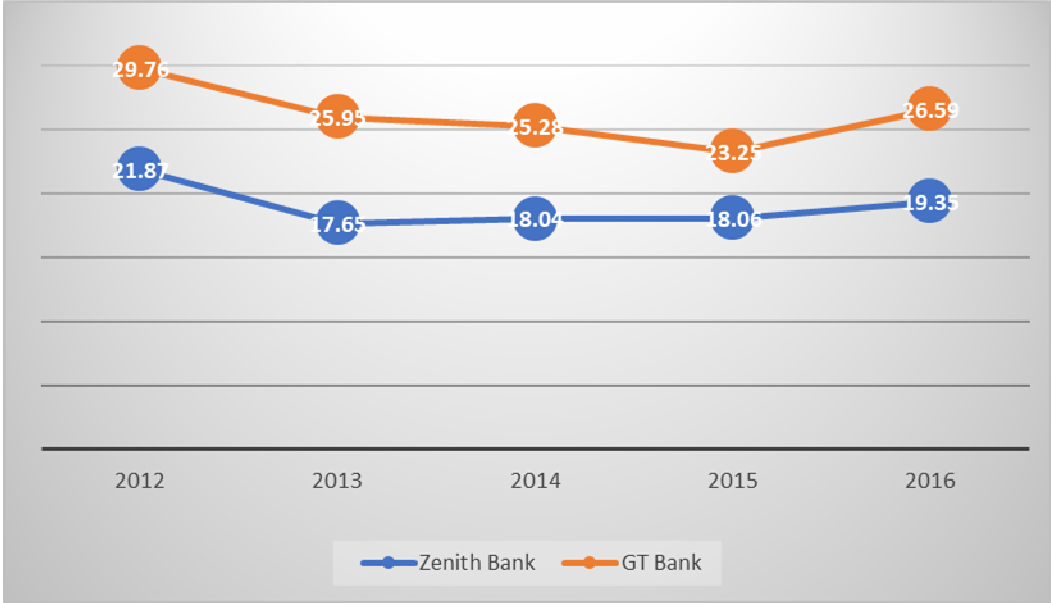


#### ii. Return on Equity (ROE) = net profit/total equity

Figure 2 shows the return on equity of Zenith Bank Plc and Guaranty Trust Bank Plc for 5 years. The two banks are generating returns for their shareholders. Figure 2 show ROE graph for the two banks from 2012-2016. Zenith Bank Plc ROE was 21.87 % in 2012, declined to 17.65 % in 2013, 18.04 % in 2014, 18.06 % in 2015 and rise to 19.35 % in 2016. In the case of Guaranty Trust

Bank Plc, ROE declined from 29.76 % in 2012 to 25.95 %, 25.28 % and 23.25 % in 2013, 2014 and 2015 respectively. In 2016, ROE increases to 26.59 %. The results show that Guaranty Trust Bank Plc performed better than Bank Plc in terms of ROE. Thus, the shareholders of GT Bank Plc are getting more return compared to the shareholders of Zenith Bank Plc.

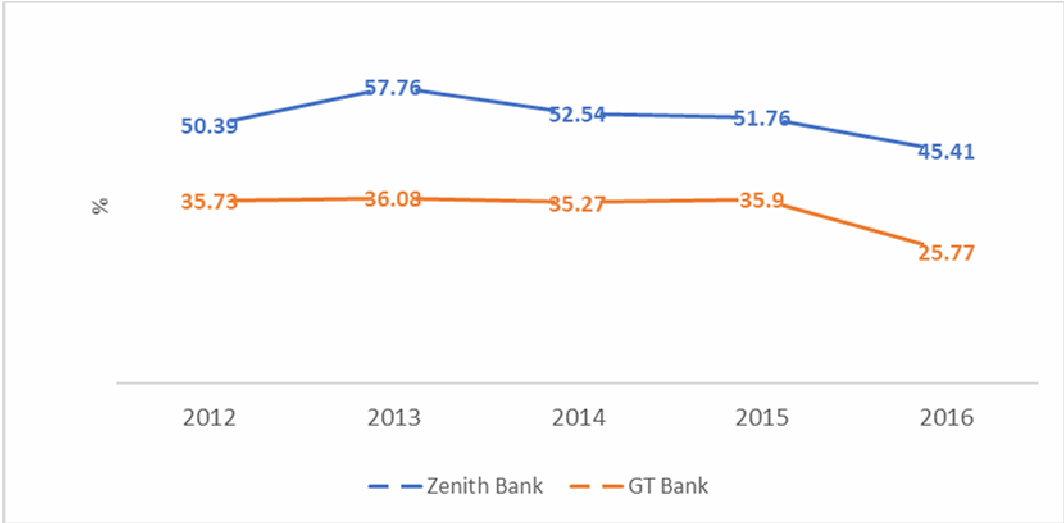
**Figure 2. Return on Equity of sample Banks based on annual reports**



**iii. Cost to Income Ratio (C/I) = total cost /total income**

A lower cost to income ratio signifies more profits for the banks. Figure 3 show the cost to income ratio for the two banks from for five years (2012-2016). Cost to Income ratio of the two banks continues to improve over the years. Zenith Bank Plc cost to income ratio was 50.39 % in 2012, it increased to 57.76 % in 2013 due to increase in personnel and other operating costs, declined to 52.54 %, 51.76 % and 45.41 % in 2014, 2015, 2016 respectively. In the case of Guaranty Trust Bank Plc, cost to income ratio increased from 35.73 % in 2012 to 36.08 % in 2013, declined to 35.27 % in 2014, increased to 35.90 % in 2015 and declined to 25.77 % in 2016. The results show that Guaranty Trust Bank Plc performed better than Zenith Bank Plc in terms of cost to income ratio. This explains the reason why GT Bank is doing better than Zenith Bank in terms of profitability (ROA, ROE). Thus, GT Bank Plc is spending less to generate income compared to Zenith Bank Plc.

**Figure 3. Cost to income of sample Banks**



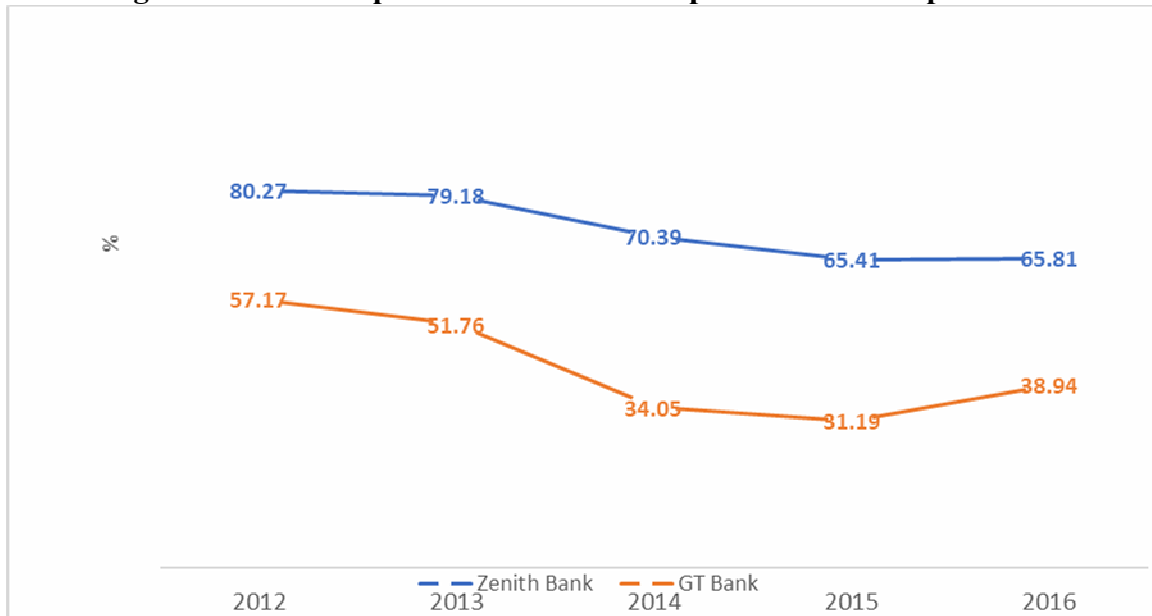
## 4.2 Liquidity performance

Liquidity performance measures the ability to meet financial obligations as they become due and is crucial to the sustained viability of banking institutions.

### **Cash & Portfolio Investment to Deposit Ratio (CPIDR) = Cash & Portfolio Investment / Deposits**

Figure 4 shows that cash and portfolio investment to deposit ratio for the two banks declined consistently from 2012 to 2016. CPIDR of Zenith Bank Plc declined from 80.27 % in 2012 to 79.18 % in 2013, 70.39 % in 2014 and 65.41 % in 2015. In 2016, Zenith Bank CPIDR increased marginally to 65.81 %. In the case of Guaranty Trust Bank Plc, CPIDR increased from 57.17 % in 2012 to 51.76 % in 2013, a sharp decline to 34.05 % in 2014, increased to 37.19 % in 2015 and to 38.94 % in 2016. A higher CPIDR indicates a more liquid bank. Zenith Bank used its deposits in investment highest in 2012 and lowest 2015. Whereas, GT Bank Plc used its deposits in investment highest in 2013 and lowest 2014. The results show that Zenith Bank Plc performed better than Guaranty Trust Bank Plc in terms of cash and portfolio investment deposit ratio.

**Figure 4. Cash and portfolio investment deposit ratio of sample Banks**



### **Net Loans to total asset ratio (NLTA) = Net loans/total assets**

Figure 5 shows net loans to total asset ratio graph for the two banks from 2012-2016. Zenith Bank Plc net loans to total asset ratio increased from 36.74 % in 2012 to 39.13 % in 2013, 46.15 % in 2014, 49.31 % in 2015 and 49.91 % in 2016. Zenith Bank Plc net loans to total asset peak point was in 2016 and lowest was in 2012. In the case of Guaranty Trust Bank Plc, net loans to total asset increased from 45.83 % in 2012 to 48.68 % in 2013, and 55.60 % in 2014. It declined to 55.58% in 2015 and 54.23% in 2016. GT Bank Plc net loans to total asset ratio was highest in 2014 and lowest 2012. The bank with low NLTA is more liquid as compared to the bank with higher NLTA. Thus, Zenith Bank Plc is more liquid than GT Bank Plc.

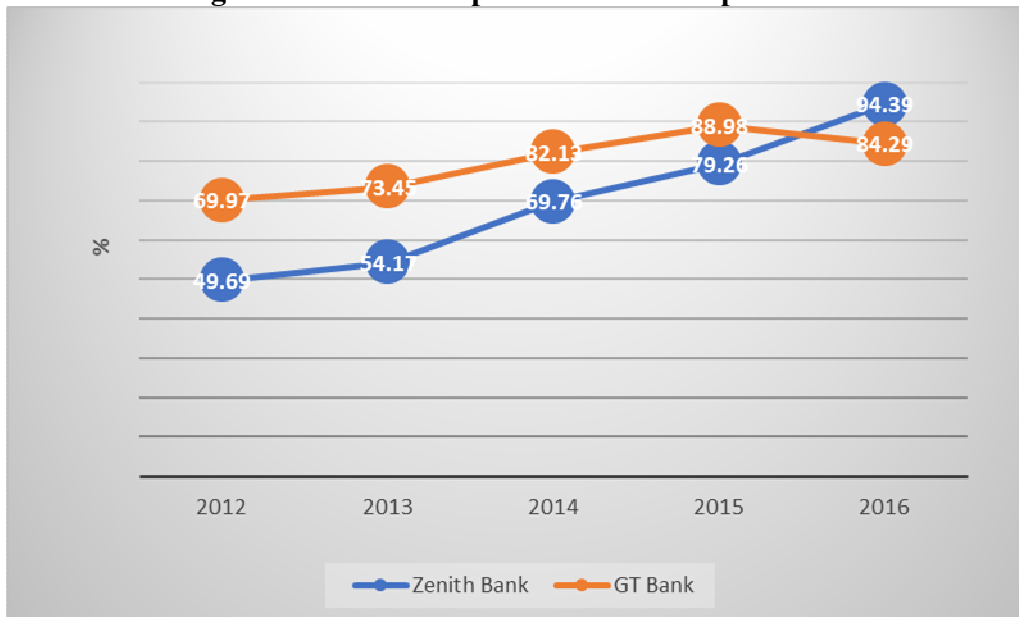
**Figure 5. Net Loan to total assets ratio of sample banks**



**iii. Loans to deposits ratio (LDR) = loans/total deposits**

A higher LDR means less liquid and taking more risk. Figure 6 shows loans to deposits ratio graph for the two banks from 2012-2016. Zenith Bank Plc loans to deposits ratio increased from 49.69 % in 2012 to 54.17 % in 2013, 69.76% in 2014, 79.26 % in 2015 and 94.39 % in 2016. The loan to deposit ratio of 94.39 % in 2016 may be as a result of the pressure to deliver superior returns to shareholders in light of economic recession faced by the country. In the case of Guaranty Trust Bank Plc, loans to deposits ratio increased from 69.97 % in 2012 to 73.45 % in 2013, 82.13 % in 2014 and 88.98 % in 2015. It declined to 84.29 % in 2016. It appears the banks are less liquid and are taking more risk with the consistent growth of their LDRs. Though, Zenith Bank Plc appears to be more liquid compared to Guaranty Trust Bank Plc.

**Figure 6. Loans to deposits ratio of sample Banks**



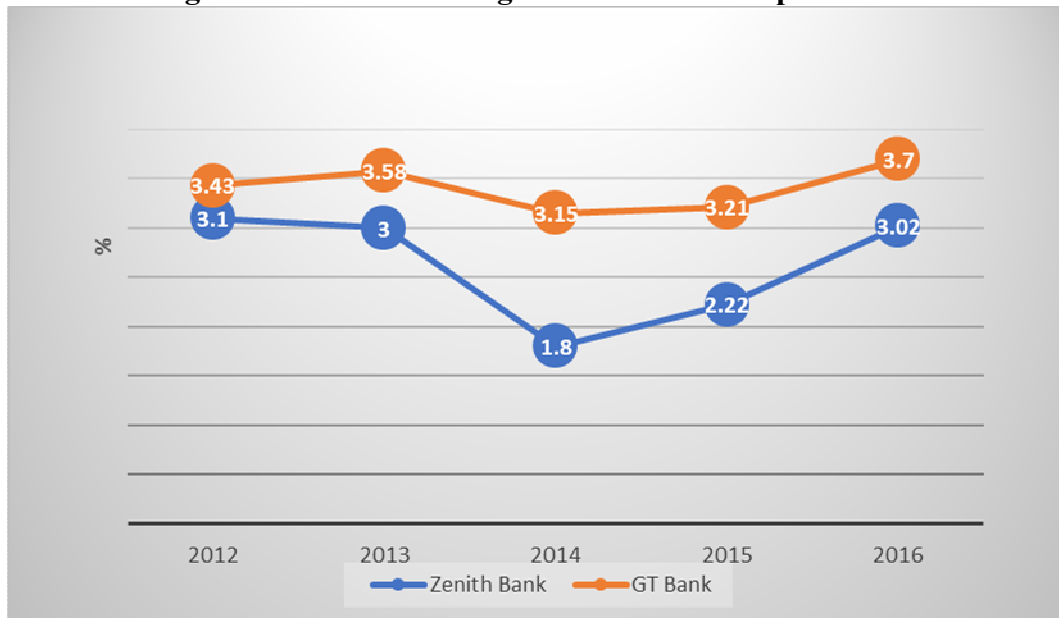
### 4.3 Asset Credit Quality (Credit Performance)

Credit performance examines the quality of the bank's risk asset portfolio. Non-performing or bad loans reduce the ability of banks to deliver superior profit and to remain liquid.

#### i. Non-performing Loans to Total Loan (NPLTL) = Non-Performing Loans / Total loans.

Figure 7 show non-performing loans ratio graph for the two banks from 2012-2016. Zenith Bank Plc NPL ratio declined from 3.1 % in 2012 to 3 % in 2013, 1.8 % in 2014. It increases to 2.2 % in 2015 and 3.2% in 2016. In the case of Guaranty Trust Bank Plc, NPL ratio increased from 3.43 % in 2012 to 3.58 % in 2013, it declined to 3.15% in 2014. It increased to 3.21 % in 2015 and 3.70% in 2016. Over the years both banks have managed their NPLs very well because these ratios are well below the regulatory benchmark of 5%. The increase in the NPL ratio reported by the banks in 2015 and 2016 is due to the economic recession which made borrowers unable to repay their loan obligations as they fall due. However, Zenith Bank Plc has a better NPL ratio compared to Guaranty Trust Bank Plc.

**Figure 7. Non-Performing Loans ratio of sample Banks**

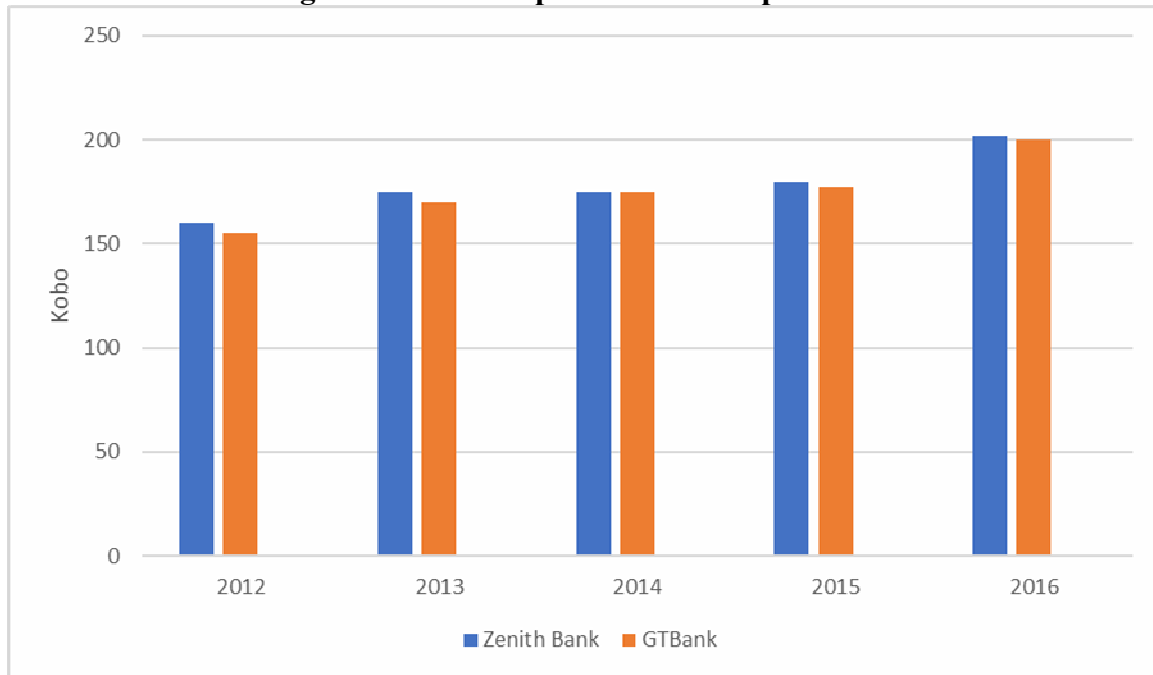


### 4.4 Investor ratio

#### Dividend Per Share (DPS) = Dividend / Number of ordinary shares issued

Figure 8 show that the two banks are consistent in the payment of dividend to their shareholders. Zenith Bank Plc dividend per share grew from 160 in 2012 to 175 in 2013, 175 in 2014, 180 in 2015 and 202 in 2016. Guaranty Trust Bank Plc DPS grew from 155 in 2012 to 170 in 2013, 175 in 2014, 177 in 2015 and 200 in 2016. A growing DPS over time can also be a sign that the bank management believes that their earnings growth can be sustained. Though, it appears Zenith Bank Plc have consistently paid a higher dividend to its shareholders compared to Guaranty Trust Bank Plc. Both banks have performed well in terms of rewarding their investors

**Figure 8. Dividend per share of sample Banks**



#### **4.5 Major Findings**

Zenith Bank Plc and Guaranty Trust Bank Plc financial position and performance are satisfactory. Though, there are some areas that the banks need to improve on. The presentation of data can be summarized as of the following findings:

- i. Return on assets of the two banks is low over the years.
- ii. In term of Profitability, Performance Guaranty Trust Bank Plc performed better than Zenith Bank Plc as indicated by ROA, ROE and cost to income ratios
- iii. In term of Liquidity performance, Zenith Bank Plc is more liquid compared to Guaranty Trust Bank Plc.
- iv. In term Credit management and risk asset quality, Zenith Bank Plc over the years maintained lower NPL ratios compared to Guaranty Trust Bank Plc.
- v. Both banks have consistently paid dividends to their investors in the last five years under review.

#### **5. Summary and Conclusion**

Despite the unstable operating environment of last few years, Zenith Bank Plc and Guaranty Trust Bank Plc achieved a worthy performance in all core areas of banking operation. The main purpose of this paper is to assess and compare the financial performance of two banks in Nigeria using ratios and descriptive research approach. The author accessed the performance of Zenith Bank Plc and Guaranty Trust Bank Plc over the Financial year 2012-2016. The results show that Guaranty Trust Bank Plc overall performance in terms of profitability (ROA, ROE, C/I) is better than that of Zenith Bank Plc. The liquidity and credit performance of Zenith Bank Plc is better than of Guaranty Trust Bank Plc. Banks play a very important role in economic development by mobilizing capital and other resources. Arguably, Zenith Bank Plc management is pursuing more of liquidity and risk assets quality objectives, whereas Guaranty Trust Bank Plc management focuses more on the profitability objectives. To achieve superior financial performance, the banks must balance the mix of liquidity and profitability. The banks should avoid engaging in excessive risk by granting more than 80% of their deposits as loans to customers. Additionally, the Banks should continue to reduce their cost to income ratios by increasing it earning and reducing its personnel and other operating expenses.

## 5.1 Limitations of the Study

The study used a descriptive method to access data collected from the annual reports of the two banks from 2012 to 2016. Using data of a longer period may give a better understanding of the subject.

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# A STRUCTURAL MODEL FRAMEWORK OF RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND EMPLOYEE PERFORMANCE IN NIGERIAN BANKING AND MANUFACTURING INDUSTRIES

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ABDULRAHEEM, Issa<sup>2</sup>  
BRIMAH, Aminu Nassir<sup>3</sup>

## Abstract

The study examined the relationship between CSR and employee performance using a structural equation model framework. . Survey research design was used in the study. Data for this research was obtained from Primary sources through the aid of a structured questionnaire. Krejche and Morgan formular were used to estimate the sample size. 384 copies of questionnaires were administered to employees of the selected companies out of which only 305 copies were found to be useful for data analysis. The data were analyzed using descriptive statistics and inferential statistics of partial least square structural equation model (PLS-SEM). The hypothesis was tested at 0.05 alpha levels. Findings revealed that social responsibility and sustainability is the variable that best predicts the employee performance with the following values ( $\beta = .378$ ,  $t = 4.388$ ,  $p < .000$ ). The next vital predictor in order of importance is the economic responsibility and sustainability ( $\beta = .227$ ,  $t = 3.263$ ,  $p < .000$ ) and finally, environmental responsibility and sustainability ( $\beta = .172$ ,  $t = 2.931$ ,  $p < .003$ ) is significantly related to employee performance. Based on the findings, the study concluded that CSR philosophy facilitates the unlocking of the human capital which makes significant contribution to the success of an organisation. The study recommends that organisations should pursue CSR initiative by integrating CSR strategies with their human resource policies. They must acknowledge that having a particular concern for the welfare of their employees goes a long way to boost the employee's commitment and by extension, their performance and ultimately the growth of the organisation.

**Keywords:** Corporate Social Responsibility, Sustainability, Development, Employees, Performance

## 1. Introduction

The increasing global interest and discourse on CSR has led to several changes in the way corporate organizations do business in the global market. Varieties of strategies are now employed for dealing with the interaction of societal needs, the natural environment and corresponding business imperatives. While many organizations are adopting a range of voluntary initiatives associated with improvement in working conditions, environmental performances and company relations with workers, consumers, local community, and other stakeholders, others continue to wrestle with the challenges of integrating economic, social and environmental expectations of their stakeholders into the overall business operations. Tsoutsoura (2004) opined that the rise in the global importance of CSR has birthed several codes of conduct and standards like the Global Reporting Initiative (GRI), The Global Sullivan Principles of 1991, Global Compact of 2002, AA1000/AA1000AS of 1999 and 2008, the Social Venture Network Standards and the ISO 26000. These codes and standards were introduced in response to the pressure by civil rights and environmental activist groups.

In Nigeria, Lawal and Brimah (2012) stated that there are many reasons that can be adduced to justify the need for upsurge in social responsibility implementation especially by organisations. One, the community and its business sector have a symbiotic relationship. They are interdependent and should reinforce one another. Since organizations form part of the

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society, the society should also be concerned about the wellbeing of the organisations' business in the same way as they should be concerned about societal welfare. Thus, the idea of corporate social responsibility is not unfamiliar in Nigeria due to the long conviction that businesses have a responsibility to 'give something back' to the communities where they operate. Indeed, there existed certain initiatives in the past designed to 'give something back' to host communities, especially by the oil and gas multinational companies, where it is believed that the history of formalized CSR in Nigeria began (Abdullahi, Lawal, Ijaiya & Ibrahim, 2012). Organizations are increasingly beginning to understand the importance of ensuring and creating value in the society which is expected to have a positive effect having realized that CSR is good for business since it increases productivity, contribute to competitiveness and creates positive brand image in the eyes of the investors, creditors, competitors, employees, government and the society at large.

Inclusion of CSR in mission statements and dedication of a section of annual report to CSR is common among successful and competitive organizations because it holds special appeal to stakeholders. It is an accepted fact that most companies the world over are embracing Sustainability Reporting practices. According to Global Reporting Initiative (2011) "thousands of organizations worldwide now produce sustainability reports. Similarly, KPMG International Survey of 2011 which covers 34 countries (Nigeria inclusive) shows that 95 percent of the 250 largest global companies now report on their corporate responsibility activities. This is in response to the demand for organisations to be more transparent in how they treat their economic, social and environmental activities as they affect their stakeholder. One of such stakeholders is the employees

Employees are one of the most pivotal stakeholders of an organization because they can be influenced by and also influence the organizations activities thus playing an essential role in organizational effectiveness. Employees are expected to have opinions of their organization's CSR activities which can affect their level of participation and involvement. It is through employee actions and decision-making that many CSR strategies come to life. Employees are in a unique position to nurture and foster CSR performance within their organizations" (Strandberg, 2009). Employees are very well positioned to implement any CSR initiatives or programs that will engage and benefit both the company and its stakeholders. As a key stakeholder of the firm, the employees should not be seen as cost to be managed, but as an asset to be developed and valued (Zappala, 2004). The involvement of employees clearly shows the strategic importance of the human resource management (HRM) in the CSR initiative of an organization. There is, in fact, growing evidence that human resources provide firms with competitive edge (Pfeffer, 2000).

Despite the germane roles of employees, among the internal and external groups of stakeholders, how the employees feel towards the CSR acts are usually given the least attention by the management team (Rupp, Ganapathi, Aguilera, & Williams, 2006). This seems ironic as the employees make up the life blood of the organization. They are the ones who directly witness, perceive and evaluate the CSR activities carried out by their organizations. Employee as an important key of an organization needs a good motivation, so that employee can work as well as possible. Hence, it becomes important to study various factors associated with corporate social responsibility from the employee's perspective. Mirfazli (2008) posits that failure to carry out social responsibilities will cause more harm to a business than good because social and ethical responsibilities do attract and retain the best workers in any organization. From the forgoing, the main objective of this study is to examine the impact of CSR on employee performance of selected firms in Nigerian Banking and Manufacturing Industry

## **2. Literature Review**

### **a. Conceptual Definitions of CSR**

CSR has been conceptualized in various ways by different writers, thus, there are a myriad of definition of CSR. The majority of these definitions have attempted to integrate the three dimensions to the concept; economic, environmental and social dimensions. Carroll (1979) asserts that corporate social responsibility (CSR) encompasses philanthropy and community contributions but also reflects the way in which the firm interacts with the physical, environment and its ethical stance towards consumers and other stakeholder. World Business Council for Sustainable Development (WBCSD, 2000) defines corporate social responsibility as “the continuing commitment of business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as that of the local community and society at large”.

Dahan and Senol (2006) aver that corporate social responsibility is defined through the ethical relationship and transparency of the organisation with all its stakeholders that has a relationship as well as with the establishment of corporate goals that are compatible with the sustainable development of society, preserving environmental and cultural resources for future generations, respecting diversity and promoting the reduction of social problems. Hopkins (2004) explains that corporate social responsibility (CSR) is a business concept whereby a company seeks to behave in socially and environmentally responsible ways so that its business contributes to society in meaningful and lasting ways. Organisations

Asada (2010) describes corporate social responsibility as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, as well, as of the local community and society at large. Asada (2010) further observes that CSR is the duty of care which corporations exhibits not only with respect to their business operations such as profits, return on investment, dividend payment, but also with respect to social, environments, health, education and other consequences. Nwosu (1996) says that corporate social responsibility is the intelligent and objective concern for the welfare of people and society, which restraints individuals and corporate entities (government) from engaging in policies and activities, no matter how profitable or attractive that will portray them as callous and engaging in activities that will contribute to the betterment of men and society.

### **b. Theoretical Framework - Stakeholder Theory**

An approach in defining and developing CSR is provided by the stakeholder theory (Post, 2003), which has indeed become one of the most important and frequently cited theories in the literature. It is upon this theory that this present study hinges. Stakeholder theory suggests that organizational survival and success is contingent on satisfying both its economic (e.g., profit maximization) and non-economic (e.g., corporate social performance) objectives by meeting the needs of the company's various stakeholders (Pirsch, Gupta, & Grau, 2007). According to Freeman, Wicks, and Parmar (2004) stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business. It asks managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. It also pushes managers to be clear about how they want to do business, specifically what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose. Thus, Popa, Blidisel and Bogdan (2009) maintains that stakeholder theory is based on the premise that the stronger the companies' relationships are with other interest parties, the easier it will be to meet its business objectives. Stakeholder theory contributes to the corporate sustainability concept by bringing supplementary business arguments as to why companies should work toward sustainable development. Also, Perrini and Tencati (2006) states that the sustainability of a firm depends on the sustainability of its stakeholder relationships; a company must consider and engage not only shareholders, employees and clients, but also suppliers, public authorities, local (or national

according to a firm's size) community and civil society in general, financial partners etc. nowadays and more and more in the future, the quality, that is the sustainability, of stakeholder relationships must be the guiding principle for the managerial decision making process and the pillar of a more comprehensive corporate strategy

### **c. Empirical Review on CSR and Employee Performance**

Joseph, Jerome, & Mahmood, (2015) conducted a study on the Link between Employees Job Performance and Corporate Social Responsibility In The Banking Industry In Nigeria. The study examined the link between employees' job performance and corporate social responsibility in the commercial banks in Nigeria. The study employed both quantitative and qualitative methods to obtain data through a self-administered questionnaire survey, a number of semi-structured in-depth expert interviews and content analysis. The case study organization was selected because the majority of studies conducted in Nigeria on similar or related topics were conducted on business or public organizations. The outcome of the quantitative and qualitative analysis reveals that there is a link between employees job performance and corporate social responsibility.

Paulík, Felix & Aleksandar (2015) conducted a study on CSR as a driver of satisfaction and loyalty in commercial banks in the Czech Republic. This paper focused on Corporate Social Responsibility (CSR) and its effects on satisfaction and loyalty of bank customers and employees in the Czech Republic. The aim of the paper was to figure out whether CSR strategy of bank affects satisfaction and loyalty of bank customers and employees. The research was conducted using quantitative method of questionnaire survey and descriptive statistics was used to analyze data to support the research results. It was found out that 87% of Czech bank customers are satisfied with their banks. The data analysis also indicated a positive relationship between customer satisfaction and customer loyalty. However, based on the results, customers' perception of CSR does not have significant effect on their satisfaction.

Khaled, Mohammed, Ahmed (2017) examined Employees' Satisfaction and CSR practices in Egyptian firms. The authors examined the impact of five dimensions of Social Accountability Standards (SA8000) practices on employee satisfaction: Health and safety, unions and bargaining right, discrimination, work life balance and sufficient wage. A proposed model was tested on a sample of 199 employees, which represents 49% response rate, within an Egyptian firm that is operating within the textile industry. Results showed that all internal CSR dimensions are significantly and positively related to satisfaction. In addition, the findings of the present study provided evidence to suggest a model can be developed to enhance satisfaction based on CSR practices.

Ahmad, Islam & Saleem, (2017) conducted a study on Employee Engagement, Organizational Commitment and Job Satisfaction as Consequent of Perceived CSR. The study aimed at examining organizational commitment and employee engagement as consequent of perceived CSR with the mediating role of job satisfaction. A questionnaire based survey was used to collect data from 736 faculty members of higher education institutions. Hypotheses were tested using structural equation modeling. Findings revealed that, perceived CSR positively influence employees level of engagement and commitment towards their organization, whereas, this mechanism is partially supported considering job satisfaction as a mediating variable. This study is novel and has implications for the higher education institutions.

Franco & Suguna (2016) conducted a study on Corporate Social Responsibility Influences, Employee Commitment and Organizational Performance. This study analyzed the multifaceted influence CSR on employee organizational commitment and organizational performance. The study focused on employees perceptions towards CSR. Companies worried about high employee turnover, employee absenteeism and employee low motivation towards work and organization. All the CSR activities significantly and positively influences employee commitment with organization and improve organizational performance.

Aditya & Saily (2015) conducted a study on Analysis of the effects of corporate social responsibility activities on employee satisfaction and commitment. The purpose of the research was to find out the impact of CSR on motivation and commitment of an Employee in the organization. A sample size of 60 respondents was taken. The research for this investigation included a survey of the employees working in IT and Hospitality sector of Allahabad and Pune in India who have implemented CSR activities for at least 1 year. The Questionnaire was based around the factors that how CSR activities improves employee commitment and motivation. The result found that a strong correlation of 0.9 was identified between the number of CSR Activities an employee participates and the duration of his tenure in the organization. Santoso (2014) conducted a study on The Impact of Internal CSR towards Employee Engagement and Affective Commitment in XYZ Hotel Surabaya This study analyzed the impact of internal Corporate Social Responsibility (CSR) through training and education, health and safety, human rights, work-life balance, as well as workplace diversity on employee engagement and affective commitment. Data were gathered from 90 employees in XYZ Hotel Surabaya by using simple random sampling and multiple regression analysis was utilized as the analytical tool. The result showed that health and safety was the strong predictor in effecting both employee engagement and affective commitment.

Yousafa, Alib, Ali, Muhammad (2016) conducted a study on Impact of Internal Corporate Social Responsibility on Employee Engagement a Study of Moderated Mediation Model. The objective of the study was to analyze the impact of internal corporate social responsibility on employee engagement, through mediation of employee perception and influence of employee discretion on employee engagement. A cross sectional quantitative study was conducted. A sample size of 163 employees of five major commercial banks operating in Pakistan. The research administrated questionnaire was distributed for data collection. Demographic analysis of respondents was done with the help of descriptive statistics. The results showed that internal corporate social responsibility has direct impact and indirect impact through employee perception on employee engagement. Whereas, indirect effect of internal corporate social responsibility on employee engagement, through employee perception, depends on employee discretion

### **3. Methodology**

The population of the study constitutes all the firms in both Nigerian banking and manufacturing industry. For the banking industry, the study population was banks categorized as Tier 1 (Zenith Bank Plc, UBA Plc, GTBank Plc, FBN Plc, and Access Bank Plc) and adjudged to be controlling 60 percent of banking sectors assets in Nigeria (Akanbi 2014). The firms in the manufacturing industry were selected from the Food and Beverage Group. The firms are Cadbury Nigeria Plc, Flour Mills Nigeria Plc, Nestle Nigeria Plc, UACN Nigeria Plc, and Unilever Nigeria Plc. All ten firms were selected using purposive sampling having constantly and continuously disclosed their CSR activities explicitly in the last ten years. This survey research was mainly based on primary data collected from employees of selected firms. Primary data were used in this study. The primary data consists of a number of items in structured questionnaire. A sample was drawn from the population because it is almost impossible to survey the entire population, hence; a sample size of three hundred and sixty (384) respondents constitutes the sample size for questionnaires that were administered to the staff respondents which was arrived at using Krejcie and Morgan's (1970) sample size determination criteria

Out of the 384 copies of the questionnaire given out, 305 copies of questionnaire were filled appropriately and useful for analysis. Data collected from the questionnaire were analyzed with the aid of a Structural Equation Model (SEM) because it is a tool which allows treatment of data analysis with multivariate relationships involving one or more

independent variables against one or more dependent variables (Smith, 2004; Daud, Mohamed and Alhamali, 2009). The primary reason for adopting SEM is the ability to frame and answer increasingly complex questions about data (Kelloway, 1998). It is more advanced than factor analysis and multiple regression analysis, but combines essential rudiments of both techniques for confirming intercorrelated dependent relationships simultaneously within a model (Hair, Hult, Ringle, & Sarstedt, 2014; Sweeney, 2009). SmartPLS 3.0 statistical package was used for the analysis because it is a powerful multivariate analysis technique that includes specific versions of a number of other analysis methods as special cases. The hypotheses were tested at 5% level of significance.

**Test of Hypotheses**

Ho:- CSR does not have any significant impact on employee performance of selected firms in Nigerian Banking and Manufacturing Industry

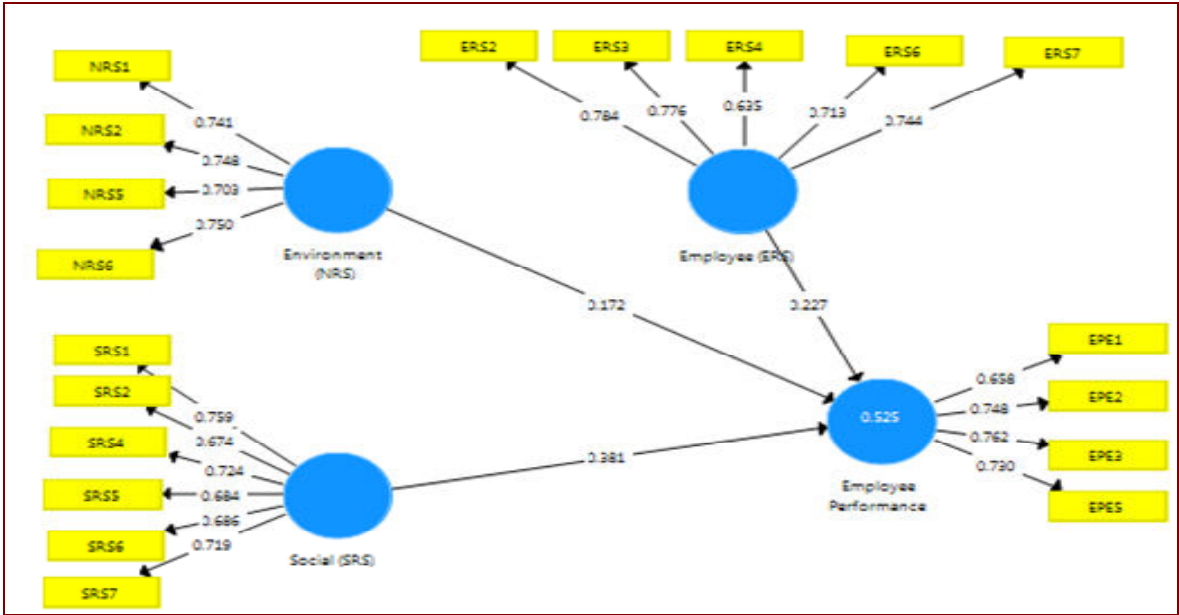
H1a: Economic responsibility and sustainability does not have any impact on employee performance

H1b: Social responsibility and sustainability does not have any impact on employee performance

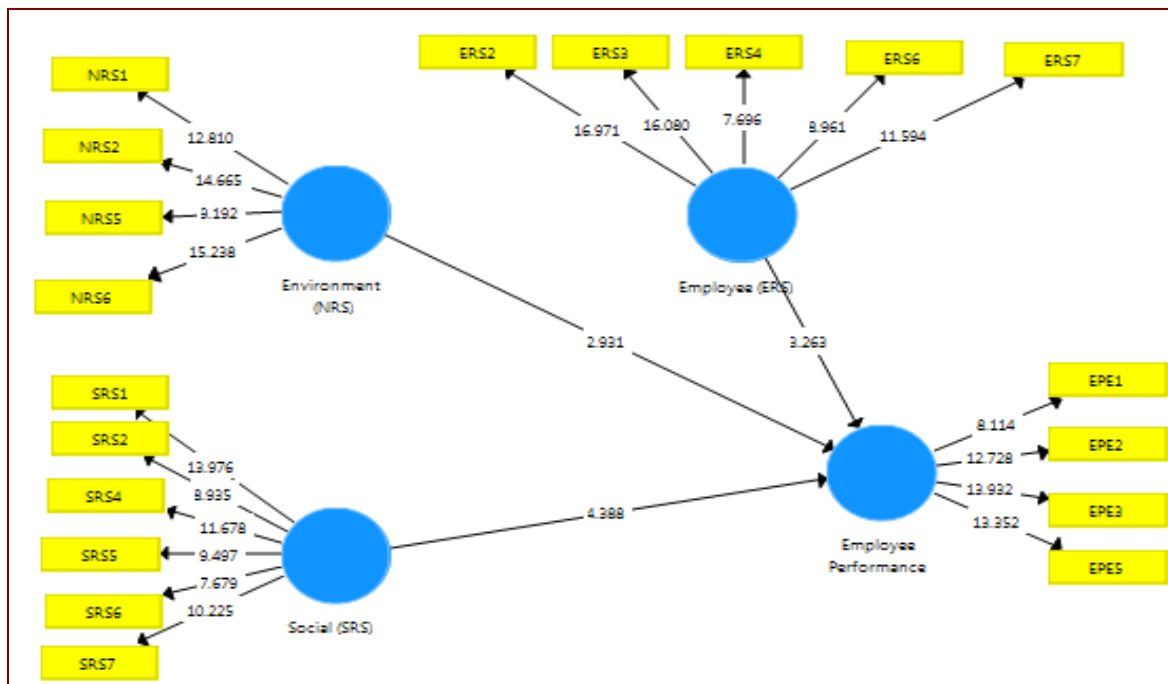
H1c: Environmental responsibility and sustainability does not have any impact on employee performance

**4. Results and Discussion of Findings**

**Figure 1: Results for Reflective Measurement Model Algorithm for Employee Performance**



**Figure 2: Results of Bootstrapping on Structural Model (Employee Performance)**



**Table 1: Results of Hypotheses Testing One (1)**

Hyp.	Relationship	Beta	S.Error	T – value	P -value
H <sub>1a</sub>	Economic (ERS) -> Employee Performance	0.227	0.070	3.263	0.001
H <sub>1b</sub>	Environment (NRS) -> Employee Performance	0.172	0.059	2.931	0.003
H <sub>1c</sub>	Social (SRS) -> Employee Performance	0.378	0.087	4.388	0.000

**Note:** Three of the hypotheses are supported based on their T-values (T-value  $\geq 1.96$ ).

Hypothesis 1a predicted that CSR (economic) related to employees' performance. Result (Table 1, Figure 1) revealed a significant positive relationship between CSR (economic) and employees' performance ( $\beta = 0.227$ ,  $t = 3.263$ ,  $p < 0.001$ ). Therefore, Hypothesis 1a is supported.

Hypothesis 1b predicted that CSR (environment) is related to employees' performance. Result (Table 1, Figure 1) showed a significant positive relationship between CSR (environment) and employees' performance ( $\beta = 0.172$ ,  $t = 2.931$ ,  $p < 0.003$ ). Hence the hypothesis 1b is aligned with. In addition, in examining the influence of CSR (social) on employees' performance, result indicated that CSR (social) had a significant positive relationship with employees' performance with ( $\beta = 0.378$ ,  $t = 4.388$ ,  $p < 0.000$ ). Hypothesis 1c is supported.

The finding above shows that CSR significantly relate to the employee performance. The discussion on the relationship between individual employee performance (economic, social and environmental) was offered individually. Among the three hypothesis, social responsibility and sustainability is the variable that best predict the employee performance with the following values ( $\beta = .378$ ,  $t = 4.388$ ,  $p < .000$ ). The next vital predictor in order of importance is the economic responsibility and sustainability ( $\beta = .227$ ,  $t = 3.263$ ,  $p < .000$ ) and finally, environmental responsibility and sustainability ( $\beta = .172$ ,  $t = 2.931$ ,  $p < .003$ ) is significantly related to employee performance. All the three independent variables impacted

on the directional hypothesis. Therefore, hypothesis H<sub>1a</sub>, H<sub>1b</sub> and H<sub>1c</sub> are supported. The findings of this study is consistence with previous studies on the employee performance, the result of the relationship between corporate social responsibility and employee performance is in line with the finding of Korschun, Bhattacharya, and Swain, (2014) who examined corporate social responsibility, customer orientation, and the job performance of frontline employees. The study revealed that the organizational identification directly drives job performance while employee-customer identification contributes to job performance through its effects on organizational identification and customer orientation. Also, Bai and Chang (2015). Investigated the corporate social responsibility and firm performance: The mediating role of employee competence and the moderating role of market environment. The findings of an empirical study conducted in China show that employee competence fully mediates the effects of all CSR activities on firm performance.

## 5. Conclusion and Recommendations

The 21st century business is pushing the limits of the traditional business thought. Corporate social responsibility, stemming from internal values or social and environmental pressures, is becoming the norm. The question is not whether to be responsible, but how to reap the best long-term benefits from CSR. The often heard advice is through ethical values and behavior, as well as strategic approach to business. When such values and practices are present within the company, they help create the culture of social responsibility. It is a fact that employees have not only economical, but also social and emotional expectations from their companies. Hence, CSR implementation can be used as a means of fulfilling such expectations. As the needs of employees are satisfied in such a way, their affective and normative commitments are expected to be higher. Also, it is natural that as the company shows more interest to the social issues and its employees participate to the social projects, the company reputation strengthens, and the affective commitment enhances. Employees will be proud of their own jobs, if the company itself realizes activities to be proud of. This will undoubtedly reinforce the organizational commitment of employees (Peterson, 2004). The companies which execute voluntary activities will have a improved goodwill, brand value and better reputation from the point of view of the employees and the society, and hence more job satisfaction will be observed.

Given the already intense pressure brought by stakeholders globally on utilization of resources in line with the principles of sustainable development that underpins the concept of CSR, There is need for the enshrinement of the CSR philosophy in all organizations in order to achieve a sustainable development that the 21<sup>st</sup> century demands. Companies should maintain, sustain and improve on the current tempo of CSR initiatives

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# THE TOTAL QUALITY MANAGEMENT ON TEACHER PROFESSIONAL DEVELOPMENT IN SECONDARY SCHOOLS IN GHARBIA GOVERNORATE OF EGYPT

Shoruok Mohammed Farag Aboudahr<sup>1</sup>

## Abstract

The purpose of this study to determine the total quality management on teacher professional development in secondary schools in Gharbia Governorate in Egypt. The study involved 66 respondents (47.4 % male & 52.6 % female) secondary school teachers'. The questionnaire consists of both Arabic language as well as English language. It consists of 28 items which includes Create Constancy of Purpose for Improvement (3 items), Adopt the New Philosophy (4 items), Improve constantly (4 items), Institute Training on The Job (9 items), Institute leadership (4 items) and Drive out Fear (4 items) subscales. This instrument was developed to assess the relationship between total quality management on teacher professional development in secondary schools. Data were analysed using frequency, percentage, independent t-test, ANOVA and Pearson Correlation test. The study found that no difference between gender and experiences on professional development. In additional, it was found that out of six dimension of Create Constancy of Purpose for Improvement, Adopt the New Philosophy, improve constantly, Institute Training on The Job, Institute leadership and Drive out Fear have positive relationship on teachers' professional development. Finally, based on the finding of this study, I wish to suggest that for an improvement future researcher should carry out similar study not only in Gharbia state but also generally in Egypt. Besides, it recommended that should be encourage teachers of secondary school to attend training course and learn recent research and educational studies by providing financial and moral incentives. On the other hand, seminars could be held for high school teachers in order to improve their attitudes and perspectives towards professional development.

**Keywords:** Total Quality Management, Teacher Professional Development, Secondary School, Gharbia Governorate.

## 1. Background of the Study

Total quality management in education is the role of the school management, teachers to become effective in the schooling system in teaching and learning process (Yildiz, 2006). Total Quality Management (TQM) is an idea and set of guiding principles and a knowledge that shows the fundament of a continuously improving school and other institution (McCulloch, 2013). Total Quality Management (TQM) is the adoption of quantitative methods and human resources to enhance both services supplied and material to the institutions (Capezio & Morehouse, 2013). It involves standard school structure with well-furnished classrooms, good laboratories, update the library, instructional materials and devoted staff and conducive environment that makes teaching and learning very effective in schooling system (Ozevren, 2000).

In another word, Total Quality Management (TQM) in education has a significant role towards enhancing the standard of education in providing skilled and professional teachers (Bostan, 2005). It is unanimously accepted that the excellence of education of any state determines by the quality of its citizens' education. The latter is mostly resolute by their educational system of the nation, which in turn is decided by the quality of teachers (Aydin & Senturk, 2007). Thus, the real dynamic forced of education is the teachers. TQM embrace changes of teaching tradition, that the teachers require a conducive environment with instructional facilities and resources to discharge their duties in a systematic manner (Ozevren, 2000).

In Egypt, the establishment of secondary education and its role in promoting total quality management and teacher professional development requires to fulfill with a huge number of teachers through full-scoped professional development. For the reason that, a lot of college graduates from colleges of education are engaged every year by the government

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schools in Egypt but most of these graduates newly hired are not prepared for their professional careers (Galal, 2002; Harmer, 2007).

In light of this, the Middle East and North Africa Organization for Economic Co-operation and Development (MENA-OECD) in 2010 hinted that no teaching certification or special teacher qualification is required for a teacher in Egypt but university degree in relation to their specializations or the subject they taught in the school.

Consequently, professional development of teachers becomes a serious component in creating of teachers' skilled and ability profession (Bowman, Donovan, & Burns, 2000; Emery, 2012) that eventually might provide students with a high-quality education. Students require teachers with skilled and competency who are capacitated for preparing students to be life-long and self-directed learners (OECD, 2005).

However, the in-service training was also considered as a threat affecting teachers in this area on their professional development. Nevertheless, the in-service teachers characteristically have relied on their definite experience on the job and in their opinion of their colleagues for improving their personality, however, the practical reality remains challenging. Megahed (2002) pointed out that the MOE fails to provide a suitable system for teacher professional development programs. Also in Egypt, the failure of the government to establish a sound total quality management framework for effective enhancement in secondary school education is among the banes that serve a deterrent to the development of secondary education in the country.

Moreover, the teacher professional development is the official in-service training to improve the content knowledge and informative skills of teachers are broadly regarded as a significant means of improving and upgrading teaching and learning process. However, there is countless intervention from Ministry of Education in Egypt towards involving teacher professional development in their program, but, there are still some obstacles that are disturbing the teachers' professional development in secondary schools of the country. This research tends to examine the total quality management on teacher professional development in secondary schools in Gharbia Governorate in Egypt.

Several studies have shown the relevance of adopting teacher professional development to improve a range of training encounters in the teaching career (Kagoda & Ezati, 2014). Moreover, in the context of total quality management, it is observed that secondary schools in Gharbia Governorate over the years have faced some hurdles such as inadequate facilities for effective teaching and learning, lack of maintenance of existing structures, absence of commitment from the teachers, weak teamwork, poor communication system, paucity of funds, weak performance of students especially in external examinations. These factors have attributed some privilege for parents to enroll their children in private international schools for positive educational outcomes.

Nevertheless, one possible suggestion for improving this quality of education hinged on the application of the ideals of total quality management in secondary school administration in Gharbia Governorate. In the context of teacher professional development in Gharbia secondary schools, there are shortcoming as it appears not to be a priority list on the agenda in the Ministry of Education in Gharbia. The MOE only organize a training when the need arises, within a few days with less impact on teachers. As a result, teachers are left to plan for their own TPD. Society expects the teachers to carry out the role of developing their learners in terms of the physical, intellectual, social and moral well-being as parts of teacher's obligations in a teaching career. This implies that teachers require adequate professional training for all around developing in the teaching profession. Recently, teachers in Gharbia Government secondary schools have not conceptualized professional development in its varied nature and very few of these teachers have been motivated to attend professional development accomplishments excluding promotion from one level to a new level. The

question basically to determine the total quality management on teacher professional development in secondary school administration, teaching and learning in Gharbia Governorate. Besides, most studies on total quality management and teacher professional development are limited in the literature concerning Gharbia Governorate secondary school and this present study will fill the gap in determining the level of total quality management on teacher professional development in Egypt and Gharbia Governorate in particular.

### **1.2 Research Objectives**

The main research objective of this study is to determine the total quality management on teacher professional development in secondary schools in Gharbia Governorate in Egypt. In the context, the specific objectives are:

1. To identify the level of total quality management and teacher professional development in Gharbia Governorate in Egypt.
2. To determine gender and experiences differences in total quality management and teacher
3. To examine the relationship among Create Constancy of Purpose for Improvement, Adopt the New Philosophy, Improve Constantly, Institute Training on The Job, Institute leadership, Drive out Fear toward total quality management.

### **1.3. Research Questions**

These are the research questions for the study:

1. Is there any level of total quality management and teacher professional development in Gharbia Governorate?
2. Is there gender and experiences differences in total quality management and teacher professional development?
3. Is there a relationship among Create Constancy of Purpose for Improvement, Adopt the New Philosophy, Improve Constantly, Institute Training on The Job, Institute leadership, Drive out Fear toward total quality management?

### **1.4 Research Hypotheses**

The following research hypotheses guided the study.

**H<sub>01</sub>**. There is no significant difference between genders on teacher professional development in secondary schools in Gharbia Governorate in Egypt.

**H<sub>02</sub>**. There is no significant difference between experience on teacher professional development in secondary schools in Gharbia Governorate in Egypt.

**H<sub>03</sub>**. There is no relationship between Create Constancy of Purpose for Improvement and teacher professional development in Gharbia Governorate in Egypt.

**H<sub>04</sub>**. There is no relationship between Adopt the New Philosophy and teacher professional development in Gharbia Governorate in Egypt.

**H<sub>05</sub>**. There is no relationship between Improve Constantly and teacher professional development in Gharbia Governorate in Egypt.

**H<sub>06</sub>**. There is no relationship between Institute Training on The Job and teacher professional development in Gharbia Governorate in Egypt.

**H<sub>07</sub>**. There is no relationship between Institute leadership and teacher professional development in Gharbia Governorate in Egypt.

**H<sub>08</sub>**. There is no relationship between Drive out Fear and teacher professional development in Gharbia Governorate in Egypt.

### **1.5 Novelty**

The study is intended to offer a significant contribution in the areas of filling research gap, contribution to the body of knowledge and assisting the Tanta state ministry of education in implementing total quality management for teacher professional development in the state. The findings of the study would also assist the educational stakeholders and policy makers in

Egypt and specifically Gharbia Governorate. The findings would aid both the staff of the Ministry of education, principals, teachers, educational planners and the entire students.

Several studies were conducted on TQM and other issues like training, capacity building in different places such as Chanda et al (2015) focus on Analysis of TQM in Practices on Zambian secondary school a survey in Lusaka district. This study viewed on TQM in secondary schools in Lusaka Zambia. Lunenberg (2010), while this study focusses on TQM, applied to school which based on a conceptual framework for analyzing TQM in achieving a high standard in schools based on Edwing Deming advocacy. Meanwhile, the Redmond (2008); Toremén and Karakus (2007) they have focused on TQM in Primary school in Turkey which centered on primary teachers. Though, this study focuses on TQM on teacher professional development in secondary in Gharbia Governorate in Egypt. There were limited studies that focus on this direction. The essence of this study is to fill the gap that was not conducted by the previous researchers.

The findings will be useful to the Ministry of Education in particular in understanding the importance of total quality management and teacher professional development through training in secondary schools. This would assist them to revisit the policies on teacher training and development for yielding a positive result. However, the study will benefit principals and school management in designing teacher professional development (i.e. seminars, workshops and external training or study leave) for the betterment of education and attainment of mission and vision of secondary education in Tanta. It will also be useful to the schools' management in the areas of professionalism in total quality management in terms of service delivery in their respective schools, departments under their supervision. It would also aid the teachers in providing them with the literature on the effect of total quality management on teachers' professional development.

### **3. Methodology**

#### **3.1. Theoretical Framework**

This study adopted the total quality management theory of Deming principles (1986) which greater management thinker in the quality field was extensively acknowledged in his study. He is of the idea that supports the method of continuous improvement of organization and individuals themselves, with regards to their relationships, products and service and processes. He believes in teamwork and continuous improvement. Deming's work and writing constituted a philosophy of management in the context of total quality management that focuses on quality and continuous improvement with much wider influence (Redmond, Curtis, Noone & Keenan, 2008).

In this current study six out of the fourteen key principles expounded by Deming and modified by Lockwood (1992). Because they were extremely connected to total quality management and teachers' professional development in secondary schools. These encompass 1. Adapt a new philosophy by management learning, 2. Institute training on the job, 3. Institute leadership, 4. Eliminate slogans, exhortations, and targets, 5. Institute a vigorous program of education and self-improvement and 6. Put everybody in the organization to work to accomplish the transformation top management commitment to action. The Deming approach of TQM support on a constancy of purpose to the realities of its environment. Consequently, The TQM framework was adopted by Deming approach is a new philosophy in explaining customer satisfaction via constant development for the efficient and effective element of the organization and its processes (Sichinsambwe, Mwanza & Nawelwa, 2015).

As hinted by Bonstingl in 1992 said the most important to education quality is the four Pillars of Total Quality Management which is fit with the six principles. The four pillars Self-Evaluation, Continuous improvement, System of ongoing process and Leadership, Synergistic Relationships, and Improvement are four main pillars. Deming (1986) believes that

inadequate quality of effective services emanates from difficulties in the process of production. To accomplish quality, one shall eradicate the needs for inspection by building quality into the product (or service) at the initial stage. Even 100 percent inspection does not assure quality. Quality comes from improving the process, not evaluating the output after the fact (Bonsler, 1992).

In conclusion, there are some limited studies conducted on the TQM and its effect on professional development in teacher education in Egypt. The goal of this study is to fill the gap that was not been fulfill before and the study indicates that professional capacity building and professional development would ensure efficiency and enhance TQM. This study differs with the above because the bottom line of the study is to ascertain the TQM on teacher professional development in Gharbia Governorate secondary schools, this study is basically on secondary schools' teachers on professional capacity development. This study differs from the previous one.

### **3.2. Population**

The purpose of the study was to investigate the relationship between total quality management and secondary teachers' professional development in Gharbia state in Egypt. Hence, the population of the study comprised of all teachers from secondary schools in Gharbia Governorate. According to the Ministry of Education in Tanta, there are 99 secondary schools and 2,262 teachers who were permanent staff in these secondary schools.

### **3.3. Sample and Sampling Technique**

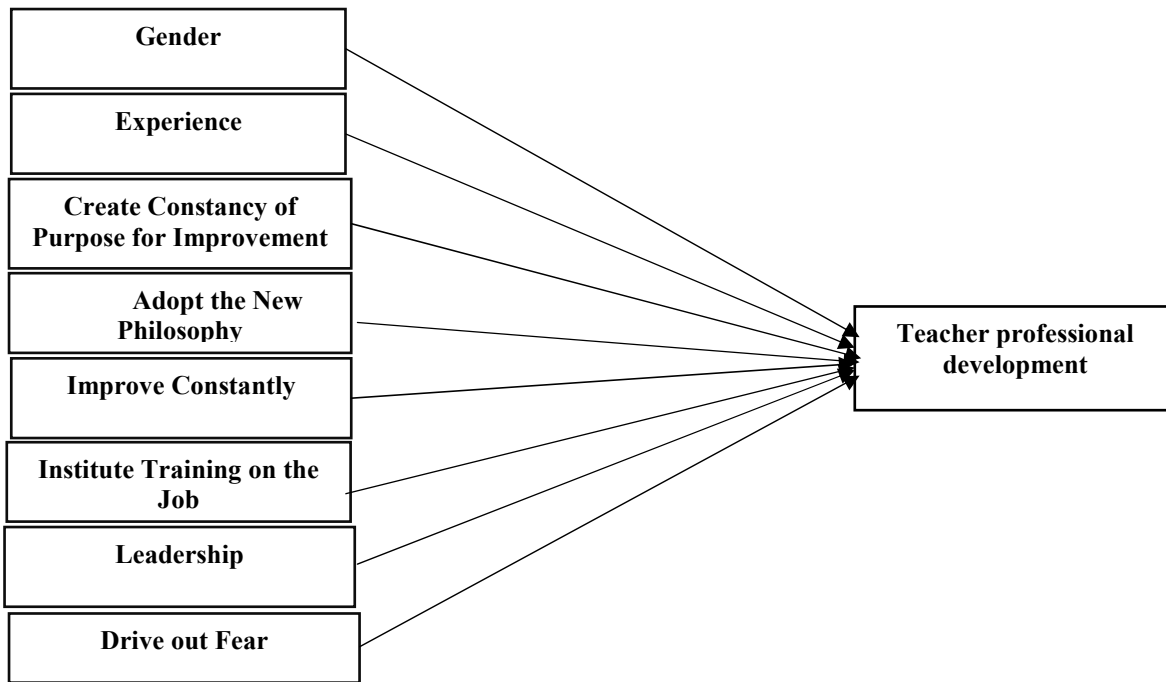
The sample of the study was based on Simple random sampling technique through randomization to guarantee the provision of balanced information. In this study, teachers will be selected from the population of the teachers. Since this research has a fewer sample. Simple random sampling technique will be used to select teachers 100 as a sample for the study.

### **3.4. Instrumentation**

The survey questionnaire was designed in both the Arabic and English language the questionnaire was translated to the Arabic language using the back-to-back method in order to ensure that no changes in meaning happened. First, the questionnaire was written in English and then was translated into Arabic to be easier for the respondents to understand if the questionnaires were posed in the Arabic language and this would motivate them to respond to the survey. The study used Bonstingle (1992) Survey Instrument to collect the data on Total quality management in education regarding teachers' professional development of the secondary school. The essential of this instrument divided to 84 items made by Bonstingle's formulation of Demming's 14 points of Total Quality Management in Education. All the items belong to 14 points are to be evaluated by a five-point Likert scale ranging from (1) Strongly Disagree (2) Disagree (3) Moderate Agree (4) Agree (5) Strongly agree. In the current research, six from Deming fourteen points consisting of 28 items divided into six dimensions were taken because they were extremely connected to professional development (Mukhopadhyay, 2006). They were Create constancy of purpose, Adopt new philosophy, improve constantly, Institute training on the job, Institute leadership and Drive out fear. Consequently, every person will work efficiently and effectively for his or her institution.

### **3.5. Conceptual Framework**

Based on the literature and theories, the researcher conceptualized the total quality management to have direct bearing with teacher professional development in secondary schools in Gharbia Governorate. The dimensions for total quality management on teacher professional development are Gender, Experience, Create Constancy of Purpose for Improvement, Adopt the New Philosophy, Improve Constantly, Institute Training on The Job, Institute leadership and Drive out Fear.



Source Developed by the Researcher, 2018.

### 3.5.1. Definition of Terms

The following terms were defined in this thesis as follows:

#### 3.5.2. Total Quality Management:

Total Quality Management (TQM) is a method to encourage the efficiency and dynamism of business in a general context. It is essentially a way of creating and engaging the whole organization; each department, every individual at every level and all activity. TQM is considered as an incorporation of several processes describing the behavioral dynamics of an organization (Lakhe and Mohanty, 1993). The TQM deals with the whole system that the entire process is carried out in attaining customers or beneficiary with competence and efficiency.

Total quality management in education is focused on the requirement of the school administrators, teachers to be effective in teaching and learning process. This would ensure effective and proficient teaching and learning process for yielding a positive outcome.

#### 3.5.3. Teacher Professional Development:

Means teachers' learning, as to do with how the teacher acquired knowledge and how what they acquired is useful in supporting the learning of students. Teacher professional development is the process of training teachers in professional skills to meet up the challenges in their career. This is ongoing and integrating a constructivist approach, based in school and be entrenched in the teachers' work (Pimentel and McNeil, 2013). This encompasses considering teachers as active learners (McLaughlin and Zarrow, 2001) who are involved in the actual tasks of teaching, observation, evaluation, and reflection (Villegas-Reimers 2003).

Teachers: Means a person with a certificate to teach in Secondary school. A teacher is a person who helps others to acquire knowledge, competences or values in either basic educational institution like a primary and secondary school or at the college level.

#### 3.5.4. Secondary School:

Means a level of education above the primary school. This is the high school above and below-tertiary institutions that help the primary pupil to further their education before they enter into university or polytechnic and college of education.

### 3.5.5. Gharbia Governorate:

Means a state in the Republic of Egypt. It is the fifth largest city in Egypt that placed in the north of the country, north of Monufia Governorate, and south of Kafr El Sheikh Governorate. Its capital is Tanta. people residing in the governorate was 4,751.865

## 4. FINDINGS

### 4.1. Introduction

This chapter revealed and report the findings of the study and analysis of instrument conducted. All data were analyzed using a statistical package of social science (SPSS version 22.0). The findings will be presented according to a statistical test that was made. Interpretations of the finding are distributing to two major parts. The first part described the descriptive statistics used for analyzing the demographic characteristics of the respondents which include analysis of frequency and percentages. The second part describes the result of inferential statistics used for hypothesis testing which include T-Test, ANOVA, and Pearson correlation.

### 4.2. Respondents profile

This section shows descriptive data that will give an overall description of the results. Findings discussed were gained from the instruments managed by the researcher. Elaborate analysis and testing of hypotheses will be an execution in the statistical analysis section.

The current study included 75 secondary school teachers in Gharbia Governorate in Egypt. They were randomly chosen. This descriptive data highlighted and emphasize respondents' profile whence their gender and experiences to determine gender and experiences differences in total quality management and teacher professional development among secondary school teachers in Gharbia Governorate in Egypt.

#### 4.2.1 Respondents' Distribution Based on Gender

According to table 1 research respondents comprised (N =33) male teachers (47.4 %) and (N =42) female teachers (52.6 %). This presented the frequency of female teachers were more than male teachers.

**Table 1:** *Respondents' Distribution Based on Gender*

Gender	Frequency	Percentage (%)
Male	33	47.4
Female	42	50.6
Total	75	100

#### 4.2.2. Respondents' Distribution Based on working Experiences

As shown in the table below 32.9% (N=26) of the respondents had between 6-10 years of working experiences, 25% (N=18) of the respondents had between 1-5 years of working experiences. Also, 22.4 (N=16) of the respondents had between 11-15 years of working experiences and 19.7% (N=17) of the respondents had between 16-20 years of working experiences. The most of the respondents have had between 6-10 years in service.

**Table 2:** *Respondents' Distribution Based on working Experiences*

Experiences	Frequency	Percentage (%)
1-5	18	25
6-10	26	32.9
11-15	16	22.4
16-20	15	19.7
Total	75	100



### 4.3. Research Findings Based on Research Question and Research Hypotheses

As mentioned earlier, there were three research questions that established eight hypotheses in this current study. Therefore, this section displays the findings of hypotheses testing based on the relevant research question and research hypotheses.

#### *Hypothesis 1:*

**H<sub>01</sub>**. There is no significant difference between genders on teacher professional development in secondary schools in Gharbia Governorate in Egypt.

Hypothesis H1 was tested by using independent T-Test. In the current study, the mean difference and its significant level was set at  $p < .05$ .

Based on table 3, Levene's Test was not significant ( $p > .05$ ). The result shows that there is equally assumed between male and female secondary school teachers on professional development. Therefore, Independent Samples T-Test was statistically not significant ( $t(64) = -1.14, p > .05$ ). This result failed to reject the null hypothesis ( $H_0$ ). There was no significant difference between male and female teachers in professional development. Both male and female secondary school teachers perceived their professional development as almost equal. This statistic confirmed that  $H_{01}$  is accepted.

**Table 3:** independent t-test between gender and Teacher professional development.

Gender	N	Mean	SD	Df	t	p
Male	32	3.94	.35	64	-1.14	.25
Female	34	4.04	.38			

**H<sub>02</sub>**. There is no significant difference between experiences of teacher professional development in secondary schools in Gharbia Governorate in Egypt.

Hypothesis H2 was tested using ANOVA. In the current study, the mean difference and its significant level was set at  $p < .05$ . In order to determine whether there is a significant difference in experiences on professional development based on qualification, one-way ANOVA is conducted.

**Table 4:** The Levene's test for homogeneity of variances.

Levene's Statistic	DF1	DF2	Sig
.192	3	62	.902

**Table 5:** the one-way ANOVA between Experiences and Teacher professional development.

Experiences	N	Mean	Sd	df1	df2	F	P
1-5	17	3.9	.39	3	62	.27	.843
6-10	23	4.05	.39				
11-15	14	4.0	.37				
16-20	12	4.0	.32				

Result in table 5, shows that there is equally assumed between experiences toward teachers' professional development. The one-way ANOVA was not significant  $F(df1(3) df2(62)) = .27, p > .05$ . Between experiences toward teachers' professional development. The result rejected the null hypothesis ( $H_0$ ). In hence, there was no significant difference between experiences and teachers' professional development. Finally, the post hoc test also was not significant among experiences group.

Hypotheses  $H_{03}$  to  $H_{08}$  was tested by using Pearson correlation coefficient. The correlation ( $r$ ) among the variable will be tested at 0.05 coefficient level of significant.

**H<sub>03</sub>**. There is no relationship between Create Constancy of Purpose for Improvement and teacher professional development in Gharbia Governorate in Egypt.

Based on table 6, the finding indicates that the personal correlation was a positively significant relationship between creating constancy of purpose for improvement toward

teacher professional development. ( $r = 0.60$ ,  $p < 0.01$ ). High create constancy of purpose for improvement shows high teacher professional development. While low create constancy of purpose for improvement shows low teacher professional development. Hence, according to Wiersma and Jurs (1998), .50 to .70 is a moderate positive relationship between creating constancy of purpose for improvement toward teacher professional development.

**Table 6. The relationship between Create Constancy of Purpose for Improvement and Teacher Professional Development.**

Independent variable	Teacher professional development(TPD)
Create Constancy of Purpose for Improvement	.594**

**H04.** There is no relationship between Adopt the New Philosophy and teacher professional development in Gharbia Governorate in Egypt.

Table 7 shows that there was a positive relationship between adopting the new philosophy, and teacher professional development.  $r = 0.45$ ,  $p < 0.01$ . low adopt the new philosophy shows low teacher professional development. But, high adopt the new philosophy shows high teacher professional development. Therefore, according to Wiersma and Jurs (1998), .30 to .50 is a low positive relationship between adopting the new philosophy toward teacher professional development.

**Table 7. The relationship between Adopt the New Philosophy, and teacher professional development.**

Independent variable	Teacher professional development(TPD)
Adopt the New Philosophy	.454**

**H05.** There is no relationship between Improve Constantly and teacher professional development in Gharbia Governorate in Egypt.

**Table 8: Relationship between Improve Constantly and teacher professional development.**

Independent variable	Teacher professional development(TPD)
Improve Constantly	.643**

According to table 8, the result implies that there was a positive relationship between improve constantly and teacher professional development.  $r = 0.64$ ,  $p < 0.01$ . high improve constantly shows high teacher professional development. While low improve constantly shows low teacher professional development. Therefore, according to Wiersma and Jurs (1998), .50 to .70 is a moderate positive relationship between improve constantly toward teacher professional development.

**H06.** There is no relationship between Institute Training on The Job and teacher professional development in Gharbia Governorate in Egypt.

**Table 9. The relationship between Institute Training on The Job and teacher professional development.**

Independent variable	Teacher professional development(TPD)
Institute Training	.821**

From table 9, it shows that there was a positive relationship between institute training and teacher professional development.  $r = 0.82$ ,  $p < 0.01$ . high institute training shows high teacher professional development. While low institute training shows low teacher professional development. Thus, based on Wiersma and Jurs (1998), .70 to.90 is a high positive relationship between institute training toward teacher professional development.

**H<sub>07</sub>**. There is no relationship between Institute leadership and teacher professional development in Gharbia Governorate in Egypt.

**Table 10. Relationship between Institute leadership and teacher professional development.**

Independent variable	Teacher professional development(TPD)
<i>Institute leadership</i>	.681**

Table 10 displays that there was a positive relationship between institute leadership and teacher professional development.  $r = 0.68$ ,  $p < 0.01$ . Low institute leadership shows low teacher professional development. While high institute leadership shows high teacher professional development. Hence, based on Wiersma and Jurs (1998), .50 to.70 is a moderate positive relationship between institute leadership toward teacher professional development.

**H<sub>08</sub>**. There is no relationship between Drive out Fear and teacher professional development in Gharbia Governorate in Egypt.

**Table 11. Relationship between Drive out Fear and teacher professional development.**

Independent variable	Teacher professional development(TPD)
Drive out Fear	.742**

Based on table 11 there was a positive relationship between drive out fear and teacher professional development.  $r = 0.74$ ,  $p < 0.01$ . high drive out fear shows high teacher professional development. While low drive out fear shows low teacher professional development. Therefore, according to Wiersma and Jurs (1998), .70 to.90 is a high positive relationship between drive out fear toward teacher professional development.

The finding implied that the first dimension of the independent variables of the current study used for the analysis supported no significant difference between male and female toward teachers' professional development.in the same time, the second dimension of this study supported no significant difference among teaching experiences toward teacher professional development.in additional, from the third dimension to the eighth dimension has had positively related to teacher professional development. This finding supported that total quality management is tremendously for improve secondary school teachers' professional development in Gharbia Governorate in Egypt.

#### **4.4. Dissection of Finding Based on Research Question.**

The discussion in this chapter examined the three research questions of the current study. Based on the result of the hypothesis and finding. Also, the findings were compared with similar researches in the literature reviewed.

##### **4.4.1. Gender on teachers' professional development.**

There was no difference between male and female teachers in professional development. This study concurred with the finding of Mohamed (2017) which mentioned that found there was no significant difference between male and female on teacher professional development in Gaza. While Elham (2007) pointed to her study in Jordan on the Effect of TQM in Teacher Professional Development Programs. The study found that there

are significant differences on the effect of TQM on gender in planning and practice for women teachers in secondary schools in Jordan.

#### **4.4.2. Experience on teachers' professional development.**

This research finding indicated that there was no difference between experiences and teachers' professional development. Similarly, Mohamed (2017) his study found there are no statistically significant differences at the level of significance between the mean scores of the sample members to the degree of effectiveness of the program and the extent of practicing the skill of time management attributed to a variable (years of service). Conversely, Awad (2003) found the need to reconstitutes the experiences of secondary school teachers and promote their position in educational and psychological fields. It emphasized to increase their knowledge of the subjects and the development of their skills in teaching process through science and technology. In the same time, Imad (2017) found There were significant differences for all the areas of the School-Based Teacher's Continuous Professional Development Programme in improving the teachers' practices in the classroom attributed to the variable of experience in favour of experience (more than ten years) when was compared with the experience (less than five years).

#### **4.4.3. Create Constancy of Purpose for Improvement.**

There was a moderate positive relationship between creating constancy of purpose for improvement toward teachers' professional development. The result supported with Gebhardt, Schwab, Krammer, and Gegenfurtner (2015) prescribed that all teachers were satisfied in their group-work; differences between conventional and special education teachers were non-significant. Elementary teachers had more positive views than secondary school teachers. The study shows the practical relevance for teacher education in classroom settings. Similarly, Davis, Clevenger, Posnock, Robertson, and Ander (2015) Their discovered Post-session scores on between proficient group learning, aptitudes and dispositions were fundamentally higher and a facilitator improvement course and investment in the showing occasion positively affected apparent information, abilities and states of mind toward between proficient cooperation. Also, Nawelwa, Sichinsambwe, and Mwanza (2015) their study showed the role of teamwork to attain the goals of the institutions. The teachers working together as a team in secondary schools in Zambia is the best strategy to coordinate work and promote quality management in these schools. Indeed, the group work is considered the way out than individual services, most of the teachers believed that teamwork would ensure efficiency and effectiveness in schools.

#### **4.4.4. Adopt the New Philosophy of TQM.**

The result indicated that there was a low positive relationship between adopt the new philosophy and teachers' professional development. This study is in not support of past research by Aggarwal (2016) which show that the relevance of TQM in teacher education. He pointed that provision of good infrastructural facilities in education (classrooms, library, laboratories, and instructional materials to learners) and effective teaching and learning process are the vital instrument on enhancing quality in education. Likewise, Thokozile and Magwaza (2007) The outcomes of the study showed that educators with a positive view of TQM principles were more likely to apply them in their teaching situations, knowing that the student is the significant to the client who needs to gain acceptable knowledge within the context of learning.

#### **4.4.5. Improve Constantly.**

Based on the finding of this research the result implied that There was a moderate positive relationship between improve constantly and teachers' professional development. The finding support with (Bany et al,2015) they found showed that the degree of implementation of continuous improvement is averaged and that the Jordanian universities

that applied for a certificate of quality assurance standards are used to ensure quality issued by the Higher Education Accreditation of Jordan as the main method. And that the main drivers of continuous improvement are: to improve departmental image or prestige, to improve product or service quality, and to become more competitive. But this finding is opposed the finding of Nawelwa, Sichinsambwe, and Mwanza, (2015) The study found that provision of instructional materials and counseling strategies to the pupils does not improve the educational performance as well as inadequate of instructional materials would also deter some schools to achieve their basic objectives.

#### **4.4.6. Institute Training on the Job.**

This result shows that there was a high positive relationship between institute training and teachers' professional development. The finding consistent with Hardman, Frank, Jan Hardman, Hillary Dachi, Louise Elliott, Noel Ihebuzor, Maniza - Ntekim and Audax Tibuhinda (2015) They found that teachers who had participated in the school-based training showed significant differences in their pedagogical practices and demonstrated a positive attitude towards their training and their pupils, and saw teaching and learning as an interactive, communicative process. Also Omoogun and Omoogun, (2013) in the line with the current. They found that teachers prefer workshop as a model of professional development to enable them to implement EE curriculum. Also, conformed to Popham (2010) his found that training must be adequately offered in the use of new valuation strategies and provision for the continuous professional development programs for all school administrators, teachers, and axillary staff would aid the school in meeting its objectives. Similarly, with Reda (2006) his study indicated that the school training program unit (STU) should be put in place in the schools towards boosting the professional development and enhancing total quality management in the school. The teachers need should be identified and teachers really participate in choosing trainers and subjects.

#### **4.4.7. Institute leadership**

With correlation analysis conducted in the current study. The result revealed that There was a moderate positive relationship between institute leadership and teachers' professional development. The study concurs with Alan, Mohamed and Hasan (2012) they study disclosed that the role of public secondary school principals was high in all fields of study. It reveals that there is no significant differences in gender, years of experience and school location. While there is significant dichotomy due to specialization and academic qualification and experience. Though, the absence of material and moral incentives is the threat to professional teacher's development in Ghaza, which requires funding and provision of instructional materials for their professional development. Similarly, with Elham (2014) her study found that there was high positively degree of the principal's practice as a resident supervisor for his role in the professional development. Also, in the line with Bredeson (2000), he found the principals of the schools concurred that the success of school development is hinged on teacher professional development. Furthermore, the study conformed with Amal (2004) her study found there was a positive relationship between principals' leadership and teachers professional development.

#### **4.4.8. Drive out Fear**

Based on the finding of this research the result indicated that There was a high positive relationship between drive out fear and teachers' professional development. The finding support with Deming (1986) suggested that If the aim in education is to promote academic freedom, to create an appropriate working environment and advancing productivity, management initiatives that address concerns in the workplace and the potential consequences employees may face from talking about these concerns is a positive step for everyone to work effectively to achieve organizational goals. On the other hand, the current study on contrary

with Pfeffer and Sutton (2000) emphasizes that the fear brings about an attention on the short run driving out the attention of the long run. Furthermore, the fear creates a focus on the person rather than in a punitive culture.

## **5. Conclusion**

This study was an effort to examine the difference between gender and experience among secondary school teacher on teacher professional development in Al Gharbia in Egypt and this study found no difference between male and female toward teacher professional development. In the same time, no experience difference on teacher professional development. Which means that all teachers have the same interest in professional development to improve their self-efficacy. In addition, this study aimed to determine the relationship between the six dimensions of total quality management on teacher professional development in Al Gharbia in Egypt and the current study implies that had positively related to teachers' professional development.

Total Quality Management in education has a significant role towards enhancing the standard of education in providing skilled and professional teachers. In the same time, teachers' professional development is one of the fundamental factors determining an institution success in meeting the student, parents, community, and stakeholder. Finally, the teacher must be prepared for high professional level for this critical stage of education.

## **6. Recommendations**

From the result of the study, the researcher found there was no difference in terms of gender and years of teaching experience. In additional, the relationship among Create Constancy of Purpose for Improvement, Adopt the New Philosophy, Improve Constantly, Institute Training on the Job, Institute leadership and Drive out Fear had positively related each other, the researcher tried to proposition the following basic recommendation. First, continuing and supporting training programs in secondary schools which aimed to help teachers improve their competencies and abilities in order to improve their performance and practices within the classroom.

Second, make a study that is similar to the current study in other stages of the study, such as primary and middle schools in Egypt. Furthermore, conduct similar studies for this study to measure other variables like age, educational qualification, and material status.

Third, encourage teachers of the secondary school to attend a training course and learn recent research and educational studies by providing financial and moral incentives. On the other hand, seminars could be held for high school teachers in order to improve their attitudes and perspectives towards professional development.

Fourth, continuous training for leadership and staff of the school, that is because the professional development is an effective tool for building a clear understanding and creative expertise that helps in doing perform more effectively.

Fifth, creating a satisfactory social relationship between faculty and school leadership away from tyranny, authoritarianism, and dictatorship. In additional, Selecting the school leadership of the qualifications and experiences of high efficiency under specific conditions. Also, school leadership should respect teachers point of view while making discussion, decision-making also, should be done in a participant with all staff, emphasize the importance of holding courses to discussing the modern teaching methods.

Finally, develop regulations for the promotion of teachers on the basis of achievement, creativity, experience, and liberality in the profession.

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