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Characteristics of Strategic Subcontracting Relations of Industrial SMEs

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Abstract

The paper explores and analyses the activities of industrial small and medium-sized enterprises (SMEs), working as subcontractors, that have built sustainable relationships with at least one of their clients. It focuses on the importance of such dealings for SMEs that enables them to overcome their inherent weaknesses, to enhance competitiveness and to realize promising development. For that reason, subcontractors usually seek to build strategic partnerships with contractors. The paper reveals the main characteristics of the buyer-supplier relations that could be defined as strategic to the subcontracting SMEs, such as: to be sustainable over time, to provide access to key resources and innovations, to lead to acquisition of new competitive advantages and growth, etc. In addition, the paper presents some key traits of the relations that mark the existence of a mutual strategic partnership between subcontractors and their clients. The data and methods used in the paper include a study of literature sources, an investigation of available research findings, results of the author's individual research and expert observations, as well as data from a collective research project.¹

Keywords: small and medium-sized enterprises, entrepreneurship, strategic subcontracting, competitive advantages, contractors, subcontractors

Introduction

The dynamically changing consumer demands and the highly intensified competition in most markets today lead to changes in the relations between industrial enterprises, to increasing specialisation and division of labour at inter-company, national and international level, reflecting in the growing use of subcontracting as a method of production organisation.

¹ Acknowledgement: This paper was supported by a grant from the National Science Fund of the Bulgarian Ministry of Education and Science, Contract No ДН05/15 of 15.12.2016: Determinants and models of the competitive performance of small and medium-sized enterprises in international business environment.

There are numerous studies and publications discussing on: the reasons that urge large companies to use subcontractors; the activities that they could assign to external manufacturers and those that they should keep inside; the benefits of the reasonable and well-organised use of suppliers; the procedures for selection of subcontractors and the ways to evaluate their performance; the decision to turn them into strategic partners, etc. It can be summarised that the available literature and research focus mainly on the reasons, benefits and mechanisms by which large companies use subcontractors. The decisions, strategies and activities of subcontractors (often micro, small or medium in size) are rarely subject of research and publication. Even less – when subcontracting can be considered as a strategic lever for business development.

For these reasons, the paper focuses on the buyer-supplier relations through investigation of the subcontractors' point of view. It presents the most important indicators for determining such relations as strategic for the subcontractor companies but also – some key characteristics that mark the existence of a mutual strategic partnership. The data and methods used in the paper include a study of literature sources, an investigation of available research findings, results of the author's individual research and expert observations, as well as data from a collective research project.

Theoretical basis

SMEs' strategic partnerships

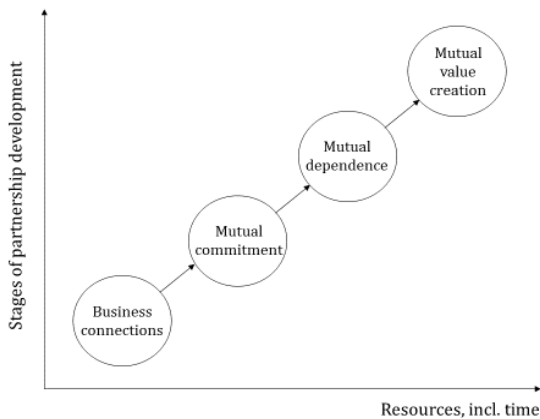
SMEs are one of the engines of the economic development of most countries. Moreover, they solve tasks that are important to the society, such as creating employment or serving small market niches that embrace specific consumer needs.

The group of SMEs is rather heterogeneous and it is characterised by different business models. There is not a big discussion in the specialised literature on the statement that the main alternative business models, implemented by SMEs, are the ones of small manufacturers and subcontractors (Cagliano&Spina, 2002). The first model is applied by companies manufacturing small production runs of products designed for a particular group of clients. SMEs that cannot or do not want to be independent small producers choose the second business model, finding their market in the face of large companies of which they become subcontractors.

When applied wisely, both business models can lead to market success, competitive growth and promising development. Nevertheless, whatever SMEs have chosen, the practice shows that they can hardly progress so alone. That is why entrepreneurs and SMEs' managers usually strive for entering and developing partnerships with other, often larger, companies. Through strategic collaboration SMEs are able to: overcome their inherent weaknesses (isolation, resource scarcity), gain greater results from their core strengths, share risks with partners, quickly respond to changes in the environment and undertake considerable strategic initiatives.

Along with the benefits of their involvement in strategic partnerships, SMEs' entrepreneurs and managers face a number of difficulties and problems related to finding a suitable partner, division of rights in relation to joint inventions and other objects of intellectual property, determination of the contribution of each partner to the joint activities, as well as distribution of their benefits. Major obstacles to maintaining sustainable relationships are the large difference in the size of the enterprises, the risk of losing independence of one of the partners and others. However, when the partnership is strategically oriented, the size should not matter: the dependence is mutual and it is not used by one of the partners to the detriment of the other. Therefore, when an entrepreneur purposefully looks for a suitable partner with whom to build strategic cooperation, the best first step is to review his/her already established personal and business relationships. And then, step by step, the strategic partnership is to be developed. Its components and stages may be different depending on the characteristics of the partners and the goals set. One possible model of building a strategic partnership is presented in Figure 1.

Figure 1. Components and stages of building a strategic partnership



Source: Adapted from: Holm, D. B., K. Eriksson, J. Johanson (1999). Creating value through mutual commitment to business network relationships. *Strategic Management Journal*, No 20, 1999, p. 470.

Subcontracting relations of industrial SMEs

Subcontracting activities can be divided into industrial and trade ones. In industrial subcontracting products are used as components in the contractor's manufacturing process, while trade subcontracting means production intended to be wholesaled by another company (Yurukova, 2009, p. 144). There are not many variations in the views about the essence of the industrial subcontracting in literature. A detailed definition was given by Thorburn and Takashima in 1992, who described it as "the provision, by one firm to another, of relatively specialised inputs, which are then incorporated into the final product of the buying firm. These inputs are distinguished from inputs of a standard kind such as raw materials or electric power, which can be purchased on the open market... It has the implication of a continuing (though not necessarily continuous) relation between the buying firm ... and the subcontractor which may be backed by legal contract, or trust, or both. Often, though not always, the supplying firm may be small in relation to the principal." (Cited from Curran&Blackburn, 1994, p. 30). Usually the aim of such dealings is a synergetic effect for both enterprises to be achieved and the collaboration may have a strategic character for one or both sides.

Stimuli and motives for SMEs to become subcontractors could be various. However, some important advantages of subcontracting activity might be: stable production orders and sales without considerable marketing costs and risks (the juridical, financial and other responsibilities for the completion and sale of the end output is taken by the contractor); opportunities for borrowing technical and managerial know-how from the client; getting consultancy by the large company in different areas – manufacture, HRM, organisation; gaining experience for working in international environment; opportunities for creation and adoption of product and process innovations, which have an assured market; specialisation in one activity and, as a result – achieving economy of scale; increasing the image when working for well-known clients (Yurukova, 2007, pp. 465-466).

Some risks and weaknesses of subcontracting activity for SMEs can be related to: small size of the profit; irregular orders (lack of long-term contracts); loss of touch with the wide market; loss of independence, flexibility, innovativeness, valuable know-how, etc. (Yurukova, 2009, p. 146). SMEs subcontractors could also face some challenges connected with difficulties to deal with the globalisation's peculiarities; lack of necessary resources or managerial capabilities that hinder them to take on more voluminous and complex tasks (Harizanova&Tsvetkova, 2013, p. 124-125); complicated procedures of negotiation; too high requirements for quality control, production schedules and personnel qualification; etc.

With time, through using advantages and avoiding disadvantages of the subcontracting activity, SMEs could develop in two main directions:

First, it is possible for them to turn to more perspective activities. From “fire brigade” used for compensation of lack of production capacity of the large enterprises and some other “emergences”, they could transform into specialised subcontractors, which possess a technology that the client companies need.

Second, with the help of the knowledge, experience and resources gained, they could invest in developing their own products and in their market realisation (to switch to the first business model). In most cases the manufacture of products with its own brand is tied to larger profits and growth opportunities, but there are many risks that must be stipulated and reduced.

Subcontracting as a buyer-supplier strategic partnership

The following exposition synthesises the views of many authors regarding the nowadays manner of interaction between subcontractors and their clients, that replaced the traditional model of relationships and leads to synergetic and lasting effects for both parties.

The interest in the role of the supplying enterprises increased as a result of the decentralisation processes of large companies started in the 1970s and widely discussed in the specialised literature (Villa&Panizzolo, 1996; Cagliano&Spina, 2002; Cousins et al., 2008; etc.). In the subsequent decade, however, subcontracting relationships have been usually seen as unequal interactions based on the predominance of power of the buying companies, influencing the decisions and strategies of the suppliers. The subcontractors have not had many opportunities to differentiate their offers and have usually been chosen by manufacturers due to their geographical proximity and/or low price of the services. Such a position in the supply chain has not always been attractive to the small companies and therefore has been perceived as inevitable, but the only acceptable solution for SMEs that did not possess the necessary resources or abilities to be independent producers.

After the 1980s, the role of subcontractors gradually began to change. Products and markets developed by large manufacturers became more complex and the companies started to face difficulties to coordinate the use of a variety of external resources and competencies supplied by multiple subcontractors. For this reason, they increasingly began to rely on a limited number of privileged subcontractors (delivering more complete and/or complex products, as well as a larger volume of work), interrupting their orders to other suppliers (Harizanova&Tsvetkova, 2013, p. 130; Vasiliska, 2020, p. 741). Subcontracting networks became pyramid structures in which the contractors relied on a small number of strategic suppliers, which in their turn assigned tasks to a significant number of lower-tier subcontractors. Examples of this evolution of subcontracting relationships can be found firstly in the automotive industry, as well as in some other machine-building sectors.

In this light, the importance of subcontractors is much greater than that of ordinary suppliers of production capacity. Those of them who have managed to become major suppliers to large-scale manufacturers could generate high added value in the activities they perform. This is due to the greater opportunities for differentiation based on specialised technology, flexibility or low cost.

With the presence of such prerequisites, *an industrial subcontracting partnership* can be built. This concept is based on the modern approach to organising and managing the relationship between large manufacturers and their suppliers, characterised by tight specialisation and technological expertise of subcontractors and leading to sustainable, fair and, to some extent, balanced relationships.

In addition to the above, the main features and advantages of the current subcontracting model can be pointed out:

Growing demand for reliable subcontractors with which large manufacturers could establish continuous and profitable partnerships, supported by long-term contracts;

Involvement of subcontractors still in the phase of R&D;

Increased integration and complexity of the products produced by the subcontractors;

Parts and products manufactured by subcontractors are supplemented with accompanying services, such as various R&D, design, information, logistics and other services (Villa&Panizzolo, 1996, p.39);

Growing exchange of information and know-how between buyers and suppliers;

Acceleration of the innovation processes and taking more and more of them by subcontractors;

Increased flexibility of the production processes;

Cost reduction – a common task of contractors and subcontractors;

Reduction of delivery time (“just in time” production);

Strategic commitment of the goals, production plans and management philosophies of both companies;

Mutual dependency caused by the complexity of the relationships and the high investments needed (Gubik, 2005, p.35).

In conclusion it can be pointed out that nowadays the industrial production, characterised by the increasing competition in terms of conquering new markets, product quality and cost reduction, often leads to the transformation of non-binding subcontracting relationships between established producers and their subcontractors into strategic ones.

Methodology and data sources

Partnerships between enterprises of different sizes, incl. subcontracting ones, should be defined as strategic, based on an investigation of all parties involved. However, the research available in the literature is rarely voluminous and comprehensive enough and targets mainly large enterprises that have chosen to partner with smaller ones for various reasons. In addition, different business relationships may be of strategic importance to only one of the parties involved. It is really interesting, the point of view of the “weaker” in such relationships SMEs to be examined.

Part of the results of two empirical investigations (one – individual, and the other – collective) is presented in the current paper. In both of them the author aimed to identify relationships that, due to the presence of certain characteristics, can be defined as strategic for subcontractors, and to indirectly determine whether they are the same for the contractors.

The author's *individual research* investigated 60 Bulgarian enterprises (selected after a preliminary pilot survey) meeting the following criteria:

- to be micro, small or medium in size;
- to be industrial ones;
- to work predominantly as subcontractors;
- to have at least one contractor that they consider as a major business partner.

The survey was aimed at identifying the most prevalent characteristics of the relationships between SMEs and their major partners that, accordingly, could be determined as the main features of subcontracting relations that are of strategic importance to the suppliers. The importance of the relations for the buying companies was indirectly assessed by the opinion of their subcontractors.

The author also uses data obtained from a representative survey of 500 Bulgarian SMEs developing different kinds of international activities. The survey was part of a fundamental scientific *research project* titled “Determinants and models of the competitive performance of small and medium-sized enterprises in international business environment” (2016-2021), funded by the National Science Fund of the Bulgarian Ministry of Education and Science, implemented by a research team with the participation of the author of this paper. Many of the investigated SMEs work as subcontractors for foreign companies but for 35 of them this is a main activity. All these 35 respondents answered that the partnership with the foreign contractors (listed among many other possible business partners) is of strategic importance for the development of their businesses. The main issues that the author verified within this investigation were whether there are competitive advantages that are strengthened or newly acquired by SMEs as a result of the business partnership with their main contractors, as well as whether there are some other benefits for them.

Summarised results of the empirical verification

As a result of the conducted empirical investigations (described above), the most important criteria for the perception of a **contractor as a strategic partner**, which had a decisive influence on the development of the studied Bulgarian SMEs subcontractors, emerged. They are:

long duration of the business relations – this turns out to be the most important indicator for strategic orientation, because most of the surveyed companies define as their main business partner the contractor for which they work the longest;

large-scale orders – the work assigned by the main contractor forms a significant share of the turnover of the surveyed enterprises;

delivery of a (part of) product that is important for the contractor – many of the studied subcontractors produce complex or fully completed products that allow them to develop their potential, to achieve a good profit, and, at the same time – to satisfy the contractor's requirements;

implementation of changes, reorganisations and innovations for the needs of the contractor's production, which are also valuable for other aspects of the enterprises' activities, as well as for their future development;

acquisition of new or strengthening existing competitive advantages – big part of the research objects has gained specialised technological expertise, has increased the speed and/or quality of the provided service or has reduced its costs;

access to key resources – technologies, equipment, production materials, information, consultancy, etc.;

growth and development – more than two thirds of the enterprises have hired new employees and have increased their turnover as a result of the increased and complicated orders of the contractors. Continuous financial inflows have led to investments not only in the expansion of cooperation, but also in development in other areas;

size and prestige of the contractor – huge part of the contractors are large enterprises with established reputation or production units of multinational corporations;

building an image and finding other strategic partners – the acquired status of a reliable supplier of a well-known manufacturer in many cases leads to attracting new large customers (mainly – foreign ones).

Another important conclusion can also be drawn out of the empirical research: a valuable **subcontracting partnership** is built when the relationship is of strategic importance for both parties involved. Based on the additional information obtained from a large part of the surveyed enterprises, the main characteristics of such a partnership can be deduced:

mutual benefit based on specialisation and cost reduction – both parties specialise within their areas of competence, which leads to economies of scale. At the same time, they reduce or eliminate some costs as a result of the established subcontracting relationships;

sustainability of relations – both companies benefit from the long-term cooperation, which allows them to plan activities, to cut efforts and costs for finding new counterparties;

precise fulfilment of obligations and certainty in the relations – the constant correct execution of the formal agreements leads to achieving certainty in the relations and turning the parties into reliable for each other partners;

fair distribution of the risks and the benefits of the collaboration depending on the contribution of each party;

presence of an innovative element in the relationship – the sustainable subcontracting partnerships are based on the availability of specialised technological knowledge or equipment of subcontractors, not on benefiting from their cheaper services;

good interpersonal relationships, tolerance and coherence in doings – personal cooperation between entrepreneurs or employees, who are responsible for communication with the partner, leads to less problematic business relationships. Both sides are making compromises in order to keep and develop the cooperation;

mutual and comparable dependence, leading to difficult replacement of the partner – the mutual mid or high-level dependence is important because neither party can easily end the relationship. This provides security for both companies, as well as opportunity for strategic planning of the business. The dependence should not be used by one of the parties to harm the interests of the other.

An important prerequisite for the development of sustainable subcontracting relations is the presence of relative comparability in the size and resources of the two enterprises. The empirical investigations give grounds the conclusion to be drawn that established strategic subcontracting partnerships predominantly have the medium-sized enterprises, and their growth is connected to the increasing orders of the key customers during the years of collaboration. The absence of a pronounced dominance of one of the sides in the relationship is a condition for building a mutual strategic partnership. Nevertheless, the empirical results show that balance is not a common feature of these relationships. The difference in the scale of the companies or in their degree of dependence leads to a predominance in the power of one of the parties. When this advantage is not used incorrectly, a strategic partnership can be built after all.

Conclusions and recommendations

Subcontracting is a widely used method of division of labour between industrial enterprises. The subcontractor usually offers something that the large manufacturer

is not able to do easily and/or profitably by itself. Sometimes the latter is dependent on the specialised knowledge of the subcontractor. The buyer company, in turn, secures the subcontractor's market and brings other benefits, especially when it is considered by the smaller firm as a partner.

The set of criteria that would determine a contractor as a strategic partner should be unique to each company. It could differ according to the subcontractor's industrial specialisation, size, innovation focus, strategy, goals (growth, diversification, internationalisation), as well as depending on the characteristics of the contractor and the subject of their relationship. Nevertheless, based on empirical investigations conducted among Bulgarian SMEs subcontractors, the current paper presents the most important criteria for the perception of a contractor as a strategic partner, as well as some key characteristics of the mutual subcontracting partnership, that may be applicable in other national contexts.

The empirical results presented in the paper and the analyses made provide a basis for making recommendations to entrepreneurs and managers of SMEs that work as subcontractors. Basically, in order strategic to the supplying companies partnerships to be built, they must wish it and pursue it through behaving proactively. To enter the subcontracting networks of well-known manufacturers or to turn accidental relations into long-term and even strategic ones, it is necessary for the subcontractors to have specific competitive advantages or to be ready to acquire them in the short term. They should develop themselves purposefully in order to become preferred, reliable and hardly replaceable partners of reputable manufacturers. Moreover, they should strive for building relations that are of a strategic importance for both parties because the mutual subcontracting partnerships are more beneficial and stable. Building such relationships requires desire, time, trust, tolerance, precise fulfilment of obligations and coherence in plans and activities.

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The Multiplier Effect of European Union Funds in the Alentejo Region, Portugal, Between 2014-2020

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Abstract

The Partnership Agreement established between the European Union and the Member States for the implementation of the European Structural and Investment Funds for the period 2014-2020 has come to an end. It is, therefore, important to understand what impact the Partnership Agreement had on public and private investments in the different Portuguese regions. Support for regional investment has allowed the construction or modernization of collective infrastructures, such as schools, promotion of cultural and natural heritage, investment in energy efficiency, investment in Information and Communication Technologies (ICT) for public services, develop research and development initiatives, as well as urban rehabilitation and mobility. This also includes investments of intermunicipal and business nature. This paper is part of an extended study that analyses the multiplier impact of the application of European Union funds in public and private investment in the 7 Portuguese regions: Porto and North of Portugal, Centro, Lisbon and Tagus Valley, Alentejo, Algarve, Azores and Madeira. In this article we analyse the multiplier impact of the investment of the European funds allocated to the Alentejo Region, in Portugal, under the H2020 Program until the month of March 2020.

Keywords: Alentejo, H2020, European, value capture.

Introduction

The Multiannual Financial Framework (MFF) 2014-2020 proposed by the European Commission estimated to fund more than 1 billion Euros (1.08 % of Gross Domestic Product - GDP) (Parlamento Europeu, 2013).

Portugal was to receive around 25 billion Euros in operational programmes, regional programmes on the mainland (North, Centre, Lisbon, Alentejo and Algarve) and as well as in programmes for the Autonomous Regions of Madeira and Azores, (Assunção, 2013; Francisco, 2016; POISE, 2014).

The European funds purpose is to contribute to the achievement of the priorities defined by the EU, such as, sustainable and inclusive economic growth, job creation, research, etc. (Commission, n.d., 2011a, 2011b; Europeia, 2015; Nathan & Scobell, 2012).

The MFF regulation also provides for some special instruments, which give the Union the possibility to react to unforeseen circumstances or to finance expenditure for clearly defined purposes, which cannot be financed under the MFF ceilings. Special instruments are the Emergency Aid Reserve, the Solidarity Fund, the Flexibility Instrument, the European Globalisation Adjustment Fund, the Unexpected Margin and Specific Flexibility to Combat Youth Unemployment and Strengthen Research (Assunção, 2013; Commission, 2014; Silva & Matos, 2018).

The five main Funds listed below work together to support the economic development of the various Member States: 1. European Agricultural Fund for Rural Development (EAFRD), 2. European Social Fund (ESF), 3. European Maritime Affairs and Fisheries Fund (FEAMP), 4. European Regional Development Fund (ERDF), 5. Cohesion Fund (CF).

Through these financial instruments the EU aims to support innovation, training and education in cities and rural areas, to reduce unemployment, boost competitiveness, stimulate economic growth, promote entrepreneurship, combat social exclusion and contribute to the development of a more resource-efficient and environmentally friendly economy (Comissão Europeia, 2014; Commission, 2011b; Parlamento Europeu, 2013).

Methodology

The main questions to be asked by this study are: a) What is the amount invested in the regional economy for each euro of support allocated by the European Union through the H2020 program. b) What is the percentage distribution of community support versus investment for each area of intervention? c) What is the execution rate when there is less than one year to the end of the program?

Data was retrieved on the H2020 Alentejo Region web page¹. The analysis was structured in two levels. The first regarding the axes of intervention, thematic objectives, and investment priorities; the second according to the following themes: human capital, business competitiveness, social inclusion and employment, sustainability and efficiency and technical assistance.

¹ Disponível em: <http://www.alentejo.portugal2020.pt/>. Consultado em 20.12.2020

After collecting, organizing and processing the data, we obtained the results that allowed to answer the study's questions.

Partnership Accord - Portugal 2020

The Partnership Agreement established between Portugal and the European Commission (Portugal 2020), brought together the actions of the 5 European Structural and Investment Funds - ERDF, Cohesion Fund, ESF, EAFRD and FEAMP - in which the programming principles were defined, in order to establish the economic, social and territorial development policies to be developed in Portugal, between 2014 and 2020 (AD&C, 2014; Assunção, 2013; Estrategor, 2018; POISE, 2014). These programming principles were aligned with Intelligent, Sustainable and Inclusive Growth, as per Europe's 2020 Strategy (Comissão Europeia, 2014; Parlamento Europeu, 2013).

Portugal should receive about 25 billion Euros, over the 7 years of the program; for that purpose, the government defined Thematic Objectives (TO) to stimulate growth and job creation, the necessary interventions to achieve them and the expected results with this funding: stimulating the production of tradable goods and services; increasing exports; transferring results from the scientific system to the productive framework; complying with compulsory schooling up to the age of 18; reducing levels of early school leaving; integrating people at risk of poverty and combating social exclusion; promoting sustainable development from the point of view of efficiency in the use of resources; strengthening territorial cohesion, particularly in cities and low-density areas; rationalizing, modernizing and empowering the Public Administration, are the main objectives of the policies to be pursued in Portugal 2020 (AD&C, 2014, 2015; Estrategor, 2018).

The programming and implementation of Portugal 2020 was organized in four thematic areas: 1. Competitiveness and Internationalization; 2. Social Inclusion and Employment; 3. Human Capital; 4. Sustainability and Efficiency in the use of resources. It also considered the transversal areas related to the Public Administration reform and the territorialisation of the interventions (AD&C, 2015).

In terms of eligibility for the European Investment Funds (ERDF, CF, ESF, EAFRD and FEAMP), the 7 regions of Portugal were divided into:

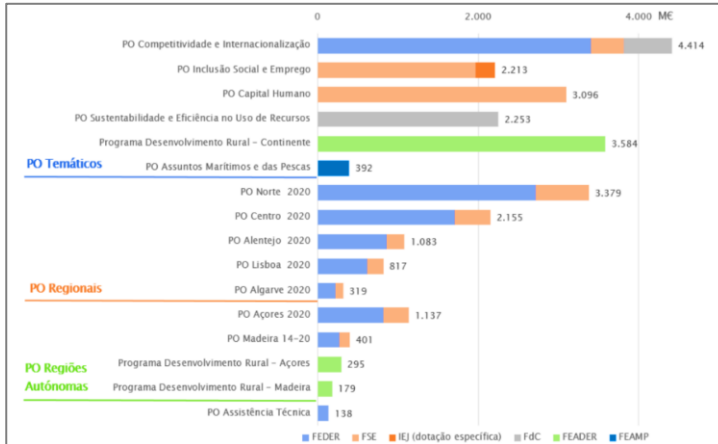
Less developed regions (GDP per capita < 75% EU average): North, Centre, Alentejo and Autonomous Region of the Azores (RAA) - Co-funding rate of 85%;

Regions in transition (GDP per capita between 75% and 90%): Algarve - Co-funding rate of 80%;

Most developed regions (GDP per capita > 90%): Lisbon and Madeira Autonomous Region (MAR) Co-funding rate of 50% (Lisbon) and 85% (MAR).

The funding allocated to Portugal was to be distributed among each of the 16 Operational, Thematic and Regional Programs, as per the graphic 1:

Graphic 1 - Operational, thematic and regional programs



Source: Portugal 2020¹

The Alentejo Region

The Alentejo region is located in the center-south of Portugal. It comprises the districts of Portalegre, Évora and Beja and the southern half of the district of Setúbal and a part of the district of Santarém, thus being the largest region of Portugal in terms of area.

It is divided into 5 sub-regions and comprises 58 municipalities and about 400 parishes:

Alto Alentejo - 118 352 inhabitants (6.230 km²);

Central Alentejo - 166 706 inhabitants (7.393 km²);

Alentejo Litoral - 100 895 inhabitants (5,308,11 km²);

Baixo Alentejo - 126 692 inhabitants (8.505 km²);

Lezíria do Tejo - 247 453 inhabitants (4.275 km²).

Figure 1 – Alentejo Region

¹ Retrieved from <https://www.portugal2020.pt/content/o-que-e-o-portugal-2020>. Last accessed: 9/9/2020



Source: Roteiro do Alqueva¹

According to the local Coordination Commission (CCDR-Alentejo), the region's seafront limit has a significant and diverse marine resource potential to develop new and emerging activities such as energy production, biotechnology and chemistry, as well as research and development of new alternatives in the sectors of food, medicine, transportation, tourism, health, among many others.

The preservation of the Alentejo coast is a factor of competitiveness in relation to other tourism destinations, particularly with regard to new trends in water sports and sports tourism, especially because the territory has an appealing landscape, combining the architectural heritage and the surrounding natural spaces as a result of the delimitation of nature protected areas and reserves.

In addition, the agricultural potential resulting from the exceptional soil and climate of the Alentejo Coast, namely for fruit and vegetable production, may turn it into a major supply center for European markets.

The biogeographic situation of crossing Mediterranean and Atlantic environments and the ancestral occupation of the territory on a scale of medium and low density were shaping natural systems through a balanced management of resources that originated a wealth of landscapes and biological diversity of European importance. The uniqueness and harmony in the relationship between the built heritage and the surrounding natural spaces, give Alentejo a genuine and recognized identity and authenticity.

The Alentejo landscape, of national and European reference, brings together the conditions to act as a biogenetic and amenity repository, in a multifunctional and

¹ Retrieved from: <http://www.roteirodoalqueva.com/mapa-do-alentejo>. Last accessed 20.12.2020

sustainability perspective, combining the concerns of protecting nature and ways of life with socio-economic dynamics.

Alentejo asserts itself as a sustainable territory with a strong regional identity, supported by a polycentric urban system, guaranteeing adequate levels of territorial cohesion and affirming a reinforced integration with other national and international spaces. Territorial sustainability is based on the valorization of endogenous resources, namely natural and landscape values and the development of increased levels of strategic coordination and functional cooperation. The main urban centers are the structuring poles of regional cohesion and competitiveness and the reinforcement of the polycentric character of the regional urban system also involves the strategic strengthening of sub-regional urban systems, making the most of resources and affirming territorial specializations, in order to guarantee a more sustainable development and a balanced and sustained growth in the region.

A significant set of public and private investments, within the region reinforce the potential to attract new business investments, creating objective conditions for a new positioning of the Alentejo in terms of international economic relations (CCDR-A, n.d.).

Operational Program Alentejo 2014-2020

With an allocation of more than €1,082 million, out of which 903.118.506 from the European Regional Development Fund and €179.82,865 from the European Social Fund for the 2014-2020 period, the program aimed to promote the competitiveness of the regional economy, sustainable development and internal cohesion in the region, as well as the region's capacity to contribute to the achievement of the main national and European development objectives. The European Union's objectives are: to provide an overall investment in the region of € 1,310.731.737 over the years, i.e., €1 of funding should generate a regional investment of €1.21.

5.1 Main objectives

The Operational Program would help the promotion of the competitiveness of the regional economy and sustainable urban development and internal cohesion in the region, as well as the region's contribution to the achievement of the main national and EU development objectives:

35% of the OP resources are allocated to support competitiveness and innovation in SMEs.

Over 6% of the resources will boost research and technical development (RTD) and innovation, helping the country reach its national Europe 2020 target by increasing its share of GDP spent on RTD from 2.7% to 3.3% (1.5% in 2011). In particular, the contribution of the OP is expected to foster knowledge transfer in RTD and innovation to SMEs.

Around 7.5% will be dedicated to promoting employment and the valorization of endogenous resources - contributing to reach the national Europe 2020 target of 75% employment for the 20-64 age group (69.1% in 2011).

More than 12% will be dedicated to promoting education and qualification - helping the country reach its national Europe 2020 target to reduce early school leaving to 10% (from 23.2% in 2011).

Nearly 12% of resources will be used to promote sustainable urban development.

Almost 15% of the OP funds will support the shift to a low carbon economy (investments in energy efficiency and sustainable mobility); these funds will contribute to Portugal's national Europe 2020 target of 31% of energy derived from renewable resources (compared to 27.3% in 2011). To ensure the sustainable development of the energy sector, the support will improve energy efficiency and sustainable mobility.

In the OP, the thematic concentration of the ESF is 17.7% of the total ESF allocation. The ESF share of the OP is 17.1%.

Priorities

The Program will focus on 9 main priorities: 1. Competitiveness and Internationalization of SMEs; 2. Education and qualification; 3. Research, technological development and innovation; 4. Sustainable urban development; 4. Employment and economic valorization of endogenous resources; 5. Cohesion and social inclusion; 5. Energy efficiency and mobility; 6. Environment and sustainability; 6. Institutional capacity building and administration modernization.

Expected Impacts

Increase in the value of exports as % of turnover of SMEs to 15%; 65% of SMEs with 10 and more employees involved in innovation activities; 92% of students benefiting from updated primary and secondary choices; Increased capacity of the education or childcare infrastructure to reach another 4.777 children; Support for about 80 research projects in the region; 22 more companies cooperating with research institutions; Support for about 25 sustainable mobility projects in the region, including bicycle lanes and development of intelligent public transportation systems; Support to the rehabilitation of about 734 households in urban areas; The entire population should benefit from improved health services, including support to 80 public health and social services; Contribute to an annual decrease in greenhouse gas emissions of about 17.323 tons CO₂; Facilitate the entry of about 6.400 people into socially needed jobs; Increase in the % of households with improved energy classification; Support for about 5.000 SMEs, with subsidies and other repayable forms of support; Contribution to create about 4.250 direct jobs.

Analysis and results as of March 31st, 2020

Up until March 31st, 2020, a total of 3.796 projects were approved, generating a total investment of 1.373 million euros, with community support of 967 million euros (70.4%), as shown in Table 1 below:

Table 1- Approved projects

Theme	Nr. of Projects	Investment amount	%	EU Contribution	%	Investment per 1 € of incentive
Human Capital	158	93 683 952	6,8%	77 143 019	8,0%	1,21 €
Business Competitiveness	1 160	684 246 493	49,8%	436 731 005	45,1%	1,57 €
Social inclusion and employment	1 813	247 331 632	18,0%	177 918 810	18,4%	1,39 €
Sustainability and efficiency	637	324 474 537	23,6%	255 136 629	26,4%	1,27 €
Technical assistance	28	23 633 958	1,7%	20 375 175	2,1%	1,16 €
Total	3 796	1 373 370 572	100,0%	967 304 638 €	100,0%	1,42 €

Source – CCDRALentejo 2020¹

The Human Capital investment funded 158 projects, worth €77.143.019, generating an investment of €99.683.952.

In the area of Business Competitiveness, which includes Research, Development and Innovation, the 1.160 business projects (49.8% of the total) represented an investment of approximately €684 million with a European contribution of €436 million.

Support was given to 1.813 projects in the area of Social Inclusion and Employment for a total of €177 million, generating a regional investment of €247 million.

For Sustainability and Efficiency, 637 projects were supported for a total of €255 million, generating a regional investment of €324 million.

Finally, 28 projects were supported in the area of Technical Assistance for a total of €20 million, generating a regional investment of €23 million.

The results indicate that each Euro of support granted by the European Union through H2020 had the following impacts:

Human Capital = €1.21;

SMEs Competitiveness = €1.57;

¹ Retrieved from: <http://www.alentejo.portugal2020.pt/>. Last accessed 21.01.2021

Social inclusion and employment = €1.39;

Sustainability and resource efficiency = €1.27;

Technical Assistance = €1.16.

Regarding the percentage distribution (base 100) of the support granted *versus* the investment made per area, the indicators are as follows:

Human Capital - 6.8% support / 8% investment;

Competitiveness of SMEs - 49.8% support / 45.1% investment;

Social inclusion and employment - 18% support / 18.4% investment;

Sustainability and resource efficiency - 23.6% support / 26.4% investment;

Technical assistance - 1.7% support / 2.1% investment.

Conclusion

We can conclude that in the framework of Horizon 2020, and according to the data available until 31 March 2020, 3.796 projects were funded in the Alentejo region, representing a total investment of €1,373.370.572.

If we consider that the initial objectives of the European Union foresaw a support of € 1,082.944.371 creating an overall investment in the region of €1,310.731.737, i.e., each euro of funding should generate a regional investment of €1.21, we can conclude that the Alentejo Region, is still lacking about 115 million EU funding (execution rate of 89.3%), is just over €62 million away from reaching the value of the investment forecasted for the region.

In short, for each euro of EU funding with a multiplier expectation of €1.21, the Region has so far achieved an impact of €1.42.

In our opinion, these programs are a very important contribution to value creation.

7.1 Future studies

At the end of our ongoing longitudinal study on each of the 7 Portuguese regions [North (Silva & Ribeiro, 2019), Centro Region, Lisbon, Alentejo, Algarve (Jesus-Silva et al., 2020), Azores and Madeira] which is planned for early 2021, we will publish a summary of the 7 papers where we compare the 7 regions.

We will also include tests on the impact of these investments on regional and national GDP.

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Challenges of Kosovo Micro Businesses

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Abstract

The challenges that micro-businesses face during the lending process are numerous. Loans are with high-interest rates. There is a lack of loans with low-interest rates that would stimulate the growth of local businesses. On the one hand, the local business faces various trade barriers such as export in the regional market and EU countries, although Kosovo is a signatory to the CEFTA agreement. On the other hand, there is a lack of institutional support, which not only does not support the stimulation of exports but also within Kosovo makes the local business non-competitive about importers of goods. Interest rates are reduced to 2-3% on an annual basis. Increase the repayment period of loans (long-term loans) for capital investments. Allow the grace period at the beginning of the investment as well as have variable payments based on business income. Reduce bureaucracies when taking loans, reduce the demand for collateral by banks when taking loans. Reduce the business tax rate. Reduce unloyal competition and the informal economy that hurts local business. To stimulate start-up businesses, to support projects especially in the field of informatics. Start-up businesses are not so much supported by banks in Kosovo. Increase women's participation in business, through support, because they make up about 13% of businesses operating in Kosovo. It is intended that the participation of women in business will reach 50%. Make greater support of micro-businesses because these businesses can grow and develop and employ a large number of employees. Microbusinesses in Kosovo make up about 98% of enterprises in Kosovo. Establish a development bank that would support local business and create better facilities and conditions for foreign investors.

Keywords: Kosovan micro-businesses, Start-up businesses, Women in business, Business support, Business empowerment, Kosovo guarantee fund, Kosovan business support

Introduction

The challenges that micro-businesses face during the lending process are numerous. Loans are with high-interest rates. There is a lack of loans with low-interest rates that would stimulate the growth of local businesses. On the one hand, the local business faces various trade barriers such as export barriers in the regional market and in EU countries, although Kosovo is a signatory to the CEFTA agreement. On the other hand, there is a lack of institutional support, which not only does not support the stimulation of exports but also within Kosovo makes the local business non-competitive in relation to importers of goods.

Barriers start from the very beginning of opening a business, a lot of documentation is required, there is a lot of bureaucracy, corruption and nepotism issues. Failure to create favourable investment conditions for foreign investors. This is confirmed by Kosovo's ranking in doing business. According to the analysis and criteria of the WB, Kosovo is ranked 117th.

How convenient is the loan term? How appropriate are credit and fiscal policies? The impact of informal economy and unfair competition on the market. Is there institutional and other support for entrepreneurs? Is there any impact of credit policies on business development? How does the KGCF (Kosovo Credit Guarantee Fund) guarantee funds, which cover up to 50% of the amount credited in case of failure, been affected? How have credit policies affected the financing of business projects? Have banks had an impact on co-financing projects for entrepreneurs who have been winners of any government grants from government funds, EU funds, US Aid?

Literature Overview

"States can offer low taxes and levies or even land leased for a certain period, but if investors are afraid of civil unrest, expropriation of assets, labour revolts or inability to cope with natural disasters, health crises as in the current situation then they are discouraged and their goals are oriented to safer places" - Muhamet Hajrullahu¹.

The Kosovar business community during 2017 reported as the biggest barrier "unfair competition from the gray economy" (61%), followed by "cost and reliability in electricity" (51%), high interest rates and other costs for banking transactions "(38%), "lack of cash" meaning delays in payments by consumers (32.5%) and "lack of skilled labor" (31.6%).

¹ Muhamet Ajrullahu, Challenges of doing Business in Kosovo, Rajoni Press, Gjilan 2020.

On the one hand infrastructure, barriers have the main place among the top barriers, with special emphasis on the cost and reliability of electricity (51.1%). Political instability (37.8%) also ranks among the main barriers in this category, which as such has been proven based on other reports published by KCC, such as the "Business Climate Index" that in periods when our country has political instability the confidence of businesses falls. On the other hand, corruption (28.5%), in 2017 was considered as one of the main barriers for Kosovo businesses¹.

Kosovo continues to be one of the most unsuitable countries in the world to do business due to long procedures and delays and many other complications from the first steps of opening (registering) a business but also later during the existence of it.

This is due to the large number of documentation required by laws and acts in force and also due to numerous delays in their processing and implementation by institutions and local administration from the central to the local level.

Such a conclusion can be made based on the latest report of the World Bank (WB) for 2012, "Doing Business in Eastern Europe". Again as last year, Kosovo according to the analysis and criteria of the WB is ranked 117th place to do business².

Materials and Methods

The main data used in the compilation of this paper are based on scientific and professional literature from the field of economics. The paper is based on research conducted by local and international institutes, where interest rates have an important role in raising revenues at the national level. Based on the level of interest rates, economic development is also stimulated.

The methods used for research are analytical, statistical, comparative, descriptive, and historical (empirical) methods.

The survey includes age groups from 25 to 66 years and both genders. The total number of respondents is 77. The purpose of this survey was to identify the challenges faced by local businesses. Is there a bureaucracy? Is it too much collateral required by banks?

During the drafting of this paper, the data will be processed, and the variables used to validate the hypotheses will be compared. Data from many articles and publications will also be collected.

Businesses in Kosovo

According to ARBK, the number of NVMs registered on December 31, 2010, was sizeable than 100,000, which employs 216,799 workers, or more precisely 79.59% of

¹ Kosovo Chamber of Commerce, Paving the way for better business in Kosovo, Prishtinë, 2018.

² Arbër Berisha, The Challenges of opening and maintaining a functioning business, Ekonomia, Prishtinë, 2021.

the total number of employees in the private sector and with a total number of 62.24% in Kosovo.

Table 1. Enterprises Registered in Kosovo by Number of Employees - 2010

Classification by size	Number of workers	Number of enterprises	Percentage in total
Micro	1 - 9	102,070	98,37
Small	10 - 49	1,406	1.35
Medium	50 - 249	221	0.22
Large	250 +	58	0.06
In Total		103,755	100.00

The Source: ARBK

Out of a total of 103,755 enterprises: 102,070 (or 98.37%) are micro-enterprises; 1,406 (1.35%) are small; 221 (0.22%) are medium and only 58 (0.06%) are classified as large. The large dominance of micro-enterprises has implications for the NVM Strategy Percentage in total¹.

Start-up business in Kosovo - General Characteristics

Table 2. Registered companies

	Total	Micro	Small	Medium	Large
2010	7,288	98%	1.72%	0.22%	0.06%
2011	7,525	98,40%	1.38%	0.19%	0.03%
2012	9,195	98,32%	1.46%	0.22%	0.00%

The total number of new companies registered in 2010 was 7.28282 and less in 2011 at the quota of 7.5253. Most of these start-ups were micro-enterprises.

Table 3. Number of companies per region

	Prishtina	Prizren	Ferizaj	Gjilan	Peja	Gjakova	Mitrovica
2010	29.5%	8.4%	7.3%	8.63%	4.8%	4.8%	4.2%
2011	27.6%	9.5%	8.3%	6.49%	4.8%	3.3%	4.4%
2012	27.6%	9.09%	7%	6.28%	5.1%	5%	4.9%

Geographically, Prishtina has the largest number of new companies, followed by large regional cities, headed by Prizren:

Start-up Support Schemes

¹ The Government of Kosovo, Republic of Kosovo, Development Strategy of Small and Medium Enterprises in Kosovo, Prishtinë, 2011.

A large number of donors, projects, and associations are active (and have been) in the field of Supporting Start-up Businesses in Kosovo. Currently, the following projects provide technical support and sometimes financial assistance to start-ups:

Young Entrepreneurs Program (YEP) / USAID,

Development of Vocational Training and Training Schemes in Companies and Development of Entrepreneurship Skills / (KOSVET 6) EU;

Center for Entrepreneurship and Executive Development (CEED) / SEAF, USAID, FMO SPARK / Center for Business Establishment in Kosovo (BSCK)

Kosovo Innovation Center (ICK) • TAM / BAS (EBRD)

Kosovo SME Promotion Program - KOSME (Swiss & ADA)

Winners of EU Economic and Regional Development (EURED) grants¹.

Encourage Women to Enter the Business

According to local economists, every ninth business in Kosovo is owned by a woman. The sectors in which women are engaged (as owners) are mainly low-value sectors, and not tradable.

Female-owned businesses are also smaller compared to male-owned ones. Thus, female businesses employ, on average, 3.5 workers; while male businesses employ twice that - about 7 workers.

Women businesses, on average, have an annual turnover of no more than 20,000 euros; while for men this average reaches about 50,000 euros per year. Women and men are not equal even in terms of the profit margin they realize in a year.

Thus, while women (always on average) make a profit of 18%, that of men reaches up to 22%. Women are also limited in terms of the diversity of business financing. Therefore, for most women-run businesses (over 55%) bank lending continues to be the most common form of financing. In Kosovo, 13% of businesses are owned by women, of which 95% are micro or small businesses with 1 to 10 employees.

owners also speaks in favor of men. Out of 2,237 enterprises registered in this period, 1,774 of

Based on data from the Kosovo Agency of Statistics (KAS), the enterprise structure by gender of them are with male owners or 79.3% and 247 of them with female owners or 11%, while 216 enterprises or 9.7% are with mixed male and female owners.

¹Helvetas Swiss Intercooperation, Start-up businesses and start-up support services in Kosovo, Prishtinë.

Municipal Support of Women in Business

The Municipality of Prizren through its regulation on subsidies as well as the Action Plan for Gender Equality has declared its commitment to gender equality and equal opportunities. The Strategic Objective of the Action Plan on the issue of employment is the economic empowerment and achievement of employment of women in the Municipality of Prizren. While increasing the number of women in initiating and running small businesses, the promotion and development of small businesses are under the objectives of the Action Plan.

In cooperation with the organization 'Help', 43 businesses were supported by equipment or assets worth up to 2,000 euros, where 55% of the beneficiaries were women, who mainly deal with hairdressing, handicrafts, etc., in which case, the contribution of the Municipality of Prizren in this project was 16,000 euros¹.

Banks and Support for Women Entrepreneurs in Kosovo

The seminar "Women in Business" was held in Pristina, organized by TEB Bank JSC, European Bank for Reconstruction and Development (EBRD), and Frankfurt School.

The seminar was opened with a speech by Dren Krypa (Deputy Director of TEB Bank JSC), followed by speeches by Leonora Kusari (Chief Manager, Business Advice-EBRD) and Yllka Brada (Owner of Yllka Brada BI - Fashion Designer).

During his speech, Mr. Krypa emphasized the importance of women's participation in entrepreneurship, the commitment that TEB bank has to entrepreneurship, while he also focused on some of the achievements that the bank has marked in its journey in the program "Women in Business".

"The current portfolio of Women Entrepreneurs in Business stands at around 7 million Euros, of which more than 200,000 Euros are from start-ups. In total, more than 700 clients are credited, and more than 80 of them are Start-Up businesses. "These businesses have come from different sectors and their owners have different backgrounds, qualifications, and areas of expertise", said Krypa.

The Representative of BERZH, Mrs. Kusari presented the program and support offered by the European Bank for Reconstruction and Development for women in business².

¹ Kosovo Democratic Institute, Supporting women in business on its own initiative- the only solution, Prizren 2017.

²TEB BANK-Kosovo, Workshop for Women in Business, Prishtinë, 2017.

Kosovo Credit Guarantee Fund

The Kosovo Credit Guarantee Fund is an independent and sustainable institution that issues guarantees to financial institutions to cover the credit risk of micro, small and medium enterprises (NMVM).

FKGK was established in January 2016, based on the Law on the Establishment of the Kosovo Credit Guarantee Fund. The purpose of the FKGK is to support the private sector in Kosovo, by expanding access to finance for NMVMs, thus enabling job creation, increasing local production, improving the trade balance, and advancing opportunities for economic sectors.

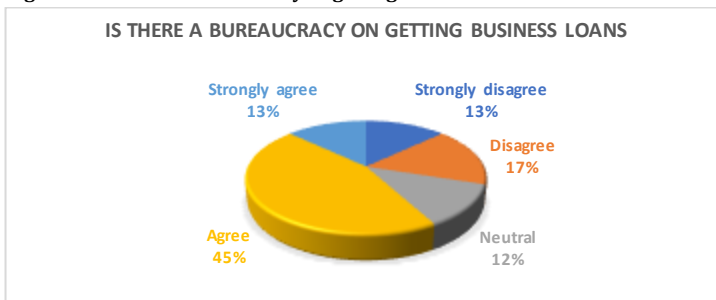
The FKGK founding law was initiated by the Ministry of Trade and Industry, and its development was supported by USAID in Kosovo, through the EMPOWER Credit Support Program (ECS). The law entered into force on January 23, 2016¹.

Survey

With Businessmen Regarding the Challenges of Kosovo Businesses

In this survey, 77 businessmen from the city of Prizren and the surrounding area were interviewed regarding the challenges they face and their answers are expressed in % as follows.

Figure 1. Is there a bureaucracy on getting business loans

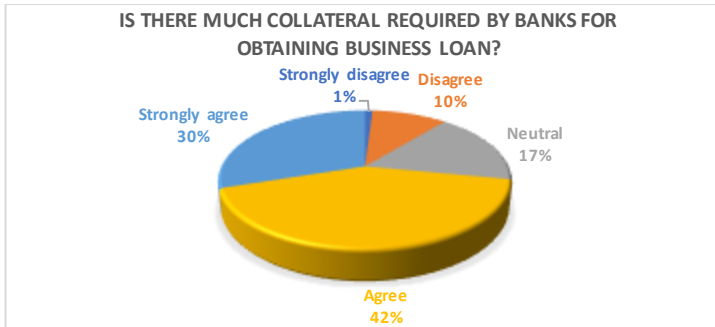


When asked if there is a bureaucracy in obtaining business loans 45% of respondents agreed and 13% fully agreed.

Based on the survey results we can say that there is bureaucracy in obtaining business loans. A lot of documentation, procedures are required and there is a lot of bureaucracy.

¹ Kosovar Credit Guarantee Fund, Guarantee Financial Institutions, Prishtinë, 2018.

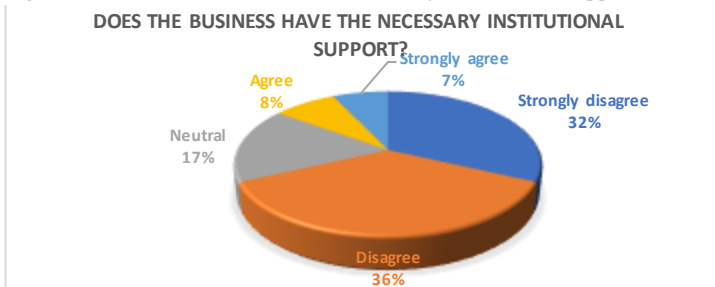
Figure 2. Is there much collateral required by banks for obtaining business loans



To the question is there much collateral required from banks to obtain a business loan? 42% of respondents agreed and 30% fully agreed that a lot of collateral is required.

It can be concluded that banks require a lot of collateral when obtaining loans. Collateral is one of the barriers to business financing. FKGK covers 50% of the collateral as a relief for financing but the use of these funds has an annual cost of 2.0% and increases the interest rate + 2.0% of the existing one.

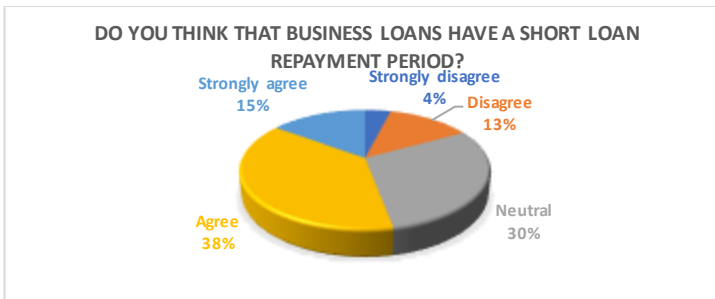
Figure 3. Does the business have the necessary institutional support



When asked if the business has the necessary institutional support based on the results of the respondents, it turns out that 32% have completely disagreed and 36% have disagreed that there is the necessary institutional support.

Businesses need more support from local institutions to have rapid development of the local economy. Institutional support of businesses will enable the creation of new jobs as well as the growth of the local economy in general.

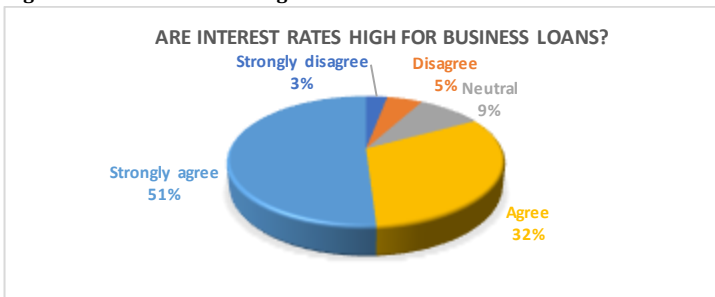
Figure 4. Do you think that business loans have a short loan repayment period?



When asked if loans have a short repayment period. 38% of respondents agree that loans have a short repayment period 15% of respondents fully agree that loans have a short repayment period.

Loans have a short repayment period to make capital investments in the business must have a longer repayment period and must have a grace period. If we want to have business development and make capital investments, the loan repayment period should be longer.

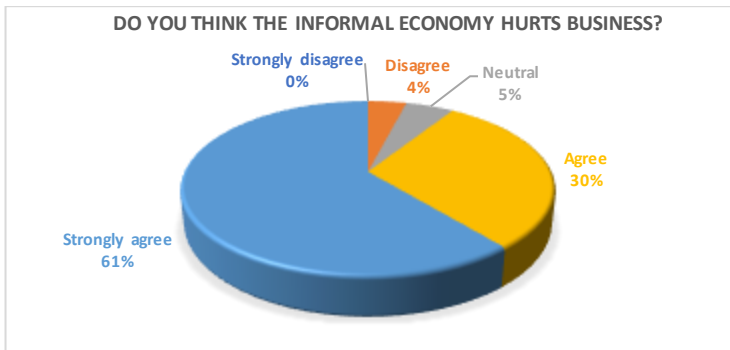
Figure 5. Are interest rates high on business loans?



Interest rates in Kosovo are around 7.2% which are considered high and as such do not stimulate business development. Although we have falling interest rates, they are still high.

Interest rates of 2 - 3.0% would be more favorable and would stimulate business development in Kosovo. Developing a development bank and lending interest rates of up to 50% would stimulate local businesses.

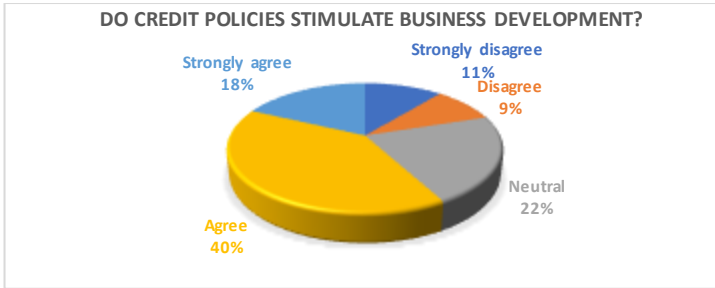
Figure 6. Do you think the informal economy hurts business?



To the question, that the informal economy harms business, the respondents answered as follows: 30% agree and 61% fully agree that the informal economy harms business.

The informal economy is expressed in Kosovo and this economy harms the local economy and our businesses. To make the biggest fight of the informal economy by local institutions as well as to make the biggest support of the formal economy.

Figure 7. Do credit policies stimulate business development?

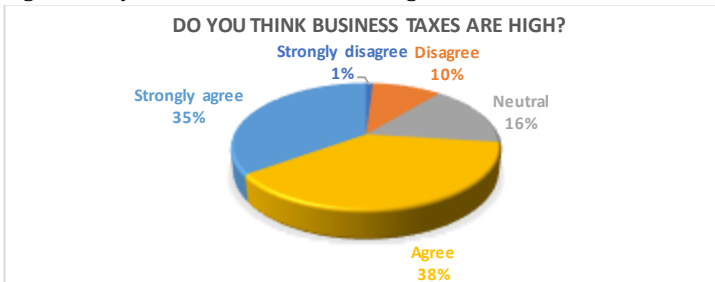


When asked how credit policies affect or stimulate business development 40% of respondents answered that they agree that credit policies stimulate business while 18% fully agree.

Genuine credit policies affect the development of agriculture but in Kosovo interest rates are high. Interest rates should reach 2 to 3% to stimulate business development. Development banks should be established to support businesses with low-interest rates and long loan repayment terms.

Have a grace period in the early years as businessmen are in the investment period. As well as depreciation plans are with variable payments.

Figure 8. Do you think business taxes are high?



When asked what do you think about whether business taxes are high, 38% of respondents agreed, and 35% completely agreed that tax rates are high

Based on the survey results, we can say that business tax rates are high. The lower the business taxes, the more the business development is stimulated and the economic

development in general. Fiscal policies need to be improved to reduce the level of taxes.

Figure 9. Do you think unfair competition hurts business?



When asked if they think unfair competition harms business, 35% of respondents agreed, and 62% completely agreed that unfair competition harms business.

Based on the survey results we can say that unfair competition harms business. Fighting unfair competition would help both businessmen and citizens of the country. Unfair competition hurts our businessmen and makes them unequal in the market.

Poor quality goods harm the business, and the citizen is sold goods at lower prices, and the quality is the lowest.

Figure 10. Is the local entrepreneur stimulated to increase his business activity?



When asked whether the local businessman is stimulated to increase his business activity, 35% of respondents disagree, and 35% completely disagree that there is a stimulus to the local businessman.

Based on the result, it is apparent that local businesses need to be stimulated more in business activities. The entry of young people into the business, the stimulation of start-up businesses, and the encouragement of women to enter business should also be stimulated. Government grants, and subsidies, municipal support, EU funds, World Bank, US-Aid, BERZH, and various projects, would enable entrepreneurs to increase their business activity.

Conclusion

Kosovar businesses face many challenges, including bureaucracy starting with business registration. There is a lot of bureaucracy and nepotism when applying for subsidies, grants and many documents are required.

Many collaterals, many documents, and many procedures are required when applying for a loan. Microbusinesses cannot be financed by banks, for not providing the necessary collateral.

Interest rates are high offered by commercial banks in Kosovo. The loan repayment period is short. Financing of long-term projects is not stimulated.

It does not stimulate the financing of start-up businesses and the investment of businesses for women. Given that, we have a young population. Commercial banks do not finance start-up businesses.

Recommendations

Credit and fiscal policies are not conducive to business development in Kosovo. Businesses do not have enough institutional support, and taxes are high.

Interest rates to be reduced to 2-3%, on an annual basis, or to be reimbursed, 50% of the total interest rate. Increase the repayment period of loans (long-term loans) for capital investments. Allow grace periods at the beginning of the investment! As well as have variable payments based on business income.

Reduce bureaucracies when taking loans, reduce the demand for collateral by banks when taking loans. Reduce the business tax rate. Reduce unfair competition and the informal economy that hurts local business. Reduce interest rates as loans are now covered by KGCF funds by 50%, which reduces the risk in case of failure of these loans.

To stimulate start-up businesses, to support projects, especially in the field of informatics. Start-up businesses are not so much supported by banks in Kosovo. Increase women's participation in business through support, because they make up about 13% of businesses operating in Kosovo. It is intended that female participation in business reach 50%.

Make greater support of micro-businesses because these businesses can grow and develop and employ a large number of employees. Microbusinesses in Kosovo make up about 98% of enterprises in Kosovo. Establish a development bank that would

support local businesses and create better facilities and conditions for, both local and foreign investors.

To invest in local producers, to stimulate exports, to certify local producers and international quality standard ISO 9001, HACCAP, as well as other standards in order to penetrate the markets of the region, EU countries as well as in markets of other countries.

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International Cooperation Combating Financial Proceeds of Crime

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Abstract

The flow of illicit capital, into the financial circles of various states, is a serious threat to global security. To this end, an important part of the strategy to combat criminal proceeds is the coordination of work between states. Expanding investigative capacity across national borders is seen as an important factor in the success of the fight against crime. The exchange of information, between law enforcement agencies in different states, is one of the most effective policies for financial investigations aimed at tracking the proceeds of crime. This case, should be appreciated in two aspects. On the one hand, it is necessary to adopt direct and at the same time joint interventions, to detect and monitor the movement of money or capital outside their borders. On the other hand, the conditions must be provided for an appropriate use of information and without hindering the movement of legal capital. The necessity of a common criminal policy, to deprive criminals of the proceeds of crime and the instruments for their commission, is clearly emphasized by international acts in this field. They encourage the widest possible cooperation between states for the purpose of investigating and prosecuting criminal assets.

Keywords: Illicit income, Proceed of crime, Cooperation, Convention, Legal instruments, International organizations

Introduction

The biggest challenge in the fight against income from illegal activity is presented in international level. The fact that proceeds of crime are transferred between different states, in order to conceal their origin, is already known. In this regard, the differences between the domestic legislation of the states, in relation to the systems they use against illegal income, is used in their favour. In general, the latter move to countries where financial transparency is weaker. They are distributed in such a way, in order to make it difficult to track their flow, identification, location, ownership, etc. "Thus, prosecutions and seizures of proceeds of crime become more difficult, especially in

cases involving foreign persons, banks and countries" (Poda,2007). Consequently, the search for criminal property implies the jurisdiction of some states.

Factors, such as the globalization of the economy and the market, the fall of barriers to the movement of persons, capital, goods between states, etc., have favored the development of criminal phenomena, such as organized crime. The new technological system, regarding the means of payment, has been used by them in money laundering. In this way, large sums of money are transferred to other countries electronically. Illegal capital moves to several financial institutions of different states, before being legally invested. Also, from a structural point of view, money laundering, in its second phase, may involve several states. Specifically, it is about transporting funds from one country to another, so that they are returned to the country of origin under the guise of legal income (Poda,2007).

It is a well-known fact that various money laundering practices affect the economic and financial market, thus reinforcing the presence of organized crime. Moreover, the concern that arises, due to the link between various traffickers and terrorist organizations, is current. This connection leads to joint activities, to the transfer of funds between them for the respective purposes. The means by which terrorists transfer funds around the world, including why not non-profit organizations, are the ones that should be in the spotlight of the authorities. "The more the investigation goes into these activities, the more international connections come to light, of any level, the interests of certain groups, compromises of different environments" (Poda,2007).

The flow of illicit capital, into the financial circles of various states, is a serious threat to global security. To this end, an important part of the strategy to combat criminal proceeds is the coordination of work between states. Expanding investigative capacity across national borders is seen as an important factor in the success of the fight against crime. The exchange of information, between law enforcement agencies in different states, is identified as one of the most effective policies for financial investigations aimed at tracking the proceeds of crime. In this case, care must be taken in two aspects. On the one hand, it is necessary to adopt direct and at the same time joint interventions, to detect and monitor the movement of money or capital outside their borders. On the other hand, the conditions must be provided for an appropriate use of information and without hindering the movement of legal capital.

International co-operation should enable investigative assistance in identifying and tracking property, securing documents for the implementation of provisional measures and confiscation, based on the factual requests of a foreign state, with the same priority as in internal procedures" (Explanatory Report, Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime, Council of Europe, <http://convention.coe.int>)

The necessity of a common criminal policy, to deprive criminals of the proceeds of crime and the instruments for their commission, is clearly emphasized by international acts in this field. They encourage the widest possible cooperation between states for the purpose of investigating and prosecuting the confiscation of criminal assets (Article 15/1 of the Convention "On the Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism).

1. International Cooperation instruments

Due to the dangers that such phenomena imply, when it is extended beyond the borders of a state, there have been significant initiatives at the international level. They emphasize the necessity of cooperation in three main directions:

- in providing information,
- in freezing accounts, seizing and confiscating assets,
- in handing over criminals to the respective states.

Before addressing specific aspects of cooperation, it is necessary to define the normative framework, which regulates jurisdictional relations with foreign authorities in this field. "These relations are regulated by international agreements, accepted by the Albanian state, by the general accepted principles and norms of international law, as well as the provisions of Title X of the Code of Criminal Procedure." In the absence of agreements regulating these relations, they will be regulated by criminal procedural provisions.

Turning to the initiatives of the international community in the search for criminal property, it is worth mentioning the fact that they have had an important role for significant changes in domestic legislation. In addition to conventions such as "On extradition", "On mutual legal assistance in the criminal field", "On the transfer of proceedings in criminal matters", the framework of recent international agreements has been focused on the field of prosecution of illegal assets.

The first convention to provide for the confiscation of the proceeds of crime and the incrimination of money laundering was the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. It was adopted in Vienna in 1988 and is otherwise known as the Vienna Convention.

The United Nations Convention against Corruption and the Convention against Transnational Organized Crime and its two additional protocols, also go in the same direction. The last two protocols of the Convention refer to the fight against migrant trafficking by land, air and sea and the prevention and punishment of trafficking persons, especially women and children.

As it can be seen, a characteristic of the first international acts is that they extend cooperation in the confiscation of the proceeds of certain criminal offenses. However, the situation changed quickly. In 1990 the international money laundering struggle

was supplemented by the Strasbourg Agreement "On Laundering, Screening, Capturing and Confiscating the Proceeds of Crime". Within the main purpose of its adoption, which is the fight against money laundering, it also emphasizes cooperation in the search, seizure and confiscation of proceeds of crime. "This convention marks a fundamental development in the fight against money laundering, fixing a series of rules that highlight the need to prosecute the proceeds of crime and facilitate judicial and administrative cooperation between states" (Pollari, Cioppo, 2006)

It allows to be attacked with temporary measures, the benefits deriving from any kind of crime, regardless of whether or not the state has criminal jurisdiction over the underlying crime. The fight against money laundering, at the international level, finds significant support and evolution, above all in the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and on the Financing of Terrorism. Internationally, it is known as the Warsaw Convention. This marks one of the latest developments in the fight against money laundering. The Convention comes as a completion of the above mentioned agreement. It has added some predictions in light of the new demands nowadays, induced by international criminal developments in relation to terrorism.

These two Conventions are important because they have a wider range in the fight against proceeds of crime. In any case, they are seen as related and cannot be interpreted in contradiction with other international instruments, dealing with the same issues. For example, none of their provisions can be interpreted as restricting the rights provided in the European Convention on Human Rights and its protocols. The following are some of the key aspects of the obligations they impose.

1.2 Characteristics of international instruments

International acts, in the pursuit of illicit wealth, are focused on two main directions.

First, they require the criminalization of actions aimed at concealing the origin of money from illegal activity, e.g. narcotics trafficking, corruption, organized crime, etc.

Second, they appreciate the importance of mutual legal assistance in investigating and confiscating the proceeds of crime.

In the context of money laundering, the agreements also require the criminalization of providing assistance, to any person involved in such crimes, in order to escape criminal liability for his or her conduct. At the same time, they consider the importance of the liability of the legal person. This liability does not necessarily have to be criminal. It is enough for the measures to be effective and proportionate. The pursuit of criminal proceeds does not take into account the fact whether or not the main criminal offense is within the jurisdiction of the party. They also stipulate the obligation that, such crimes should be included in the domestic law of States, in those crimes for which extradition is permitted.

The conventions emphasize the obligation of mutual legal assistance in investigation, in order to gather evidence. The request can be addressed to a party to obtain evidence, legal acts, without invoking the principle of banking secrecy or claiming the fiscal character of the criminal offense. It is especially important to obtain banking, financial or commercial files or to use special investigative techniques, e.g. seizure of telecommunications, access to information systems, surveillance of bank accounts, etc. These investigative steps are taken in order to identify assets subject to confiscation, as well as to take provisional measures on them, such as. freezing / blocking and sequestration.

Almost every one of them, encourages states to apply reversal of the burden of proof. This means that states, in accordance with their domestic law, should consider the possibility of requiring the subjects to demonstrate the origin of the presumed illicit products or of the property, subject to confiscation. This provision can not be interpreted as an obligation to return the burden of proof, in a criminal process in finding the guilty person.

It is understood that cooperation in the field of search and confiscation of the proceeds of crime, requires the adaption of the legal framework of states between them. This does not mean the unification of the legislations of different states, but the fact that the necessary legislative and operational measures must be taken in order to respond to the requests of other parties.

2. International organizations operating in this field

The complexity of the phenomenon of money laundering and the consequent necessity of adopting a strategy at the national level, has imposed the creation of various organizations, in addition to the ratification of conventions in this field. Also, projects have been designed to assist in various areas to fight crime proceeds. Such have been PACO funded by the Council of Europe, CARPO, etc. In this part, will be mentioned those organizations, whose recommendations Albania follows.

FATF was established in 1989. It is an organization that assists states in carrying out legislative reforms, in the area of money laundering

(http://www.oecd.org/document/9/0,3343,en_32250379). Its purpose is to study the relationship between crime and finance and propose solutions. It works on the basis of recommendations and sets standards internationally. Its task is to observe the phenomenon and verify whether the measures taken or proposed, are current Its recommendations can be divided into four groups (Methodology for Assessing Compliance with the FATF 40 Recommendations and with the FATF 9 Special Recommendations. <http://www.fatf-gafi/document/9/0,399078>):

- 1) general inclusion of the matter, inclusion of the criminal offense of money laundering in the domestic legal system,
- 2) legislative initiatives to combat this criminal phenomenon,

3) institutional measures to stop the pollution of the financial system from money laundering and terrorist financing,

4) strengthening international cooperation in this field.

Along with anti-money laundering measures, the global fight against terrorism and its financing, is a priority policy, for many countries. FATF focused on new threats from terrorist financing in the international system, issued specific recommendations, as the international standard on the fight against terrorist financing. It should be remembered that the FATF has compiled a "black list" of countries that do not cooperate in these areas. This list has regressed over time.

From the control of the effectiveness of the recommendations it has been verified that, almost every state has included the figure of money laundering crime. FATF has also highlighted the importance of each state building a financial intelligence center, to adopt a system for analyzing suspicious operations and recording them, over a certain amount. It has developed the methodology for the joint evaluation process, which is also used by MONEYVAL. It is especially worth noting, for the purpose of this topic, recommendation no. 3. It provides measures to confiscate the proceeds of crime and encourages countries to consider them, without requiring a criminal conviction or requiring subjects/persons to demonstrate the legal origin of the property subject to confiscation.

MONEYVAL is the Select Committee of Experts of the Council of Europe (http://www.oecd.org/document/46/0,3343,en_32250379). It was set up in 1997 and operates in the field of money laundering. It assesses the compliance of the measures taken by its members, with the relevant international standards against money laundering and terrorist financing, taking into account the recommendations of the FATF. In cooperation World Bank, it has developed a common method of combating money laundering and terrorist financing. MONEYVAL drafts relevant reports regarding the measures taken by the states and at the same time, makes recommendations regarding the problems it identifies.

Among the priorities of the Council of Europe is the fight against corruption. The need to promote co-operation between states against it, including links to organized crime and money laundering, has prompted Council of Europe member states to set up a separate organization in this area. GRECO was established in 1999 and is a committee of this Council, which aims to help states fight corruption, by monitoring the measures they have taken to meet the commitments made in this area (<http://www.greco.coe.in>). GRECO has also adopted twenty principles, guiding the fight against corruption. In this way, it helps to identify the flaws and shortcomings of national mechanisms against it, as well as to promote the necessary legislative, institutional and practical reforms. Its conclusions and recommendations are a good source of information on the shortcomings of confiscation measures in relation to this criminal offense.

3. Cooperation between Financial Information Units

The processing of financial data and their outcome are an important part of the process of searching for illegal assets. This fact has attracted the attention of states, to create specialized services in data collection and analysis, in relation to financial transactions, especially suspicious ones, for a more effective activity in the prevention and repression of money laundering. International conventions in this field impose the obligation of the ratifying states to establish this special institution, known as the Financial Information Unit.

This institution has competencies in two main directions, money laundering investigation and terrorist financing. Although, the provision is written in binding terms, the methodology of accessing data is left to the discretion of the states. There has been a debate at the international level, regarding the attribution of different competencies to the units. The debate at the international level was important (Pollari, Cioppo, 2006):

- to determine the characteristics of these bodies, as bodies with outstanding financial competencies,
- to promote their central role in terms of collecting and analysing relevant bank data and in the exchange of information with foreign correspondent bodies,
- to avoid the concentration of competencies and above all, the interference with other bodies of the fight against this phenomenon.

The international character that money laundering and terrorist financing is taking over time, requires effective cooperation and coordination between states. Thus, the necessity of exchanging information is evident, not only between law enforcement agencies at the national level, but also with other counterparts abroad. Cooperation between units of different countries, at the same institutional level, contributes to the success of the global fight against money laundering and terrorist financing. It also increases their individual effectiveness.

The Council of Europe member states, which have ratified the Warsaw Convention, have established EGMONT GROUP (Statement of Purpose of the Egmond Group of Financial Intelligence Units, Guernsey, 23 June 2004. <http://www.egmondgroup.coe.int>)

It is an intergovernmental body, that monitors the function and cooperation of the financial intelligence units, of the States. Its purpose is to improve the respective national programs, which use such units to combat money laundering and terrorist financing. The rules of cooperation between these institutions are provided in Article 46 of the Convention "On the laundering, search, seizure and confiscation of the proceeds of crime and on the financing of terrorism".

Financial Information Units exchange, spontaneously or on request, any information that may be relevant in the fight against money laundering, to the investigation of

financial transactions. If the request is made in accordance with the provisions of the Convention, the F.I.U. provides all possible financial information and data required for legal execution, according to its content. It does this even without the need for a formal letter.

This way, at the request of a foreign counterpart, the F.I.U. suspends or refuses to give consent to a transaction, subject to the same conditions as its domestic law, relates to the postponed transactions. Such an action will be taken when it is given that the transaction involves money laundering and it would have been suspended or consent would not have been given, if the transaction were the subject of an internal report, as a suspicious transaction. If required by domestic law, the postponement or suspension will be by court order.

It is important to highlight here that this cooperation is different, compared to other relations of international cooperation. First, this cooperation is not realized through a central authority, which for the effect of albanian law is the Ministry of Justice. This is seen this way, in order the institutional cooperation between the states in this regard to be as fast and efficient as possible. Second, the rejection of a request for cooperation between these institutions is not based on the cases provided in Article 28 of the Convention. They belong exclusively to other forms of co-operation between states.

The law "On the prevention of money laundering" defines the main directions of cooperation of this institutions, in international level. The responsible authority coordinates with counterpart bodies and international institutions, in terms of reporting to the prosecutor's office, for facts and evidence related to the criminal offense of "money laundering", finding and identifying the source of income and proceeds of crime. In the framework of international cooperation, the responsible authority informs the specialized financial units and other designated authorities abroad, regarding the data and documents that it possesses. It cooperates with counterpart units and institutions, in order to exchange data on identification, discovery of sources, blocking and temporary freezing of various transactions, sequestration of proceeds of crime. It also has the right to request information and documents from the latter, in order to detect and investigate illegal money laundering activities. The responsible authority and international organizations or institutions provide each other with maximum mutual assistance, in the exchange of legal documents, for persons who have been subject to legal measures and confiscation.

Conclusions and Recommendations

Cooperation between states is very important in the search for criminal property. A significant part of the proceeds of crime are transferred to other countries, in order to conceal their origin. The most important form of cooperation in criminal property search, is mutual legal assistance. It is seen especially in terms of providing evidence, but also taking provisional measures such as freezing or sequestration. The

conventions also provide for the obligation to cooperate in the confiscation of proceeds of crime. In this regard, importance is given to the return of criminal assets to the requesting state. In order to guarantee the rule of law, as well as the public safety, greater importance must be given to cooperation between states in the pursuit of illegal income. Although conventions in this area have evolved and tried to capture many aspects of it, other bilateral/multilateral agreements between states can be processed, agreements that provide for direct ways of cooperation between law enforcement agencies. This is because the procedure followed through the letterrogatory, which is initially given way by the relevant ministry, brings its delays. The latter would bring faster results and eliminate the possibility of transferring or concealing illicit proceeds.

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The Impact of Leadership Styles on Employees' Commitment within Dubai Government Entities: Mediating Effects of Communication

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Abstract

Employee commitment is the essential element especially for the government entities success where employees are not willing to perform and this situation motivates the research to examine employee commitment of the government entities in Dubai. Thus, this study investigated the relationship between leadership styles and employees' commitment and communication among Dubai government entities. This study also assess the impact of communication on the relationship between leadership styles and employees' commitment at the Dubai Immigration Department (DID). This study has followed the quantitative methods of data collection and also used the smart-PLS for analysis. The findings revealed that transformational and transactional styles have positive effects on employees' commitment to DID. Findings also revealed that there is a significant relationship between transformational and transactional styles and communication. A positive effect is also discovered to exist between communication and employees' commitment. Communication mediates transformational and transactional styles and employee commitment. The original contribution to knowledge is the mediating role communication plays in DID in relation to employees' commitment. These findings helped to determine the appropriate recommendations for policy and practice in the UAE, as well as suggestions for future research.

Keywords: Transformational leadership, Transactional leadership, Passive leadership, Communication, Employee commitment

1. Introduction

The subject of leadership is widely research by authors of different disciplines, practice, and backgrounds. Leadership is often of keen interest due to the role leaders' play in an organization or the society; within small groups, or big association with

financial or non-financial benefits. However, leadership does not exist or cannot be practice without the influence of dependent or/and independent factors, as later examined in this study. The extent to which leadership influences other factors and vice versa is posed to contribute to knowledge and constitute the underlining rationale for conducting this study (Al & Samsudin, 2020). Regardless of research focus or scope, leadership is identified to impact organizations, departments, and teams, and work environment leaders who want the best outcomes should not depend on a single leadership style. For example, Shulhan (2018) wrote on the credibility of the leader and how its impact on employee and the reputation of the organization. He also wrote on the impact of leadership style and employee empowerment on organizational reputation. There is also an argument for excellent leadership and the impact of public relations, which is external to what transpires within an organization (Siddique, Siddique, & Siddique, 2020). These backgrounds provide strong justification for this research to advance this scholarship in leadership, employee commitment, and communication, especially in the United Arab Emirates (UAE).

2. Background to the United Arab Emirates and Dubai

The United Arab Emirates occupies 83,600 square kilometers and comprises seven emirates: Abu Dhabi, Ajman, Dubai, Fujairah, Ras Al-Khaimah, Sharjah, and Umm al-Qaiwain (Mustafa & Shawwa, 2019). About 50 years ago, the United Arab Emirates (UAE) was an emerging country with an economy dependent on pearl diving and fishing. By discovering oil in the 1960s, the country was completely revolutionized, and a period of rapid development followed (Mustafa & Shawwa, 2019). The UAE has the seventh-largest proven reserves of both oil and natural gas globally. Most of the UAE's reserves (95 percent of the nation's oil reserves and about 94 percent of its gas reserves) are located in Abu Dhabi Emirate. The capital of the country is also. The UAE has become famous for being a tourism destination and business hub for many multinational organizations (Mustafa & Shawwa, 2019, Aljumah et al., 2021). In 2018, the Gross Domestic Product (GDP) of the UAE in real prices amounted to approximately AED 1.6 trillion or in (US dollars: 435.70 billion) (Mustafa & Shawwa, 2019). This increasing level of economic growth also effect the population growth.

The rapid economic growth and the oil boom led to population growth in the UAE, mostly due to regional immigration. From 2000 to 2010, the population grew by over 5 million people even though the fertility rate was declining and is just 1.42 births per woman. As of 2019, the UAE population was estimated at 9.89 million people, and it is projected to continue growing until 2033. As a result of immigration, the UAE has become a very diverse population, with expatriates and immigrants accounting for 88.52% of the population while Emiratis make up just 11.48%. According to the World Population Review in 2020, the UAE has the 7th highest net migration rate globally at 12.36%. The UAE is now home to residents from over 200 nationalities living and working in the UAE. Expatriates also make up 95 percent of the UAE's

workforce, with the largest communities coming from South Asia. Indians form the largest foreign community in the UAE, followed by Pakistanis, Bangladeshis, other Asians, Europeans, and Africans. The Federal Competitiveness and Statistics Authority reported 6,377,010 foreigners working in the private sector (Mustafa & Shawwa, 2019). During typical peak hours, the population of the city rises to reach over 4.5 million persons. This is because the city temporarily attracts up to 1,146,000 people due to work or tourism (Alnuaimi, 2019). Dubai hosts more than 20,000 international companies. (Alnuaimi, 2019). These factors make the immigration department a priority for leadership assessment out of all the different government agencies. These factors also bring the challenges for the leadership to manage the employee commitment in the organization.

Similar challenges and gaps are identified in different UAE organizations (Zargar, Souzan, & Farmanesh, 2019), including the public and private organizations in Dubai, where organizations face employees' commitment challenges. The biggest challenge for Dubai organizations is to provoke a sense of commitment in the employees. Oladeji and Ayinde (2018) argue that if employees are not committed in the organization, then job insecurity, low trust, high stress, and uncertainty will increase in the organization, which have a negative effect on the performance of the organizations. Leadership and communication within an organization remain challenging in different UAE organizations, especially those with many units and departments as DID. Communication permeates social relationships and enables interaction between people and societies and takes place through the interaction between people, in collective dialogues, creating space for new knowledge and provoking thought. Sowmya, Chandrasekaran, and Patterson (2018) argue that communication can be understood as a flow of information and occurs to solve business problems when communication barriers are created or conduct business tasks.

Though the institutional governance report exists to illustrate and communicate good application of governance within the organization, it is also indirect evidence of the nature of the relationship between communications, leadership, and employees' commitment. Maamari and Saheb (2018) viewed that a wide range of leadership behaviours, management programs, structural forms, and external initiatives can be used to influence these performance determinants. In any given discipline, the success of an organization can nearly always be traced directly back to the vision and willingness of the leadership. Ineffective communication between leadership and employees' commitment in DID is another problem that motivates this study. The act of communication must be in balance with what is communicated because communication, especially leadership communication, requires credibility (Al Dari, Jabeen, & Papastathopoulos, 2018). Beyond this, to effectively communicate within an organization, it is important to understand the situation, key qualities and valuable sources of information, and actions required by the leadership and organizations. While this requirement for effective communication between leadership and employee is understood and clearly stated in the literature, it is not the reality in DID,

hence the importance of this study. The researcher intends to bridge this gap by conducting a research that uses the DID as a case study to examine the relationship between leadership practice, employee commitment and communication. While the research focuses on the nature of relationship between these variables within the organization, findings may also benefit other organizations and contribute to knowledge.

3. Literature Review

This section provides the literature related to the relations among the variables under the following sections:

4. Leadership Styles and Employees' Commitment

The focus of this study is on leadership styles and literature review that different leadership styles exist. Literature has also indicated that leadership influences employees' commitments. However, not all leadership styles were researched in the literature. Three leadership types, passive transactional and transformation leadership styles, were identified. The transformational leadership (TL) style inspires followers, stimulates self-realization needs, and commitment to collective values and interests, creating latent needs (Abasilim, Gberevbie, & Osibanjo, 2019). TL refers to managerial behaviours that transform the leaders and inspire them to go beyond their expectations, transcending personal interest for the good of the organization, of which its interrelated behaviours are II, IM, IS, IC. With this understanding, Shapira-Lishchinsky and Litchka (2018) investigated the relationship between transformational and transactional leadership and teachers' perceptions of leader effectiveness and teachers' job satisfaction. The result indicated that the job satisfaction of employees was significantly associated with leadership. Jain and Duggal (2018) examine the relationship between transformational leadership, the commitment of followers to their leaders, and organizational commitment (OC). The result shows that TL is associated with pride in being a devotee of the leader and affection and normative commitment. Results indicated that pride in being a devotee of the leader totally mediate the link between TL, affection and normative commitment. Thus, based on the relationship between TL and Employees' commitment in literature, it can be proposed that:

H1: There is a significant relationship between transformational leadership and (organizational) employees' commitment

Transactional leadership is considered an effective leadership style that provides a reward for satisfactory performance by followers attending to the mistake of followers and failings to meet standards. According to the Cho, Shin, Billing, and Bhagat (2019) transactional leadership uses contingent reward and management by exception (active) as an exchange mechanism to generate the necessary outcomes from employees. The contingent reward is connected to using rewards to generate appropriate or desired performance from employees. Transactional leadership rests

within the premise that a leader cannot solve problems alone, placing a strong emphasis on the team, using reward to motivate, thus demonstrating strong leadership (Donkor & Zhou, 2020). Therefore, with the appropriate management and contingent reward, it can be inferred that:

H2: There is a significant relationship between transactional leadership and employees' commitment.

Passive leadership style also play a vital role on the employee commitment. The passive leadership may affect the employee commitment because it often fails to meet the legitimate expectations of the subordinates. This leadership style does not interfere with the decision-making process because the employees or subordinates are encouraged to have sufficient influence over their work in the organization (Lee, 2018). According to Adeel, Khan, Zafar, and Rizvi (2018), the passive leadership style encourages employees to utilize their competence to the point that they can cope with any situation. This implies that passive leadership styles potentially operate well when competent employees work with good leaders, and therefore, leaders may have an impact on competent employees; it can then be hypothesized that:

H3: There is a significant relationship between passive leadership and employees' commitment.

5. Leadership Styles and Communication

This section explains the relationship between different leadership styles and communication. This section has indicated that transformational leadership is active and contributes to every aspect of an organization. Similarly, studies examined in this chapter support that in addition to transformational leadership, transactional leadership is effective (Adeel et al., 2018; Wikaningrum & Yuniawan, 2018) and helps the leader to exchange necessary benefits at low cost. This suggests that leaders (transformational and transactional) need to communicate with employees to exchange rewards or communicate solutions to problems. It may be the two-step flow of communication, or/and upward and downward communication flow that emerges from leaders to the employee or vice versa (Nawaz et al., 2020). Leaders, especially transformational leadership, inspire their followers, stimulate self-realization needs, and commit to collective values and interests, creating latent needs. Mikkelsen, Sloan, and Hesse (2019) idealized influence refers to a leader's ability to influence followers through an ideal (ideologies or socially shared values). This influences that the leader needs to possess communication skills because they are useful for sustaining organizational culture, fostering networks, and building socially constructed power. This relationship between TL and communication in literature, it can be proposed that:

H4: There is a significant relationship between transformational leadership and communication.

Transactional leadership emphasizes standardized work and task-oriented tasks that need to be communicated with employees (Shair et al., 2021). Through positive or negative reinforcements, transactional leaders specify and clarify the goals and announce the appropriate rewards linked to employees' performances (Crews, Brouwers, & Visagie, 2019). This style of leadership is strongly dependent on the power of the leader, which is often expressed through communication. Beyond expressing power or authority, leaders are known to transactional leaders tend to use the reward. Transactional leadership relates to using contingent rewards to generate desired employee performance (Lingard, Zhang, & Oswald, 2019). Transactional leadership rests within the premise that a leader cannot solve problems alone. Communication could help leaders oppress or liberate organizational members during the process of solving problems. Transactional leaders place a strong emphasis on the team, using reward to motivate, thus demonstrating strong leadership. This process may be facilitated by communication with members of an organization (Kark, Van Dijk, & Vashdi, 2018).

As for leadership, communication has always aroused great enthusiasm due to the widespread conception that it is a key element for success in organizations. Communication is how transactional leaders achieve the objectives of the organization by influencing and directing the activities of individuals for organizational benefits (Alrowwad & Abualoush, 2020). This indicates that transactional leaders can modify and change the behaviour of individuals through communication. Communication is formal when it is official and is established by the management of the organization (Jensen et al., 2019). Transactional leaders may use formal communication to establish organization management and communicate important issues to subordinates. Based on this potential relationship between transactional leaders/leadership, it may be inferred that:

H5: There is a significant relationship between transactional leadership and communication.

The passive leader is known to be understanding, less engaged, and enables subordinates to work independently. This leadership style encourages employees to utilize their competence to the point that they can cope with any situation (Chien, Pantamee, et al., 2021). This implies that passive leadership styles potentially operate well when competent employees work with good leaders and communicate effectively (Sepahvand, Aref Nezhad, Fathi Chegeni, & Sepahvand, 2020). Leaders who effectively communicate though passive may have an impact on competent employees achieving results through them. Persons at the executive levels, either passive or active, use informal communication when they find it difficult to collect information from the workers. This communication method is also used when sharing certain information that cannot be transmitted through the official channels (Chien, Sadiq, et al., 2021). Communication is viewed as the process through which the organization represents, presents, and shares its organizational culture, attitudes,

values, and goals that characterize the organization and its employees. Communication helps individuals and groups coordinate activities to achieve goals because it is vital to decision-making, problem-solving, and change-management processes (Wang, Liu, Lee, & Chen, 2019). It can then be hypothesized that;

H6: There is a significant relationship between passive leadership and communication.

6. Employees' Commitment and Communication

This section explains and justifies the relationship between employees' commitment and communication. Previous sections have indicated a relationship between leadership styles and communication (Chien, Pantamee, et al., 2021; Mohsin, Kamran, Nawaz, Hussain, & Dahri, 2021). However, this relationship is impossible without interacting with employees within organizations, especially when there is a need to achieve the result or organizational success. Employees' commitment based on age, nationality, and job status is evident in the Arab world, especially in the UAE (Faupeil & Helpap, 2020, Nuseir et al., 2021). The same study found that the number of years worked in a position/job also positively impacted affective commitment. Though little is said about communication, it can be inferred that employees need to interact or communicate with leaders. Jaworski, Ravichandran, Karpinski, and Singh (2018) found no influence of employee gender, nationality, and tenure on commitment. The link between communication and leadership styles is seen to be successful when communication is effectively used. Based on this, it is fair to imply that leaders communicate with competent employees. Employees are encouraged to utilize their competence to the point that they can cope with any situation. This implies that effective communication may influence competent employees, enabling them to achieve results for their leaders and organizations (Hilal, 2020). Therefore, it can be hypothesized that;

H7: There is a significant relationship between communication and employee' commitment

7. Leadership Styles, Employees' Commitment and Communication

A mediating variable explains the relationship between the independent (predictor) variable and the dependent variable. It explains how or why there is a relation between two variables. The literature examined in this study revealed that communication within an organization could serve as a mediator in different ways but most connected the mediation role of communication to employees and leaders directly and indirectly. Therefore, this section applies communication as a mediator to determine the relationship between leadership styles and employees' commitment in the previous section. Communication is operationalized as a component of effective management in the workplace environment (Ahmad & Cheng, 2018), which helps align employee expectations with those of the leader and organization. Voon, Lo, Ngui, and Ayob (2011) identified that management or supervisor's communication style

directly impacts employee satisfaction, of which employee satisfaction may subsequently increase employee commitment to the organization. Adnan and Valliappan (2019) also indicated that the effects of internal communication practices, job satisfaction, and organizational commitment were fully mediated by communication. It is therefore hypothesized that within different leadership styles, and willingness of employees to commitment;

H8: Communication mediates the relationship between transformational leadership and employees' commitment

H9: Communication mediates the relationship between transactional leadership and employee's commitment

H10: Communication mediates the relationship between passive leadership and employees' commitment

8. Research Methods

This research adopts a quantitative approach to collect data. The use of the quantitative research method is consistent with the testing hypotheses. Quantitative is also beneficial when trying to understand a problem, capture the perspective of others, use a large sample size, and save time (Wijnen et al., 2018). The research design focuses on identifying styles, employees' commitment, and communication in DID and assessing the effect of leadership style and its possible contributing factors to maintaining employees' commitment in DID. The research design includes a structured set of questions designed into a survey distributed among DID staff.

9. Research Population and Sampling

The target population for this study is Dubai Immigration Department (DID). The sample size is designed with a view to establish the internal and external validity to generalize the findings to the population. The representation of the population is dependent on the sample plan. The target population of this study is the entire employee working in DID. The population is distributed according to the department, as shown in Table 1.

Table 1: Distribution of Population

Department	No. of Employees	No. of Sample
Human Resource Management Department	45	3
Management Investigation and strategic follow-up	50	3
Quality Management Department	50	3
Airport Passport Control Department	2500	154
Border Passport Control Department	1200	74
Sea Port Passport Control Department	1400	87
Finance Departments	600	37
Total	5845	361

Table 1 shows the distribution and number of samples generated from each department. While it cannot be said that there is high representation from all departments, it is noticed that all departments are presented. In this research, the probability sampling technique is selected in such a way as to be representative of the target population. Probability sampling techniques include random sampling, systematic sampling, and stratified sampling. This research used a stratified random sampling technique, which involves partitioning the target population into subpopulations. This enables everyone in the population to have a chance to be selected in the sample. Therefore, the expected Sample size (S) from DID, as indicated in Table 1 based on the formula calculation, will be approximately 361 if a population of 6000 is approached.

10. Data Collection Procedure

Before administering the questionnaire to the target population, all ethical considerations were considered and observed. Part of this is to engage with DID to consent to proceed with the research by engaging with the workers. After ethical consideration and consent were given to start data collection, the questionnaire was uploaded online to Survey Monkey, an online survey software. Once uploaded, the link was sent to the human resource for DID by email to circulate to staff. According to human resource staff, the questionnaire link was sent to staff through the internal memo. As a former staff of DID, 'Whatsapp was also used to circulate links to current staff. The researcher sent reminders to DID human resources fortnightly to encourage staff to complete the online questionnaire. Once completed, the survey was closed and results downloaded for data analysis. A total of 290 surveys were received, which represents about 80.33 percent response rate.

11. Statistical Tool, Variables, and Measurements

This study has adopted the smart-PLS to examine the nexus among the variables due to the framework's complexity and large sample size. This tool provides the assessment of measurement and structural models. This study has adopted three predictors, such as transactional leadership (TSL) with fifteen items, transformational leadership (TFL) with fifteen items, and passive leadership (PL) that also have fifteen items (Avolio & Bass, 2004). This study has also taken communication (CM) as the mediating variable with fifteen items (Jiony, Tanakinjal, Gom, & Siganal, 2015), and employee commitment (EC) has been used as the dependent variable with twenty-two items (Mowday, Steers, & Porter, 1979). These constructs are shown in Figure 1.

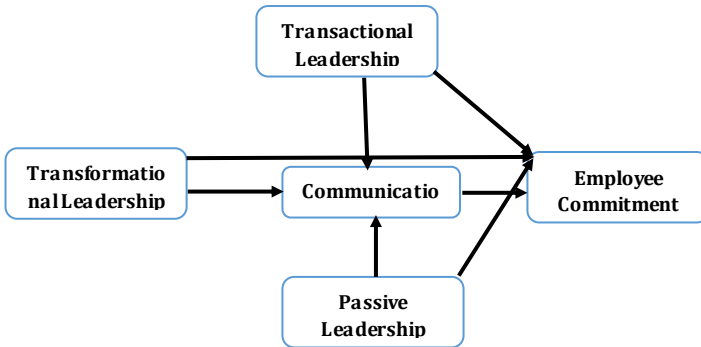


Figure 1: Theoretical Framework

12. Findings

This study has checked the convergent validity that shows the correlation between the items of the variables. The results indicated that the factor loadings value is more than 0.40 while AVE values are larger than 0.50. In addition, composite reliability (CR) and Alpha values are also more than 0.70. These figures revealed a high connection among items. These values are shown in Table 2.

Table 2: Convergent Validity

Constructs	Items	Loadings	Alpha	CR	AVE
Communication	CM10	0.873	0.935	0.946	0.663
	CM11	0.859			
	CM12	0.843			
	CM14	0.779			
	CM15	0.561			
	CM2	0.831			
	CM4	0.864			
	CM5	0.852			
	CM9	0.821			
Employee Commitment	EC1	0.818	0.963	0.967	0.572
	EC10	0.812			
	EC11	0.796			
	EC12	0.709			
	EC13	0.781			
	EC14	0.751			
	EC15	0.817			
	EC16	0.782			

	EC17	0.811			
	EC18	0.796			
	EC19	0.793			
	EC2	0.811			
	EC20	0.708			
	EC21	0.778			
	EC22	0.753			
	EC3	0.780			
	EC4	0.494			
	EC5	0.527			
	EC6	0.521			
	EC7	0.823			
	EC8	0.823			
	EC9	0.812			
<i>Passive Leadership</i>	PL1	0.698	0.929	0.934	0.509
	PL10	0.783			
	PL11	0.774			
	PL12	0.732			
	PL13	0.696			
	PL2	0.406			
	PL3	0.783			
	PL4	0.780			
	PL5	0.725			
	PL6	0.701			
	PL7	0.787			
	PL8	0.446			
	PL9	0.763			
<i>Transformational Leadership</i>	TFL1	0.770	0.944	0.950	0.562
	TFL10	0.829			
	TFL12	0.755			
	TFL15	0.823			
	TFL18	0.695			
	TFL19	0.712			
	TFL2	0.831			
	TFL20	0.673			
	TFL3	0.693			
	TFL4	0.704			
	TFL5	0.722			
	TFL6	0.772			
	TFL7	0.822			
	TFL8	0.699			
	TFL9	0.712			
<i>Transactional Leadership</i>	TSL1	0.563	0.920	0.934	0.588
	TSL10	0.820			
	TSL11	0.807			
	TSL12	0.786			
	TSL2	0.767			
	TSL4	0.841			
	TSL6	0.640			
	TSL7	0.807			
	TSL8	0.803			
	TSL9	0.788			

This study has also checked the discriminant validity that shows the correlation between the variables. The Heterotrait Monotrait (HTMT) ratio results indicated that the values are less than 0.85. These figures revealed a low connection among variables. These values are shown in Table 3.

Table 3: Discriminant Validity

	CM	EC	PL	TFL	TSL
CM					
EC	0.572				
PL	0.112	0.086			
TFL	0.752	0.569	0.127		
TSL	0.450	0.558	0.148	0.413	

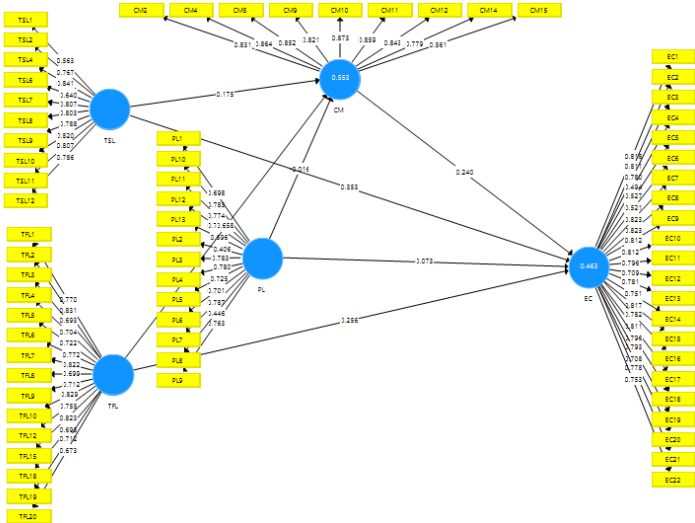


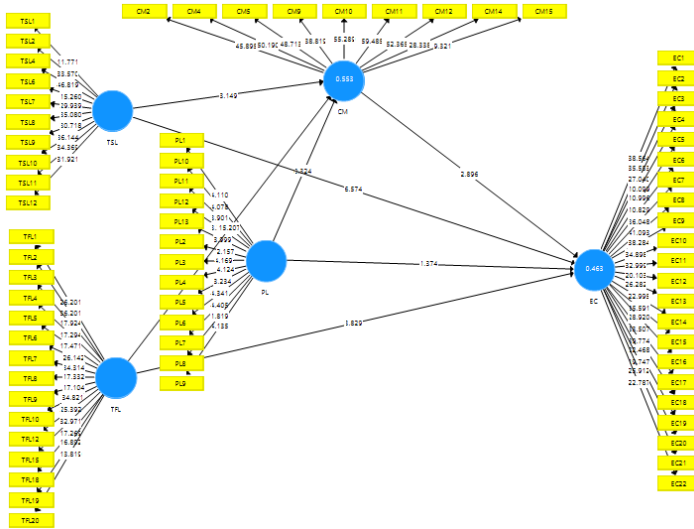
Figure 2: Measurement Model Assessment

The path analysis has been checked the nexus among the variables, and results indicated that transformational and transactional relationship has a significant

association with employee commitment and accept H1 and H2. In contrast, passive leadership has an insignificant connection with employee commitment and rejects H3. In addition, results also indicated that transformational and transactional relationship has a significant association with communication and accept H4 and H5 while passive leadership has an insignificant connection with communication and reject H6. Moreover, results revealed that communication has a significant association with employee commitment and accept H7. The results also show that communication significantly mediates between the nexus of transformational and employee commitment and transactional relationship and employee commitment and accepts H8 and H9 while communication insignificantly mediates among the nexus of passive leadership and employee commitment and reject H10. These links are shown in Table 4.

Table 4: Path Analysis

<i>Relationships</i>	<i>Beta</i>	<i>S.D.</i>	<i>T Statistics</i>	<i>P Values</i>	<i>L.L.</i>	<i>U.L.</i>
<i>CM -> EC</i>	0.240	0.083	2.896	0.002	0.105	0.379
<i>PL -> CM</i>	-0.016	0.049	0.324	0.373	-0.093	0.066
<i>PL -> EC</i>	0.073	0.053	1.374	0.086	-0.033	0.158
<i>TFL -> CM</i>	0.658	0.043	15.207	0.000	0.592	0.726
<i>TFL -> EC</i>	0.256	0.067	3.829	0.000	0.148	0.365
<i>TSL -> CM</i>	0.175	0.056	3.149	0.001	0.081	0.260
<i>TSL -> EC</i>	0.353	0.054	6.574	0.000	0.261	0.436
<i>PL -> CM -> EC</i>	-0.004	0.012	0.307	0.380	-0.024	0.016
<i>TFL -> CM -> EC</i>	0.158	0.058	2.737	0.004	0.066	0.256
<i>TSL -> CM -> EC</i>	0.042	0.018	2.318	0.011	0.011	0.065



Figures 3: Structural Model Assessment

13. Discussions

The findings assess how leadership styles on employees' commitments in DID' are mostly achieved through the primary data. Transformational leadership, though rare, would have a positive impact on employee commitment because Oladeji and Ayinde (2018) argue that the transformational leadership type does not want to interfere in the decision-making process. This may be possible in an organization such as the DID. Based on DID's operations and organizational mission explained earlier, such an organization does not interfere with decision-making but complies with the established norm. Furthermore, the transformational leadership style allows subordinates to possess some level of power for their work (Voon et al., 2011). It is a leadership style that abdicates responsibilities and avoids making decisions for subordinates to encourage the development of subordinates or followers (Choet al., 2019). Ascribing sufficient powers for personal work in the line of duty in an organization such as the DID. As an immigration department, using a sense of judgment to decide the appropriate line of action is important for the safety and protection of the country. Thus, it is the rationale that a leadership style could have a positive impact on employees' commitment to DID. Shulhan (2018) also argue that transactional leadership is where the leader uses management or any other form of

rewards in exchange for maximum benefit at a low cost. This explanation further states that the leader uses contingent reward and management by exception (active) as an exchange mechanism to generate the necessary outcomes from employees (Shulhan, 2018). The contingent reward is connected to using rewards to generate appropriate or desired performance from employees. Through this explanation from literature, it can be justified that active management and rewards (if used) would influence transactions, which can influence individual behaviours. Dimensions of transactional leadership is able to influence antecedents of employees' commitment. Thus, like transformational, transactional leadership justified to have positive impact on employees' commitment in DID.

Lastly, transformational leadership is also confirmed in DID to have a positive impact on employees' commitment. A transformational leader inspires his followers to transcend their interests for the good of the organization and capable of having a profound and extraordinary effect on their leaders (Crews et al., 2019). Transformational leadership is synonymous with effective leaders who possess great sensitivity and respect for the desires and needs of their followers. Transformational leaders are also considered charismatic. According to Jain and Duggal (2018), transformational leadership has the distinctive feature of directing a particular sense of self-esteem in the followers that engages them in a truer form of commitment to the proposed goals and involvement.

The result is observed in DID; the findings indicated that transformational leadership has the highest mean score in the analysis. The hypothesis testing and the correlation coefficients revealed that transformational leadership is the leadership type with the strongest relationship with employee commitment. Literature supports that in addition to transformational leadership, transactional leadership is effective and helps the leader exchange necessary benefits at a low cost. This suggests that leaders (transformational and transactional) need to communicate with employees to exchange rewards or communicate solutions to problems. It may be the two-step flow of communication or/and upward and downward communication flow from leaders to the employee or vice versa (Abasilim et al., 2019). Leaders, especially transformational leadership, inspire their followers, stimulate self-realization needs, and commit to collective values and interests, creating latent needs. Leaders possess communication skills because they are useful for sustaining organizational culture, fostering networks, and building socially constructed power (Lingard et al., 2019). Thus, the correlation coefficients finding reveal that the effect of leadership styles on communication in DID. It can then be concluded that this objective is achieved. Achieving this objective also helps answer the research question; 'what is the effect of leadership styles on communication in DID?' This is answered as it is revealed that all leadership styles positively or significantly affect communication in DID.

The findings indicated that communication is effective in supporting employees' commitment. The hypothesis testing and the correlation coefficients revealed a

significant relationship between communication and employee commitment. The literature explains the link between communication and leadership styles when communication is effectively used (Wikaningrum & Yuniawan, 2018). Based on this, it is fair to imply that leaders communicate with competent employees. Employees are encouraged to utilize their competence to the point that they can cope with any situation. This implies that effective communication may influence competent employees, enabling them to achieve their leaders and organizations (Siddique et al., 2020). Findings reveal that there is an effect of communication on employees' commitment to DID. It is concluded that this objective is achieved and helps answer this question in the process; 'what the effect of communication in employees' commitment to DID is? The effect identified were both significant and reveal the status of the relationship between communication and employees' commitment in DID.

The last research objective is; 'to determine the mediating effects of communication in the relationship between leadership styles and employees' commitment in DID.' Both objective and research questions focused on determining the same outcome. From the explanations of leadership styles and findings for objectives one, two, and three, a positive relationship exists between transactional and transformational leadership and employees' commitment. Transactional leadership rests within the premise that a leader cannot solve problems alone, placing a strong emphasis on the team, using reward to motivate, thus demonstrating strong leadership (Mikkelsen et al., 2019). Any effective leadership style aims for the satisfactory performance of their followers or subordinates to ensure that they achieve required standards. It can be allured that other factors can influence the relationship and actions of leaders regardless of the leadership style. In DID, partial mediation was deemed to be present due to the changes in model fit and coefficients with the introduction of the mediator variable into the regression model.

14. Research Implications

The research findings and its discussion indicate that the study is a contribution to knowledge. One of the key findings in this study is that transformational leadership has the strongest relationship with employees' commitment in DID. It is important to note that transformational leadership qualities appear to be significant in employees' commitment, which is significant to this study. The implication in terms of practice within DID motivates the recommendation for practice discussed in the next section. Being a government organization responsible for critical services, safe entry, and exit, the DID and its staff have important responsibilities. As a result, leaders in DID must understand the benefits of employees' commitments and the importance of sustained commitment for the organization and the public sector. This finding implies that DID may need to consider enhancing practices that strengthen this relationship to ensure that employees' commitment is sustained. Another key finding is that communication mediates all leadership styles in DID. Though partial correlation is determined, it is a

noteworthy finding that DID needs to consider regarding its organizational policy and practice. Thus, the implication of findings is significant to policy, practice, and subsequent research.

15. Limitations of the Study

The research limitation is that the focus of the study on a single organization as the case study. While there is a tendency of bias resulting when a single case study is used, this was carefully managed and prevented by selecting Selecting DID as a case study is deliberate to manage this limitation. Choosing DID manage this limitation was also proved to encourage applications of findings to practice. As an organization with several departments that works with other public sector organizations, the outcome of this study is set to benefit other organizations. Though there are limitations in this study, they were carefully managed and their impact mitigated. Thus, acknowledging these limitations also provides an opportunity to clarify that the research rationale was critically considered to determine how best to undertake this study without compromising the process for achieving a valid result. Due to the limitations identified in this study, future researchers would benefit from some of the recommendations provided in the next section, especially recommendations for future research.

16. Reflection and Research Conclusion

This study was undertaken due to problems observed by the researcher. Problems such as challenges with leadership and communication in organizations in UAE, limitations of studies on leadership, employees' commitment and communication. These problems and lack of empirical evidence on how leadership styles generate strong employees' commitment in the UAE, especially in DID. These problems influenced this study and the four objectives developed and the four research questions the researcher set out to answer throughout this study. Both objectives and questions help to define the research scope, and literature examined as well as methodology.

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Investigating the Relationship Between Total Quality Management and Primary School Academic Performance with Innovation as a Mediator Using SEM

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Abstract

This study aims to examine the relationship between TQM (TQM) and primary school academic performance in Abu Dhabi with innovation as a mediator using SEM. A quantitative research design was utilized. A total of 342 teachers were chosen as a sample through quota and simple sampling technique. Data analysis using structural equation modeling was used. The results revealed that there was significant relationship between TQM and primary school academic performance was -0.50; significant relationship found between TQM and innovation. The further found that significant relationship was exist between innovation and primary school academic performance was 0.151 while TQM has significant relationship with innovation with .92. The result also found that innovation mediate on the relationship between TQM and primary school academic performance with partial mediation. It is hope of this study that TQM would be used by schools in Abu Dhabi region to improve primary schools' academic performance. The implication of this study suggested that TQM should be internalize and use it to improve primary school academic performance in Abu Dhabi. However, a further investigation should be examining into the role the TQM play on primary school academic performance.

Keywords: TQM, Innovation, Primary School Academic Performance, Education, School

Introduction

A good TQM system helps the companies improve their competitive position and image both internally and externally (Kerzner,2017). It helps to systematize operations as innovations often occur that help the companies to make the company's processes more efficient. Not only it refers to different ways of doing things, but also it allows doing cost savings, detect idle resources, steps of processes that do not generate value, etc. TQM allows controlling the performance of the processes and of the organization itself (Evas, 2005; Sayyad, 2017). The TQM system helps to comply more adequately with the regulations related to the products and services. TQM improves the training of company workers; by having more information about the processes, they know them better and can approach their execution in a more agile way, with less waste, etc. (Kerzner, 2017). In addition, maintaining a good flow of information with the staff helps to increase the motivation and commitment of the staff.

More so, the TQM systems consider the requirements and expectations of the client, so their implementation has a positive impact on their satisfaction and, therefore, on their loyalty. Because of the organization is in a better position to achieve the following strategic and general objectives (Beckford, 2019). The improvement of the image affects a better market position with respect to the competition. It could even be a shock to start an internationalization trajectory if it were the case. Adopting a TQM system in an organization is a signal to all the agents that interact with organization about our commitment to quality and continuous improvement. In the meanwhile, it increases, after all, the competitive position of the company, its possibilities of sustainability over time and its leadership (Joseph & Okwara Michael and Ajowi, 2017).

Additionally, TQM is a constant effort in the search for continuous improvement of quality and performance that meets or even exceeds the expectations of customers (Goetsch & Davis, 2014). The TQM is an approach of management that aims to achieve continuing success and essentially affects the management and measurement of the overall quality of a company, including the processes of management and development of quality, control, maintenance, improvement and quality guarantee. The TQM approach considers all possible actions that have an impact on quality, and all the departments and employees of the company participate at all levels (Imai, 2012).

The government of Abu Dhabi keeps education as its top priority (ADEC, 2010). The quality of the education system in Abu Dhabi is central to attain the long term

economic and social transformation of the Emirate. Abu Dhabi Education Council created Agenda of Abu Dhabi Education Policy in 2008 to frame the guiding principles, vision, and objectives for Abu Dhabi's education system. The policy agenda, developed in coordination with key stakeholders from government, industry, and academia, set the goals and defining principles of public policy of Abu Dhabi in education. It offers a wider framework for framing policies in education and policy priorities educational sectors. These priorities are captured in each of strategic plans of ADEC for P-12 education, private education, higher education (ADEC, 2010).

As a result of the effort put in place by government of Abu Dhabi in the provision of quality education, The TQM is still not popular in Abu Dhabi schools among the school leaders. As TQM was practices in oil industries and manufacturing company, the study of it is still dearth in primary schools in Abu Dhabi. The academic performance of primary school students in the last five years was not encouraging. The ministry of education (MoE) and UAE government were concerned about what cause reduction in the academic performance. Likewise, the parents have asked intrigued questions from the school leaders about what cause reduction in the performance of the students. Although, the performance was not so bad but MoE and government expecting more performance than previous one. The results of the students have not meet government expectation. This is gapping the researcher intended to fill in this study. Based on this argument, the following objective were emerged.

To determine the relationship between TQM and primary school academic performance in Abu Dhabi.

To determine the relationship between TQM and innovation in Abu Dhabi

To determine the relationship between innovation and primary school academic performance in Abu Dhabi.

To investigate the contribution of mediating role of innovation on the relationship between TQM and primary school academic performance in Abu Dhabi.

TQM

TQM as a concept begin to gained popularity in 1950s and its approach consistently even more famous in all ramifications (Joiner, 2007; Bani, 2012; Ngambi & Nkemkafu, 2015); Deming (1982) was the father of the TQM (TQM) because of its introduction in Japan after World War II. It was originally focused to re-build the devastated economy of Japan. In the 1980s, it has gained tremendous popular (Dahlgaard & Mi Dahlgaard, 2006). As the defining the quality is far from easy, TQM

refers to all-inclusiveness of culture, norms, attitude of an organization to succeed in providing the best services required by customers.

Besides, Hashmi, Ishak, and Hassan (2018) argued that workers are the life wire through which the management achieves its objectives. It is therefore configuration of this that make quality of the management flaunts (Ettayem & Al-Zu'bi, 2015). In fact, TQM is collectively and all-inclusive programme of an organization to create improvement based on customer's satisfactions with enshrining and sustain a culture of teamwork. Having been referred to as a paradigms or systematic approach to the substance of management practice, individual's attitude, belief and behavior need to be subdued to achieve a slated objective (Sadikoglu & Olcay, 2014; Alghamdi, 2018). For TQM to be properly effective, some of the elements must be put into consideration. The elements are strategic planning, students focus, human resource management, school leadership, training and knowledge and process management (Sadikoglu & Olcay, 2014; Ngambi & Nkemkiafu, 2015; Liantos & Pamatmat, 2016).

The Relationship between TQM and Primary School Academic Performance

Numerous researchers have done a crucial research on the relationship between TQM and organizational performance. They consider TQM has strategy to meet customers' satisfaction. As a result of this, Akhtar, Zameer and Saeed (2014) investigated the impact of TQM and performance of organization in Pakistan. Based on the findings of the study, the total quality dimension significantly related to organizational performance. More so, study conducted in Turkey by Zehir, Ertosun, Zehir & Muceldilli (2012) on TQM effects on quality performance and innovative performance which show that TQM is the determinant of customer satisfaction. The findings of that study demonstrated that there was relationship between TQM and innovative performance with value of $F=10,723$, $R^2=261$, $P=0.00$. Equally, significant relationship was found between TQM and quality performance with value of $F=28,153$, $R^2=495$, $P=0.0$. The study further suggested that TQM should be adopted in an organization.

In another view on the relationship between TQM and organization performance. Alghamdi (2018) who examined TQM and Organizational Performance: a possible role of organizational culture discovers that relationship between TQM and organizational culture was significant and related with ($\beta = 0.121$, $P < 0.05$). Arshad, Halipah, & Omar (2018) found that significant relationship between TQM and organizational culture using regression analysis with $R = .762$, $R \text{ square} = .581$, $\text{Adjusted } R \text{ square} = .580$, $\text{std. error of the estimate} = .271$. This shows that relationship exist between TQM and primary school academic performance.

The Relationship between TQM and Innovation

Innovation is the result of the integration of different activities, such as marketing, organizational restructuring, employee development, research and development, resource management, process development and design (Szeto, 2000; Mitra, 2000). In the field of management, TQM and innovation has become a debatable issue whether positive relationship between TQM and innovation exist. Scholars such as (Wind & Mahajan, 1997; Tidd, Bessant, and Pavitt, 1997; Slater, Narver, 1998; Kim & Marbougne, 1999) supported that TQM can improve innovation but the result of Thai Hoang, Igel & Laosirihongthong (2006) oppose the notion that TQM can hinder innovation.

Further, Thai Hoang, Igel & Laosirihongthong (2006) conducted research on the relationship between TQM and innovation in Vietnamese industry. In the study, confirmatory factor analysis and structural equation modeling were used to test the relationship between TQM and innovation. The findings confirmed that TQM is considered as a set of practices and has a positive contribution on the organizational innovativeness with regression weight of .300, p-value.000.

Relationship between Innovation and Primary School Academic Performance

The role of education is to develop critical skills for improved conditions for innovations in the country which requires innovations within the educational sector itself (Falch & Mang, 2015). The use of technology in teaching is not a panacea for improved students' achievement but also to transform educational system. The introduction of computers in classrooms is often referred to as the most significant innovation (OECD, 2018, Abu-Shreah & Zidan, 2017). Educational innovations can improve learning outcomes and the quality of education provision. The arrival of computers, tablets, and the Internet has led to the re-thinking of many traditional teaching practices and is generally seen as an opportunity for improvement (The Economist, 2013).

The new technologies increase the transparency of student progress and allow teachers to monitor and adapt to students more easily. Without the need of manually checking homework or quizzing the class during lessons, teachers can track where each and every student stand (Falch & Mang, 2015). Innovation in the school system has been a good mechanism that can lead to primary school academic performance (Shen, 2008). The education sector should therefore introduce the changes it needs to adapt to societal needs. For example, education systems need to adopt teaching,

learning or organizational practices that have been identified as helping to foster skills for innovation (OECD, 2017).

The Relationship among TQM, Innovation and Primary School Academic Performance

Numerous studies across the world have empirically demonstrated that the TQM are positively related to innovation which in turn lead to organizational performance (Abrunhosa, Moura, & Sa, 2008; Teh, Yong, Arumugam & Ooi, 2009; Martinez-Costa & Martinez-Lorente, 2008; Zakuan, Yusof, Laosirihongthong & Shaharoun, 2010; Prajogo & Hong, 2008; Saberi & Romle, 2015; Abu-Shreah & Zidan, 2017). TQM elements are now widely adopted in primary education. The process of incorporating TQM elements into teaching have shown to improve performance and also the overall quality of the teaching for students and teachers improvement (Saberi & Romle, 2015; Farkhondehzadeh, Karim, Azizi, Roshanfekr, Hatami, 2013). With this contribution, TQM has become the most prestigious quality indicator for measuring the overall quality of an educational system.

In another development, TQM emphasizes on improving organizational effectiveness and responsiveness to students' needs (Fernandes & Lourenço, 2011). The goals of TQM are the organizational distinction and the students' satisfaction (Han et al., 2018). Innovation is related with the adoption and application of new knowledge and practices, including the ability of an organization to adopt or create new ideas and implement these ideas in developing new products, services, and working processes and procedures and improving those already established (Bates & Khasawneh 2004). Primary school academic performance means measurable trait and discernable character of a person in a particular condition especially in empirical investigation (Al-Ettayem & Al-Zu'bi, (2015).

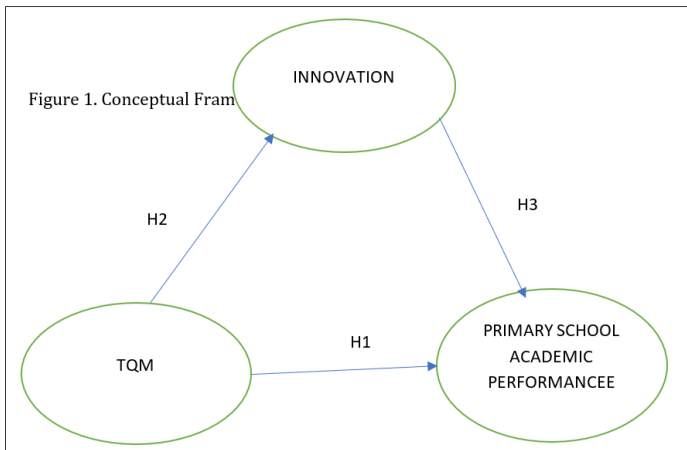
Furthermore, school management must be involved in the effectiveness of TQM, innovation and they must provide vision, reinforce values emphasizing quality, set goals, allow free flow of information, ensure training and development of staff, deploy resources for the quality programs and monitor the progress of the students (Harold & Heinz, 2010). Quality management is a source of enhancing school performance through continuous improvement in school activities (Teh, Yong, Arumugam & Ooi, 2009). School management influences how students learn, and good management helps ensure that school funds are used prudently (U.S.A.I.D, 2008). Related literature also show that students focus is critical in TQM (Arumugam, Ooi & Fong, 2008; Zakuan, Yusof, Laosirihongthong & Shaharoun, 2010; Alison, & Hon Keung, 2011). With all the foregoing discussion, relationship exist among TQM, innovation, and

primary school academic performance. Based on the development, this conceptual framework was emanated.

Based on above quality discussions on TQM. TQM has now been a key concept for the improvement of primary school academic performance in UAE. By supporting TQM in the schools in UAE, the aims and objectives of to which primary schools was set up would be accomplish. TQM is not something to be underrated but it must internalize by the top management of the school as well as teachers working in the system. It is believe of this study that if TQM is adequately practice in the UAE schools, UAE schools would be counted as part of performing schools in the world.

Conceptual Framework of the Study

As shown in the Figure 1, the conceptual framework demonstrated the direct relationship between TQM and primary school academic performance. Also, it is also showing mediating role of innovation on the relationship between TQM and primary school academic performance. H1, show the relationship between TQM and primary school academic performance. H2 in the framework show the relationship between TQM and innovation. The H3 explain the association that exist between innovation and primary school academic performance. H4 denote mediating role of innovation on TQM and primary school academic performance.



Methodology

Methodology of this study showed how the research would be carried out. The following were discussed, namely: research design, structural equation modeling (SEM), population, sample size, sampling procedure, instrument of the study and data analysis

Research Design

This study is determined to collect accurate data for TQM and Primary school academic performance (primary school academic performance). Because of this, the study used survey method. Creswell (2007) defined survey method as a technique in gathering and analyzing huge amount of data with the purpose of draw inference. Therefore, this study is to investigate the relationship between tqm and primary school academic performance with innovation as a mediator using SEM.

Structural Equation Modeling (SEM)

Structural Equation Modeling (SEM) was used using AMOS (Version 21) model-fitting program to test all the research hypotheses formulated in the study. SEM has been a popular and comprehensive tool for analysis complex relationship independent variable, dependent variable as well as their items (Hair et al., 2010). This is fundamental for the assessment of complex relationship among the variable to be used. It is necessary for the researcher to test a set of regression equation at a time (Bryne, 2012; Kline, 2008) and as well as analyze multiple layers of the linkages among the variables at a period of time (Bullock, Harlow & Mulaik, 1994).

Population

In Abu Dhabi emirate, the three emirates exist which are Abu Dhabi Island, Al-Ain and Al-Dhafra. The total number of primary schools in Abu Dhabi emirate was 102 schools. Out of these 102 schools in Abu Dhabi emirate, the Abu Dhabi Island got 43 schools, Al-Ain got 38 schools and Al-Dhafra got 21 schools. In the same vein, total numbers of primary schools' teachers in Abu Dhabi emirate were 6982. Out of this number, Abu Dhabi Island got 3193 teachers, Al-Ain got 3036 teachers and Al-Dhafra got 753 respectively. Therefore, the focus population of this current study covered Abu Dhabi Island with 3193 teachers. From this population 342 teachers were selected with 43 schools in Abu Dhabi.

Sample Size and Sampling Procedure

Sampling technique is important in any research, and it is used to draw out the sample of the population. By defining sample size. It is important for a researcher to consider

whether the sample size is adequate to provide enough accuracy to base decisions on the findings with confidence (Chuan (2006). Thus, having look at Krejcie and Morgan's (1970) table for determining sample size, for a given population of 3193, a sample size of 342 respondents were needed to represent a cross-section of the population. However, this mean that in this study, the total sample size used was 342 based on the sample size Table. Based on sample size of 342 needed, quota random sampling technique was adopted to select the representatives of the population. Quota random sampling technique is a method of non-probability sampling in which samples are choosing in line with probability proportionate to the population of a variable in the population of stated in the study (Babbie, 2010). Therefore, Quota sampling technique was used to select 342 teachers from 3193 teachers (population). To get this, subjects for the nth unit will be selected starting from the first n subject. One of usefulness of quota sampling technique was because data collection can be done in a very short period of time. For each of the school to adequately represent without bias, this formula was used. The sample size is divided by the number of populations. For instance, $342 \div 3193$ multiply by 100 which gave 0.107% (Chua, 2012, Bryman, 2016). This means each school has equal quota of 0.107%. Having determine the quota for each school, simple random sampling technique was used to select teachers' that would partake in the exercise. In this study, two sampling techniques were used i.e., quota and simple random technique.

Instrument of the study

TQM was measure with school leadership (five items), students focus (five items), human resource management (five items) and strategic planning (five items), training (five items) and knowledge and process management (five items). Some of the items were adapted from these following scholars (Prajogo and McDermott, C. M); Ndibe & Campus 2014; Gemechu (2014). Second, the third section of the questionnaire was innovation with 4 dimensions such as students' center approach (five items), blended learning, innovation management (five items) and transformational leadership (five items). The items were adapted from Idris, 2016; Ja'ashan, 2015; Donmez & Toker, 2017; Bauk, 2015; Oyeronke, & Fagbohun, 2013; Ghavifekr & Rosdy, 2015; Toytok, 2016). The last section of the questionnaire was measured with 3 dimensions which include primary school academic performance (five items), completion rate of students (five items) and learning facilities (five items). All the items were adapted from notable scholars like MolokoMphale & Mhlauli, 2014; Akessa, & Dhufera 2015. Meanwhile, some of these constructs were measured with five-points Likert scale ranging from 1 strongly disagree, 2 disagree, 3 neutral, 4 agree to 5 (strongly agree).

Data Analysis

The cleaning and screening of data is one of the first method or technique when it comes to analysis data. This stage assists to know if there are problems with information gathered and validating the data before the actual data analysis. Also, cleaning and screening of the data are performed through the examination of specific descriptive statistics as well as the frequency distribution. In this study, EFA was examined to discover the contracts and underlying items. The purpose of performed EFA was to know which items will bring problems in the further analysis. Structural equation modeling was also used to analysis the relationship between independent and dependent variables of the study.

Findings of the Study

The structural equation was used to hypothesis the relationship between TQM and primary school academic performance with innovation as a mediator using SEM. The results of SEM indicated that all the hypothesize models were significant and acceptable (Hair et al. 2010). In the study, direct and indirect effect were examined to determine the extent of the relationship among the variable. The direct effect is the effect from independent variable to dependent variable, while the indirect effect is the effect from independent variable to dependent variable that goes indirectly through the mediating variable (Zainudin, 2012). Thus, the direct effect between TQM and primary school academic performance was -0.50 which indicated significant. The indirect effect between TQM and primary school academic performance accounted for 0.92 which means significant while the indirect effect between Innovation and primary school academic performance accounted for 0.151 which indicated significant. This shows that relationship occur between two variables.

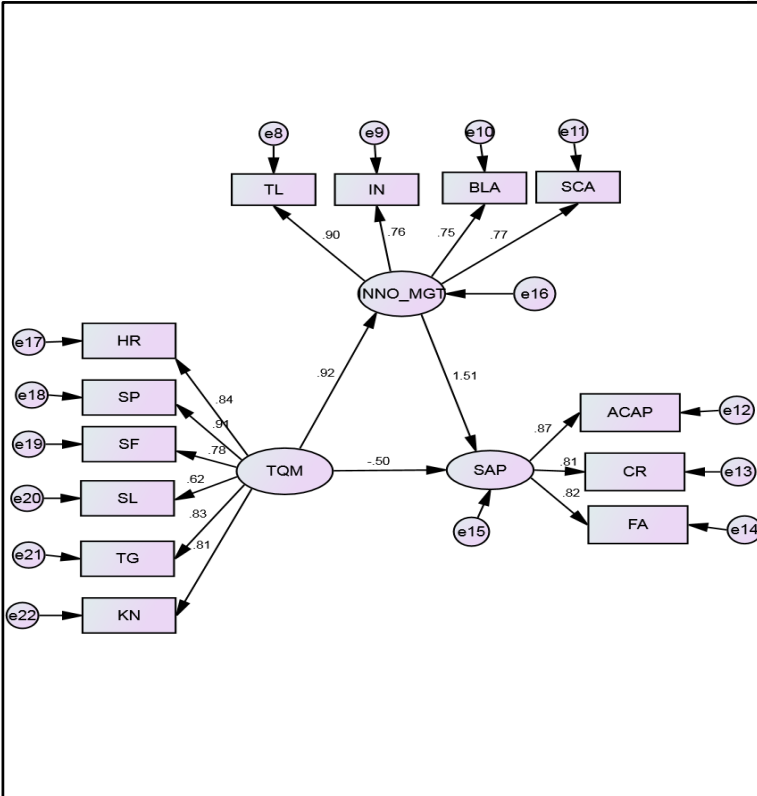


Figure 2. Structural equation model on the relationship between TQM and primary school academic performance

Therefore, the mediation occurs since indirect effect was less than direct effect. This type of mediation is partial mediation because direct effect still relevant after mediator enters the model. This explanation was the interpretation of the results obtained in Figure. This shows that when mediator enter the relationship between

TQM and primary school academic performance, TQM still relevant and strong. Table 1 shows detail the direct and indirect results of the model.

The four hypotheses were tested and analyzed in this study. Direct and indirect research hypotheses were performed through Structural model analysis. Mediation analysis was used to determine the indirect effects hypotheses. The results of the analysis indicate that TQM influence primary school academic performance and TQM has positive relationship with innovation. Penultimately, the research established that Innovation mediates the relationships between TQM influence primary school academic performance with partial mediation. The summary of hypotheses testing was shown in Table 1

Table 1. Standardized regression weight and its significant for each path

Note, S.E = standard error; C.R = critical region; P = probability Table 2. Summary of

Table 2. Summary of hypotheses testing for H1-H4

	Hypotheses	Results
H1	There is a significant relationship between TQM and primary school academic performance in Abu Dhabi	Supported
H2	There is a significant relationship between TQM and innovation in Abu Dhabi	Supported
H3	There is a significant relationship between innovation and primary school academic performance in Abu Dhabi	Supported
H4	There is a significant contribution of mediating role of innovation on the relationship between TQM and primary school academic performance in Abu Dhabi	Partial Mediation

Discussion

Construct	Construct	Estimate	S.E.	C.R.	P	Decision
Innovation	<--- TQM	.917	.029	27.792	***	Significant
Primary school academic performance	<--- TQM	-.501	.137	-3.557	***	Significant
Primary school academic performance	<--- TQM	1.509	.160	10.323	***	Significant

This study tested the direct relationship between TQM and primary school academic performance using the structural analysis. The regression weight demonstrated that direct hypothesis between TQM and primary school academic performance was supported. The results revealed that the TQM has a significant effect on primary students' academic performance.

First, this study tested the direct relationship between TQM and primary school academic performance using SEM. Based on the regression weight of the analysis which showed direct effect between TQM and primary school academic performance was supported at -0.50 (acceptable value). The result showed that TQM has significant effect on primary school academic performance. This demonstrated that TQM has positive relationship with primary school academic performance. As the various scholars have asserted that TQM has strong relationship with academic performance of the student in an academic environment, the investigation has shown that TQM possibly made an improvement in the teaching profession of the students (Joseph, Okwara & Ajowi, 2017).

Second, the direct relationship between TQM and innovation with the using of SEM analysis was also tested. The regression weight for direct effect TQM and innovation was supported at 0.92 (acceptable value). The result showed that TQM has direct relation with innovation. This finding was in line with the point made by Szeto and Mitra (2000) innovation as the integration of different activities, well-coordinated in an organized setting with pooling of resources, research, restructuring and

development. The findings of this study were in line with point suggested by Tidd, Bessant & Pavitt (1997); Slater & Narver (1998); Kim & Marbougne (1999) that TQM and innovation can lead effective performance in an organization.

Third, equally, the study has tested the direct relationship between innovation and primary school academic performance but the regression weight between innovation and primary school academic performance was supported at 1.050 (acceptable value). This is showed that innovation has influence and significant relationship with Primary School Academic Performance. This finding is also in line with the result of the studies conducted by Falch and Mang (2015) that the primary objective of education is to provide innovative ideas through which other critical skills would develop in order to enhance the educational sectors to thrive. An organization that internalizes innovation would yield better performance. Based on ongoing discussion, Shreah & Zidan (2017) pointed that the use of technological tools as part of innovation mechanism in schools will do help in transforming the educational for betterment, but to propose an aggressive policy on education through the improvement of TQM.

Lastly, the current study also tested mediating role of innovation on the relationship between TQM and primary school academic performance. The mediator testing explained that the relationship between tqm and primary school academic performance could be explaining with innovation. In fact, most previous studies only examined TQM and organizational performance, TQM and leadership but innovation was not integrated. The SEM analysis revealed that innovation mediate the relationship between TQM and primary school academic performance. This because when the mediator entered the relationship tqm and primary school academic performance, TQM still relevant. The finding was in line with Akhtar, Zameer and Saeed (2014) who investigated the impact of TQM and performance of organization which revealed significant relationship and it is determinant of performance. TQM and innovation have been coming a debatable issue whether positive and negative relationship between TQM and innovation exist. Based on this finding, scholars such as (Wind & Mahajan, 1997; Tidd, Bessant, and Pavitt, 1997; Slater, Narver, 1998; Kim & Marbougne, 1999) positioned their opinion that TQM can hinder innovation but the result of Thai Hoang, Igel & Laosirihongthong (2006) oppose the TQM and innovation worked together for benefits of school performance.

Recommendation for Policy Maker and School Heads

The TQM and primary school academic performance in Abu Dhabi: Innovation as a mediator has scientifically been examined and findings also outlined. Based on the

investigations and findings so far, the study basically recommended among the following.

It would be a huge advantage for the students and teachers if decision-makers and other constituted authorities can endeavour to make available the financial assistance for procuring the latest sophisticated technology that will aid school academic performance through innovation so that TQM would be guaranteed. Based on this recommendation, Adeboyeje (2000) expressed that technology and facilities provided in the school system increase the performance of students. Further explained that it is necessary for school management to look into that area.

As leadership of school is important to the survival of the school, policymakers and other related agencies should attempt to subject teachers to rigorous training to be effective in TQM in order to improve in teaching method so that primary school academic performance will increase as an innovative gesture. This recommendation was in line with the work done by Katcher and Snyder (2003) that training in an organization are based on three needs such as reducing supervision, for employees to meet specification with job and needs of organization and to increase productivity.

This study recommends that procurement of innovative materials and other facilities like computers, electronic gadgets and internet outfits should be available in all schools in Abu Dhabi in order for students to explore them for academic advantage like those in Europe and United States and this will result to increment in TQM. In line with this recommendation, Falch & Mang, (2015) pointed that new technology is something that increase students' progress and allow teachers to monitor and adapt to students more easily.

Conclusion

TQM is a key factor that determine the realization of primary school academic performance. Many developing countries are currently aspiring toward higher quality education systems. This study examined the relationship between TQM and primary school academic performance with innovation as a mediator in Abu Dhabi using SEM. The findings of the study revealed that significant relationship was found between tqm and primary school academic performance; TQM and innovation; innovation and primary school academic performance. Also, innovation serves as partial mediator between TQM and primary school academic performance. All the three objectives formulated in the study were fulfilled. The conceptual model of this study was developed from relevant literature which covers some of the key variables such as TQM, primary school academic performance and innovation as well.

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Business Model Innovation and Micro and Small Enterprises' Performance in Nigeria: Does Entrepreneurial Orientation Mediate?

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Abstract

The critical role of business model innovation (BMI) in a firm's performance has earned increasing attention from scholars and management practitioners in recent years. However, empirical research on how BMI linked business performance is quite skimpy. This study examines the effect of BMI on micro and small enterprises (MSEs) and how entrepreneurship orientation (EO) mediates the relationship. A survey research design is used in this study. Data were obtained from 142 MSEs operating in Ondo State, Nigeria, purposively selected for this study. The results revealed that BMI ($\beta = 0.630$; $\rho < 0.01$) had a positive and significant influence on the MSEs' performance. More so, this study found that EO ($\beta = 0.716$; $\rho < 0.01$) is positively related to a firm's performance. This study finding revealed a positive and significant link between EO and BMI ($\beta = 0.838$; $\rho = 0.000$). Also, this study showed that EO mediates the relationship between BMI and a firm's performance (EO: $\beta = 0.5740$; BMI: $\beta = 0.1281$; $\rho < 0.05$). Statistically, the study's findings also exhibited that out of the six constructs used to capture BMI, only two constructs, namely, market opportunities ($\beta = 0.193$; $\rho < 0.01$) and increment in revenue generation ($\beta = 0.230$; $\rho < 0.01$), had positive and significant links with the firm's performance. This study concluded that MSEs in developing economies, especially in sub-Saharan African countries, should integrate BMI and EO activities into their operations to overcome the macerate performance that characterized the Covid 19 pandemic period.

Keywords: Business Model Innovation, Entrepreneurship Orientation, Firm's Performance, Micro and Small Business, Nigeria.

1. Introduction

The importance of Micro, Small, and Medium Scale Enterprises (MSMEs) in economic growth all over the world cannot be over-emphasized. MSMEs' roles had been widely researched in both developed and developing countries (Tambunan, 2019; Kurniawati & Setiawan, 2019; Madanchian et al., 2016). MSMEs have been playing a vital role worldwide in national economies, value-added, and employment generation. Approximately MSMEs are accounting for 99% of all firms and about 70% of total employment. In terms of value creation, MSMEs, on average, are generating between 50% and 60% of value-added (OECD, 2016; IFC, 2010).

The contributions of SMEs to the world economic growth generally, particularly in developing countries, in terms of employment generation and gross domestic product (GDP) have been reported across countries. For example, in the United States of America, SMEs generate 44% of total economic activity, and in recent decades, SMEs account for about nearly 66.7% of net new private-sector jobs. Also, SMEs account for 99.9% of all United States of America businesses and employment share of 47.5% as of the year 2019. Also, in the United Kingdom, at the start of 2019, 99.9% of the business population is accounting for by SMEs; besides, SMEs account for 60% of the employment, and SMEs turnover was estimated at 52%. In the case of China, SMEs generate over 82% of employment opportunities, while SMEs' output value accounts for at least 60% of the country's gross domestic product (GDP) and makes up over 99% of all enterprises in the country. The statistics show that SMEs constitute about 99% of all enterprises while employing 90% of the Non-Agricultural workforce and contribute 30% of the country's GDP. In 2018, Malaysia's MSMEs contributed 38.3% to the country's GDP, constituted 98.5% of all businesses establishments, and provided about 5.7 million jobs (70% of the workforce in Malaysia). Indonesia MSMEs accounted for approximately 61.41% of GDP, while total employment generated was around 99% and constituted 99.8% of the total business generated. In Brazil, SMEs contribute 27% of national GDP, account for 98.5% of businesses, and 62% of total employment. The statistics are not different in some of the African countries. For instance, in Nigeria and South Africa, SMEs in both countries account for 96% and 91% of businesses while contributing 48% and 52% of total GDP and 84% and 60% of employment. In Ghana, the second-largest economy in West Africa, SMEs provide about 85% of manufacturing employment, contribute about 70% to the nation's GDP, and account for about 92% of businesses in Ghana (FSB, 2020; ICSB, 2019; SBA, 2019; Tambunan, 2019; China Statistical Yearbook, 2019; Department of Statistics Malaysia (DOSM), 2018; Zafar & Mustafa, 2017).

Despite the laudable contributions of MSMEs to the growth and development of the world economy, they are still facing many challenges that are inhibiting their development. Many scholars and management practitioners (Raghuvanshi et al., 2017; Wang, 2017; Santos & Moustafa, 2016; Gherhes, et al., 2016; Yoshino & Taghizadeh-Hesary, 2016; Nassar & Faloye, 2015; Faloye, 2015; Tambunan, 2018;

Oyelana & Adu, 2015; Quartey, 2015) have identified several factors that constrained the development of SMEs in developed, emerging and developing countries. Some of these problems are; limited access to international markets, limited access to finance, lack of databases, low R&D expenditure, inconsistencies of government policy, unfair competition, multiple taxes, and unauthorized levies, tendency to be growth-averse, and underdeveloped capabilities.

In order to position developing countries' MSMEs in overcoming challenges facing them and fostering economic development, many interventions had been proposed in literature notable among these are internationalization, innovation, adoption of E-commerce, proactiveness, risk-taking, and autonomy orientations (Steinhäuser et al., 2020; Stoian et al., 2018; Saeed & Alrawashedh, 2018; OECD, 2018; Rahayu & Day, 2017; Terjesen et al., 2016; Faloye, 2014). However, very recently, both academics and management practitioners have shifted focus towards innovation generally and business model innovation (BMI) specifically to enhance MSMEs' performance. Kyllianen (2019) defined BMI "as a fundamental change in how a company delivers value to its customers or captures it from the market."

The influence of BMI on the firm performance has attracted more and more attention (Foss & Saebi, 2017; Bouncken & Fredrich, 2016), notwithstanding, there has not been a consensus among the BMI scholars on the empirical relationship between BMI and firm's performance. Some studies showed that there is negative relationship, some revealed positive while in some instances, no significant relationship were reported (Desyllas et al., 2020; Asemokha *et al.*, 2019; Bustinza et al., 2019; Claus et al., 2019; Tavassoli & Bengtsson, 2018; Latifi & Bouwman, 2018; Karimi & Walter, 2016). Despite the link reported in the literature between BMI and organizational performance, there is still ambiguity on how BMI results in organizational performance (Latifi & Bouwman, 2018). Evidence from the literature showed that BMI does not automatically trigger impressive performance gain (Haggège et al., 2017). For instance, it is widely believed that BMI can create a competitive advantage, which in turn enhances performance (Karimi & Walter, 2016). Also, leadership style, top management support, organizational culture, customer focus, process control; employee orientation, entrepreneurship orientation, and technological orientation have been identified as mediators between BMI and organizational performance (Gupta & Batra, 2015; Tsai & Yang, 2013; Awan, 2013). Thus, the processes in which BMI influences performance have not been established in the literature (Knab & Rohrbeck, 2014). Hence, the causal relationship between BMI activities and performance is still puzzling.

According to Knab and Rohrbeck (2014) cited in Latifi and Bouwman (2018), business owners would be more effective when they have adequate knowledge of how BMI influences a firm's performance. Entrepreneurial orientation had been suggested by scholars (Kiyabo & Isaga, 2020; Asemokha et al., 2019; Dewi & Ahamat, 2018) as a critical factor that mediates the relationship between BMI and firm's

performance mostly in MSEs. However, despite the importance of entrepreneurial orientation as expressed in the resource-based view, the mediating effect of entrepreneurial orientation on the relationship between BMI and firm performance is not yet extensively studied generally in developing countries' MSEs, and particularly in sub-Saharan African's MSEs (Mahmood & Hanafi, 2013). The holistic review of the literature showed that the majority of the existing studies on the processes in which BMI influences organizational performance were qualitative and concentrated in the developed countries; only a few of these studies are empirical and focused on developing economies, specifically sub-Saharan African countries. This study is an answer to calls by many researchers (Faloye et al., 2021; Latifi & Bouwman, 2018; Haggège et al., 2017; Spieth et al., 2016; Clauss, 2016) for empirical studies on how BMI interventions lead to firm's performance. Therefore, this paper was designed to explore the link between BMI and small business performance. More so, this paper examined how the relationship between BMI and small business performance is mediated by entrepreneurship orientation using Nigerian micro and small business enterprises. The rest of the paper is structured as follows. The following section discusses the theoretical foundations, develops the hypotheses, and presents the research model. The subsequent sections present the research methodology, data analysis, and results. Lastly, the paper concludes with a discussion of the research findings, the implications for theory and practice, and the limitations of the paper and suggests avenues for future research.

2. Literature Review

2.1 Conceptual Review

Business Model Innovation

Snihur and Zott (2020) conceptualized BMI as "the introduction of a business model that is novel (in terms of its content, structure, or governance) to the product market space in which the venture competes." According to Amit and Zott (2001), cited in Snihur and Zott (2020), BMI consists of three core elements: content, structure, and governance. According to them, content has to do with the alternative activities that are accomplished within the system. While the structure is captured as how activities are connected and governance refers to issues of control. Casadesus-Masanell and Zhu (2013), cited in Laszczuk and Mayer (2020), sees BMI as "the search for new logics of the firm and new ways to create and capture value for its stakeholders." This means that BMI is far beyond process and product innovation and entails redesigning an organization's operations and activities (Bjorkdahl & Holmén, 2013). Bhatti et al. (2020) viewed BMI "as a continuum of changes from incremental to radical changes in various business model factors." In the study conducted by Baghiu (2020), BMI was described as an avenue to flare up from intense competitors in a situation in which a company's offering can be easily imitated. Also, Geissdoerfer et al. (2018) analyzed various definitions of BMI in literature. Based on this analysis, they defined business model innovation "as the conceptualization and implementation of new business

models. This can comprise the development of entirely new business models, the diversification into additional business models, the acquisition of new business models, or the transformation from one business model to another". The transformation can impact the whole business model or a subset or a combination of its value proposition, value creation, and delivery, and value capture elements, the interrelations between the elements, and the value network. This definition given by Geissdoerfer et al. (2018) is more detailed when compared with definitions given by previous authors.

Entrepreneurship Orientation

The concept of Entrepreneurship Orientation (EO) was initially introduced into the scholarly conversation as an organizational attribute when it was observed that, as individuals, organizations could "be entrepreneurial" (Covin & Wales, 2019). EO had been described as is a significant contributor to a firm's success, and the concept was developed by Miller (1983). Miller (2011) sees EO as the process of formation of corporate strategy while Wales (2015) expressed EO "as a strategic posture of the organization that exhibits innovativeness, proactiveness, and risk-taking, as a whole or uni-dimensional." What constitutes the EO construct has been a subject of debate in the literature in the past. More so, Anderson et al. (2015) view EO as "a firm's strategic posture towards entrepreneurship." According to Zulkifli and Rosli (2013), three dimensions, namely, risk-taking, innovativeness, and proactiveness, were used in earlier studies to capture entrepreneurship orientation. These three dimensions were considered as the best-defining features of the concept of entrepreneurial orientation (Lomberg et al., 2017). Later the scope of the EO construct was expanded to include two more dimensions, namely, autonomy and competitive aggressiveness (Campos & Valenzuela, 2013; Zehir et al., 2015). Risk-taking involves carrying out actions that involve resources commitment with uncertainty regarding the potential profits (Rigtering et al., 2017). Proactiveness, on the other hand, involves taking action before any competitors (Anderson et al., 2015). In contrast, innovativeness has to do with a creative process that supports new ideas (Covin et al., 2016), autonomy refers to the independence of an individual or team of individuals within an organization to develop an entrepreneurial idea and then see it through to completion (Wikipedia, 2014). Competitive aggressiveness can be expressed as the tendency to intensely and directly challenge competitors rather than trying to avoid them (Maloney, 2014). In this study, to analyze the direct effects of entrepreneurial orientation on firm performance, we considered EO as multidimensional, integrating innovativeness, proactiveness, risk-taking, autonomy, and competitive aggressiveness (Hernández-Perlines et al., 2016).

Firm Performance

Performance has been seen as an essential concept in management research. It has always been at the core of management thinking since it has been perceived to directly link with the sustainability of firms (Haggège et al., 2017; Rauter et al., 2017).

The organizational performance reveals a picture of the organization's progress and how well it is attaining its goals (Choudhary et al., 2013). Also, Almatrooshi et al. (2016) opined that organizational performance is an essential consideration for a firm as it can be a driver of organizational success. The firm performance was used in financial performance, customer performance, internal business process performance, and learning and growth performance (Lyu et al., 2018; Lin & Tseng, 2016). According to Dekker et al. (2015), cited in Sriviboon (2020), researchers have developed series of financial indicators for measuring firm performance these include; return on net assets, profit growth rate, the net growth rate of total assets, shareholder return, growth in market share, return on sales, return on capital and number of new products. A firm's performance construct can be unidimensional or multidimensional (Selvam et al. (2016). Researchers have given different models of a firm's performance. However, it had been argued that a multidimensional perspective that consists of financial and non-financial dimensions must be employed to measure a firm performance (Dekker et al., 2015). The non-financial dimensions include; client satisfaction, employee satisfaction, innovation ability, internal business process proficiency, efficiency, market share, productivity, behavioral and attitudinal measures, while in case of economic dimensions, these measures include net profit, sales, return on sales, gross profit, return on equity, return on investment, and return on assets (Dekker et al., 2015; Selvam et al., 2016; Almatrooshi et al., 2016; Abdel-Maksoud et al., 2016). Selvam et al. (2016) gave the most comprehensive model for measuring a firm's performance based on the review of the existing literature on the firm's performance. According to them, profitability, growth, market value, customers' satisfaction, employees' satisfaction, environmental performance, environmental audit performance, corporate governance performance, and social performance are key constructs of a firm's performance. Organizational performance is influenced by several dependencies such as employee performance, goal attainment, and leadership capability in influence, problem-solving, and mentoring.

Micro and Small Scale Enterprises in Nigeria Context

Academics and management practitioners had made several attempts to conceptualized micro and small-scale enterprises. There is yet to be unanimity on the definition of MSEs in developed, emerging, and developing countries. What constitutes MSEs varies from country to country. The story is not different in Nigeria. Various definitions of MSEs were given by Scholars, government agencies, and management practitioners. However, the classification given by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2007 is widely accepted as a working definition by many scholars in the country (Faloye & Nassar, 2015), thus, this study adopted this definition. The classification is employment and assets based. The agency classified businesses that employ less than ten employees and have less than five million Naira (N5,000,000) (excluding land and building) as Micro enterprises. In contrast, businesses engaged between ten and forty-nine employees and capital between five million and fifty million naira (N5,000,000 to

N50,000,000) excluding land and buildings as small enterprises. According to the National Policy document, where there is dissension in classification between employment and assets criteria, the employment-based classification will prevail over assets-based criteria.

2.2 Theoretical Framework

Resource-Based View Theory

Resource-based view theory (RBV), as further developed by Barney (1991), emphasized the need for a firm to leverage its internal resources and capabilities to create a competitive advantage. As posited by Barney (1991), the competitive advantage sought by a firm must be sustainable, and therefore the sustainability remains a function of designed and developed resources and capabilities that are valuable, uncommon, inimitable, and non-substitutable. The resources possessed by an organization are termed inputs that are harnessed, processed and converted to create value addition. According to Gupta et al. (2007), the resources at the disposal of an organization to create competitive advantage may constitute physical, human, organizational, and intangible assets, and therefore the deployment of these resources to attain organizational goals can be explained in terms of organizational capability. While a handful of studies have borrowed from the theoretical lens of RBV to buoy evidence that performance earned in an organization was as a result of the organization's resources that are largely valuable, intimated, uncommon, and non-substitutable (Salisu & Bakar, 2019; Ringim et al., 2017), however, it has been argued that these resources and capabilities can be copied and substituted. As remarked by Gupta, et al. (2007), if resources and capabilities can be imitated and even substituted, a firm can develop and build its capabilities to create a value addition leading to sustainable advantage. That is, a firm can build and deploy its resources for creating value addition that cannot be copied and difficult by competitors in the market. In literature, BMI has been identified to have the capability to yield higher returns and to invoke dynamic competitive advantage (Casadesus-Masanell & Zhu, 2013; Lindgardt & Reeves, 2015). Therefore, it (BMI) can be developed and built as internal capabilities to create values that competitors find uncommon, difficult to imitate and be substituted. Despite using RBV in research studies, drawing insights to underpin studies on BMI and performance-related outcomes have remained limited and anecdotal in research undertakings. This study hinged on the theoretical lens of RBV to anchor the relationship between BMI and performance-related outcomes using EO as a mediating mechanism.

2.3 Empirical Review and Hypothesis Development

BMI and Firm's Performance

Researchers have attempted to probe the impact of BMI on firm performance in developed and developing countries. There is a discrepancy in the literature on the influence of BMI on business performance. Some studies reported a positive link

between BMI and firm performance, while some researches also established negative relationships. Besides, few of the existing studies revealed that there were zero relationships between BMI and organizational performance. For instance, Desyllas et al. (2020) conducted a study on the breadth of business model configuration and firm performance using data from an original survey of knowledge-intensive business services firms. The analysis of the data collected for the study revealed that the influence of business model reconfiguration on firm performance was minimal. Another laudable contribution was made by Asemokha *et al.* (2019). The researchers used a cross-industrial sample of 95 Finnish international SMEs, and the study findings showed that BMI is an important driver of firm performance. A study focusing on the "Strategic Agility, Business Model Innovation and Firm Performance: An Empirical Investigation" was conducted by Clauss et al. (2019). The research investigated the mediating role played by BMI on the link between firm-level strategic agility and firm performance using data from 432 German firms in the electronics industry. Finding from the study revealed that value proposition and value creation BMIs have positive relationships with firm performance.

Furthermore, Pucihar et al. (2019) carried out a study to investigate the drivers and outcomes of BMI in SMEs. They employed a partial least squares path modelling to empirically test the study model by utilizing the data collected from 71 SMEs in Slovenia. The study findings showed that BMI has a positive and significant influence on both BMI outcomes and business performance. More so, in a study that analysed the relationship between technological innovation and business model innovations and their effect on business performance, Smajlović et al. (2019) employed Structural Equation Modelling to analyze the data collected on medium and large enterprises in a Southeast European developing country. Their study findings revealed a significant and positive link between technological innovation and business model innovation; besides, the study showed that BMI was positively related to business performance. The influence of BMI on organization performance was also examined empirically by Dewi and Ahamat (2018). The Duo examined the influence of BMI on organizational performance using 105 private hospitals in Indonesia as a case study. According to them, BMI mediates the significant positive relationship between entrepreneurial orientation and firm performance. More so, in a study focusing on digitalization and business model using 338 European SMEs, Bouwman et al. (2018) established that BMI positively influences business performance. In the study conducted by Tavassoli and Bengtsson (2018) on the effect of business model innovation (BMI) on the product innovation performance of firms in which a large-scale representative sample of cross-industry Swedish firms was used as study respondents. The Duo revealed that there was a significant and positive relationship between BMI and product innovation performance. A similar result was found in the work of Heij et al. (2017) titled "how does business model innovation influence firm performance? the effect of environmental dynamism". Large scale survey was employed in the study, and the data analysis results indicated that business model replication and business

model renewal positively and significantly affect firm performance. Cucculelli and Bettinelli (2015) researched the association of BMI with firm performance in 376 Italian small and medium enterprises using the clothing sector over the period 2000-2010. Their study showed that BMI is related positively to firm performance. Therefore, in light of the above findings, we propose the following hypothesis:

H₁: Business model innovation has a significant positive impact on small business performance

Entrepreneurship Orientation and Business Model Innovation

The link between Business Model Innovation (BMI) and Entrepreneurial Orientation (EO) and their role in business performance have been increasingly emphasized in academic research. Although there are limited empirical studies on the topic, there seems to be a consensus among the scholars on the relationship between BMI and EO on the one hand and the role played by BMI and EO on firm performance. For instance, Bouncken et al. (2016) examined the role of EO in business model innovation using service companies. The study findings showed that EO triggered and favored BMI. Furthermore, in a work carried out by Rakesh Kumar Pati (2018) titled 'Missing link between entrepreneurial orientation and firm performance: Business model innovation.' 197 Indian SMEs were sampled. This study showed a significant favorable influence between BMI and three dimensions of EO: proactiveness, innovativeness, and risk-taking. More so, according to Danarahmanto et al. (2019), "Entrepreneurial orientation and innovation are required to support the business model." This study exhibited that there is a link between EO and BMI.

Similarly, Lianfeng et al. (2021) opined that the effect of entrepreneurship orientation on business model innovation was positively significant and BMI moderates the relationship between EO and economic performance. Asemokha et al. (2019) conducted a study exploring the indirect role of BMI in the relationship between entrepreneurial orientation and international performance among internationalizing SMEs. The results revealed that BMI mediates positively and significantly the link between EO and the international performance of SMEs. More so, EO positively and significantly influences BMI in SMEs. Also, Mütterlein and Kunz (2017), in a study titled "Innovate alone or with others? Influence of entrepreneurial orientation and alliance orientation on media business model innovation,". A quantitative survey of 50 companies was used for the study, and results showed that entrepreneurial orientation positively and significantly impacts the ability to innovate value creation and value proposition. In recent research conducted by Ciampi et al. (2021) using survey data from 253 UK firms, EO mediated the relationship between the Big Data Analytics Capabilities and BMI. Also, the mediating role of BMI on the relationship between EO and business performance has been investigated by academic scholars. Existing literature has shown that BMI plays an indirect role in the link between EO and organizational performance. For instance, Dawi and Ahamat (2018) conducted a study investigating the impact of entrepreneurial orientation on firm performance

through the mediation of business model innovation. One hundred five private hospitals in Indonesia were used as the study sample. The study findings established that the entrepreneurial orientation of the hospital has a significant favorable influence on the attainment of organizational performance through the mediation role of business model innovation. Similarly, Aunalal and Aponno (2019) surveyed 299 units of SMEs in Ambon city to examine innovation as an intervening variable on the entrepreneurial orientation and learning orientation towards the SMEs' performance. The result showed that innovation mediated the effect of entrepreneurial orientation on firm performance. Therefore, the study second hypothesis shall be formulated as follows:

H_{2a}: Entrepreneurial orientation mediate the relationship between business model innovation and small business performance

H_{2b}: Entrepreneurial orientation positively and significantly influence business model innovation

Entrepreneurship Orientation and Firm's Performance

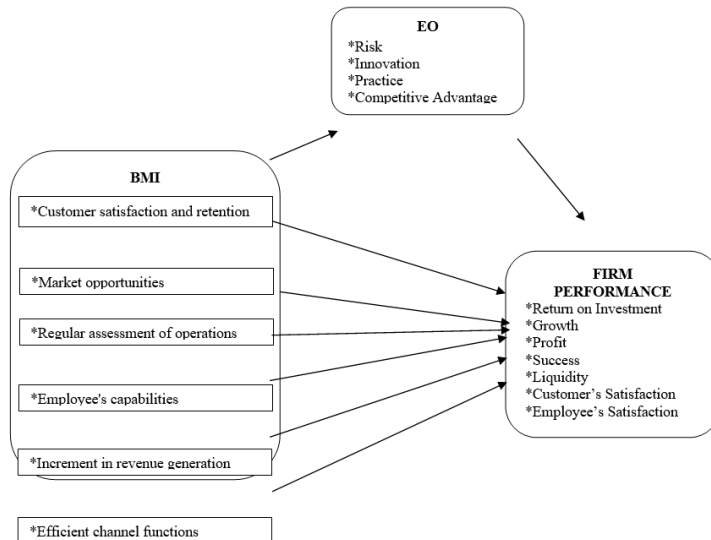
Studies from both developed and developing countries had investigated the relationship between entrepreneurial orientation and business performance, and their findings have shown a positive link between the two variables. For instance, in a research conducted by Filser and Eggers (2013), the impact of entrepreneurship orientation constructs, namely; Innovativeness, proactiveness, and risk-taking, on SMEs' performance Rhine Vally using 304 business owners were examined. The Duo established that innovativeness and risk-taking positively influence the performance of SMEs. However, proactiveness did not affect SMEs' performance. A recent study by Cuevas-Vargas et al. (2019) investigates entrepreneurship's direct and indirect influence; however, (EO) on small businesses' performance. The partial least square structural equation modeling results revealed that entrepreneurial orientation positively and significantly impacts business and customer satisfaction. Also, Soares and Perin (2020) opined that the relationship between EO and firm performance was direct and positive. More so, Dawi and Ahamat (2018), using 105 private hospitals in Indonesia, examined the role of entrepreneurial orientation in attaining the firm's best performance. They found that the entrepreneurial orientation of the selected firm significantly and positively influenced business performance. The works of Huang et al. (2012), Kim and Min (2015), Bouncken and Fredrich (2016), and Foss and Saebi (2017) also indicated a positive relationship between EO and firm performance. The work of Dewi and Ahamat (2018) was carried out in 105 private hospitals in Indonesia. The data collected for the study were analyzed using the Structural Equation Modelling program. The study findings revealed that the entrepreneurial orientation of the selected firm has a positive and significant influence on the attainment of organizational performance. However, researchers such as Lonial and Carter (2015) found no significant and positive link between EO

and organizational performance. Therefore, in this study, we proposed the following hypothesis:

H₃: Entrepreneurial orientation positively influences a firm's performance

2.4 Conceptual Framework

The conceptual framework shows the empirical relationship between the study's Dependent, Mediating, and Independent variables. The excess of the conceptual framework is to describe concepts relevant to the study and map relationships among them. In this study, both BMI and EO played independent and mediating variables while firm performance was a dependent variable. It has been established in the literature that there is a direct and indirect relationship between BMI, EO, and firm performance. The diagram below shows the study model.



Source: Authors' Design 2021

3. Research method

The research was conducted in Ondo state, Southwest Nigeria. The selected state for the study is divided into three (3) Senatorial Districts, and each district comprises six (6) local government areas. Nine (9) major commercial towns that house almost 90

percent of small businesses (Fatusin, 2012) within the three (3) senatorial districts were selected for this study. Survey research was adopted for the study. Data used for the study were obtained through primary sources, and questionnaires were used to collect the data from the selected small business owners/representatives. All small businesses (registered and unregistered) operating within the selected study locations constitute this study population. The researchers included informal small businesses because they formed the bulk of the small businesses in the sample areas. Since the study population could not be ascertained, purposive sampling techniques were employed in selecting the respondents for the study. The researchers purposively selected 450 small business owners/representatives, and questionnaires were administered to them between October and December 2020. Out of the 450 questionnaires distributed, 142 (31.56%) questionnaires were duly completed and returned by the selected small business owners/representatives.

Despite that the response rate was low due to the Covid 19 pandemic, the researchers believed that it was representative enough to generalize the research findings. Questionnaires developed by Hughes and Morgan (2007) and Campos et al. (2012) on EO were adapted for the study with Cronbach's alpha of 0.70. Also, the questionnaire designed by Shepherd and Wiklund (2009) measuring performance was adapted, while the questionnaire constructed by Clauß (2017) on BMI determinants was adapted for the study. The questionnaire used to capture BMI was initially structured into ten sub-constructs and contained 31 items by Clauß (2017). However, Faloye et al. (2021) restructured it into six constructs: customer satisfaction and retention, market opportunities, regular assessment of operations, employee capabilities, increment in revenue generation, and efficient channel functions, with 27 items and reported Cronbach's Alpha of 0.957. These research instruments were considered appropriate for the study because the previous study shows consistent pictures of what they measured. For instance, the Cronbach's Alpha for Clauß (2017), Hughes and Morgan (2007), Campos et al. (2012), and Shepherd and Wiklund (2009) questionnaires ranges between 0.70 and 0.89 for all items. Both descriptive and inferential statistical tools were employed in analyzing the data obtained for the study using SPSS 23.0 Version software. In order to ascertain the effect of entrepreneurial orientation, PROCESS MACRO software developed by Hayes (2018) was employed in this study. PROCESS MACRO has the capacity to compress the steps involve in determining the mediation effect when using hierarchical regression statistics.

Results and Discussion of Findings

4.1 Profile of the selected Micro and Small Businesses

The data collected on the biodata of the respondents for this study showed that there were more males than females who were either owners/representatives or managers in the sampled micro and small businesses in the selected areas. Out of the 142 small businesses sampled, 52.1 percent were male, while 47.9 were female. In terms of the

age of the study respondents, the majority (63.8%) were within the age bracket between 30 and 49 years. Respondents that were 50 years and above were 36.2 percent. The level of education and literacy among the MSEs owners/managers in the selected areas were very high. Out of 142 MSEs sampled, 66.2 percent of owners/representatives claimed to have attended tertiary institutions. The proportion of those with only high school education was 21.1 percent. However, the proportion of SMEs' owners/managers with postgraduate education was only 12.7 percent of the total respondents. Also, 43.7 percent of the selected MSEs had been in existence for less than six years, followed by 23.9 percent that had been in existence between 6 and 10 years. Those MSEs that had their existence above 16 years constituted just 12.7 percent. This showed that only a few of the Nigerian small businesses have a life span above 16 years. In summary, most of the study respondents were male, educated, and had been in existence for less than six years.

4.2 Reliability Test

The reliability of the research instruments was tested using Cronbach's Alpha. The instrument used to measure BMI, entrepreneurship orientation, and firm's performance contained 27, 19, and 20 items, respectively. Table 1 showed that the Cronbach's alpha for the research instruments used in this study was above 0.9, which was considered very high, and this showed that the research instruments were reliable and consistent.

Table 1: Reliability Test of the research instrument

S/N	Variable	Number of Items	Cronbach's Alpha
1	Business Model Innovation	27	0.957
2	Entrepreneurship Orientation	19	0.948
3	Firm Performance	20	0.923

Source: Data Analysis, 2021

4.3 Correlation and Regression Analysis Results

Correlation analysis and multiple regression analysis were performed on the data collected for this study. The results were compressed in Tables 2, 3, 4, and 5. The Pearson correlation and regression analysis results in Table 2 revealed the relationship between each of the BMI constructs and the firm's performance in the selected small businesses. The significant correlation results (** Correlation is significant at the 0.01) showed that all the constructs of BMI (customer satisfaction and retention, market opportunities, regular assessment of operations, employee's capabilities, increment in revenue generation, and efficient channel functions) had a significant relationship with firm's performance ($\rho < 0.01$). However, only customer satisfaction and retention ($r = 0.627$), market opportunities ($r = 0.614$), and increment in revenue generation ($r = 0.645$) displayed strong positive significant

relationship with firm's performance. Regular assessment of operations ($r = 0.582$) and efficient channel functions ($r = 0.596$) constructs had a moderate positive significant relationship with the firm's performance while regular assessment of operations ($r = 0.496$) construct showed a weak positive but significant link with firm's performance. Table 2 also displayed the results of the multiple regression test. The firm's performance was used as the dependent variable in the model, while the independent variables were the six constructs of BMI. The possibility of multicollinearity in the study is ruled out as the BMI constructs have correlation values below 0.80 (Jalali et al., 2014).

The regression results displayed in Table 2 consist of the total variance explained (R2 and adjusted R2 Score), the F-test (ANOVA), which determines whether the model is valid, and the regression of the complete model, including the coefficients and the significance of each of the variables. The value of the R2 in this model was 0.547. This means that the model explained 54.7 percent of the variance in the dependent variable. The value of the adjusted R2 was 0.527. This showed that the model explained 52.7 percent of the variation in a firm's performance, and the model was significant ($F = 27.144$; p -value = 0.000). Also, Table 2 shows the outcome of an ANOVA test. The F-value and its significance indicated that the model was very significant. Stated otherwise, the chance that the model is not usable is less than 0.000. Finally, Table 2 showed the complete model of the regression. The coefficients of the variables and their significance were shown. The coefficients of all the variables (Standardized estimate β) were positive, but only market opportunities and increment in revenue generation were significant ($p < 0.01$) at 1 percent. These results imply that only market opportunities (external factor) and increment in revenue generation (internal factor) had a significant positive relationship with the firm's performance in the sampled small businesses in Nigeria. This contradicts the finding by Puchiar et al. (2019) that the innovativeness of enterprises and their business environment had a significant positive effect on the level of BMI activities in the firms. However, this research finding agrees with Martinez et al. (2021) that BMI in small enterprises during the Covid 19 pandemic is influenced by internal and external factors.

Table 2: Regression Analysis Results on the Effect of BMI Dimensions on Firm's Performance

MODEL SUMMARY							
Model	R	R Square	Adjusted R Square	F	Sig.	Durbin-Watson	
1	0.739	0.547	0.527	27.144	0.000	1.870	
ANOVA							
Model	Sum of Squares	df	Mean Square	F	Sig.		
Regression	54.808	6	9.135	27.144	0.000		
Residual	45.431	135	0.337				
Total	100.239	141					
COEFFICIENT							
Model	β	Std. Error	Beta	Sig. (<i>p</i>)	Tolerance	VIF	
Constant	1.209	0.223		0.000			
Customer satisfaction and retention	0.134	0.087	0.158	0.125	0.321	3.117	
Market Opportunities	0.193	0.068	0.248	0.05	0.439	2.278	
Regular assessment of operations	0.130	0.067	0.168	0.056	0.443	2.259	
Employee's capabilities	0.098	0.085	0.105	0.253	0.399	2.508	
Increment in revenue generation	0.230	0.071	0.274	0.002	0.466	2.145	
Efficient channel functions	0.097	0.074	0.122	0.192	0.388	2.578	
Pearson Correlation							
Customer satisfaction and retention	0.627**			0.000			
Market Opportunities	0.614**			0.000			
Regular assessment of operations	0.582**			0.000			
Employee's capabilities	0.496**			0.000			
Increment in revenue generation	0.645**			0.000			
Efficient channel functions	0.596**			0.000			

a. *Dependent Variable: Firm's performance*

b. *Predictors: (Constant), Efficient channel functions, Regular assessment of operations, Market Opportunities, Increment in revenue generation, Employee Capabilities, Entrepreneurship Orientation, Customer Satisfaction and Retention, Business Model Innovation.*

** Correlation is significant at the 0.01 level (1-tailed).

Source: *Field Report, 2021*

Table 3 exhibited a statistical relationship between BMI and the performance of the selected micro and small businesses in the study location using Correlation and multiple regression analysis. The dependent variable was firm performance, and the independent variable was BMI. The Pearson Correlation coefficient was 0.683, and the p -value was 0.000. The Coefficient (r) is high and statistically significant; thus, BMI strongly influences micro and small businesses' performance in Nigeria. The model summary results ($R^2 = 0.466$; F -value = 122.404; $Sig. = 0.000$) and ANOVA test (F -value = 27.144; $p < 0.01$) of the regression analysis showed that model is significant. The value of the R^2 revealed that BMI explained a 46.6 percent variance in a firm's performance. The Coefficient (β) of BMI (0.630) was positive and significant ($p < 0.01$). This indicates that when BMI increases by 1%, a firm's performance increases by 63 percent. Therefore, there is a positive and significant relationship between BMI

and a firm's performance, and this led to the acceptance of H1, which stated that BMI had a positive and significant influence on the performance of micro and small businesses in Nigeria. This finding is in line with the findings of some of the previous studies, such as Asemokha *et al.* (2019), Bouncken and Fredrich (2016), Clauss *et al.* (2019), Dewi and Ahamat (2018), Desyllas *et al.* (2020), Foss and Saebi (2017), Pucihar, *et al.* (2019), Visnjic *et al.* (2016), and Smajlović *et al.* (2019).

Table 3: Regression Analysis Results on Effect of BMI on Firm's Performance

MODEL SUMMARY						
Model	R	R Square	Adjusted R Square	F	Sig.	Durbin-Watson
1	0.683	0.466	0.463	122.404	0.000	1.708
ANOVA						
Model	Sum of Squares	df	Mean Square	F	Sig.	
Regression	46.759	1	46.759	27.144	0.000	
Residual	53.481	140	0.382			
Total	100.239	141				
COEFFICIENT						
Model	β	Std. Error	Beta	Sig. (<i>p</i>)	Tolerance	VIF
Constant	1.413	0.212		0.000		
Business Model Innovation	0.630	0.057		0.000	1.000	1.000
Pearson Correlation						
Business Model Innovation	0.683**			0.000		

- a. Dependent Variable: Firm's performance
 b. Predictors: (Constant), Business Model Innovation
 c. ** Correlation is significant at the 0.01 level (1-tailed).
Source: Field Report, 2021

The statistical relationship between entrepreneurship orientation and enterprises performance was shown in Table 4. The Pearson correlation coefficient ($r = 0.767$) was positive and strong, besides, it was significant ($p < .001$) at 1 percent. This showed a positive and significant relationship between EO and a firm's performance in the sampled MSEs. The results of the Model summary and ANOVA ($R^2 = 0.589$; F-value = 200.84; Sig. = 0.000) exhibited that the model was significant. EO had a positive and significant effect on firm performance ($\beta = 0.716$; $p < .01$). The β score of 0.716 means that when EO increases by 1 percent, firm performance increases by about 72 percent. Therefore, this study hypothesis (H3) which says that EO has a significant positive relationship with firm performance, was accepted. This finding is consistent with the work of Bouncken and Fredrich (2016), Cuevas-Vargas *et al.* (2019), Dawi and Ahamat (2018), Dewi and Ahamat (2018), Foss and Saebi, (2017), Martens *et al.* (2018), Soares and Perin (2020), and Visnjic *et al.* (2016).

Table 4: Regression Analysis Results on the effect of EO on Firm's Performance

MODEL SUMMARY							
Model	R	R Square	Adjusted R Square	F	Sig.	Durbin-Watson	
1	0.767	0.589	0.586	200.484	0.000	1.671	
ANOVA							
Model	Sum of Squares	df	Mean Square	F	Sig.		
Regression	59.023	1	59.023	200.484	0.000		
Residual	41.216	140	0.294				
Total	100.239	141					
COEFFICIENT							
Model	β	Std. Error	Beta	Sig. (<i>p</i>)	Tolerance	VIF	
Constant	1.051	0.191		0.000			
Entrepreneurship Orientation	0.716	0.051	0.767	0.000	1.000	1.000	
Pearson Correlation							
Entrepreneurship Orientation	0.767**			0.000			

a. Dependent Variable: Firm's performance

b. Predictors: (Constant), Entrepreneurship Orientation

** Correlation is significant at the 0.01 level (1-tailed).

Source: Field Report, 2021

The results presented in Table 5 showed a correlation between EO and BMI. The Pearson coefficient revealed a strong, positive, and significant relationship between EO and BMI ($r = 0.838$; $\rho = 0.000$). The value of R^2 is 0.702, meaning that there is a variance of 70.2 percent in BMI explained by EO. This implies that when MSEs in Nigeria make changes in their EO, it is inevitable that their performances will increase. More so, the regression results revealed that the regression model was the best fit for predicting the effect of EO on BMI ($F=200.484$; $\rho = 0.000$). Also, the standardized Coefficient ($\beta = 0.838$; $\rho = 0.000$) showed that every unit change in EO would significantly affect the variance in BMI by about 84 percent. This led to the acceptance of the hypothesis (H2c) that there is a significant influence of EO on BMI. This finding is in line with existing studies such as Aunalal and Aponno (2019), Asemokha *et al.* (2019), Bouncken *et al.* (2016), Ciampi *et al.* (2021), Danarahmanto *et al.* (2019), Dawi and Ahamat (2018), and Lianfeng *et al.* (2021).

MODEL SUMMARY						
Model	R	R Square	Adjusted R Square	F	Sig.	Durbin-Watson
1	0.838	0.703	0.700	330.633	0.000	1.582
ANOVA						
Model	Sum of Squares	df	Mean Square	F	Sig.	
Regression	52108.781	1	52108.781	200.484	0.000	
Residual	22064.459	140	157.608			
Total	74173.239	141				
COEFFICIENT						
Model	β	Std. Error	Beta	Sig. (p)	Tolerance	VIF
Constant	11.992	4.944		0.017		
Entrepreneurship Orientation	1.265	0.070	0.838	0.000	1.000	1.000
Pearson Correlation						
Entrepreneurship Orientation	0.838**			0.000		

- a. Dependent Variable: Business Model Innovation
 b. Predictors: (Constant), Entrepreneurship Orientation
 ** Correlation is significant at the 0.01 level (1-tailed).

Source: Field Report, 2021

The output of the regression analysis done through PROCESS MACRO, as shown in Table 6, indicated that the difference between regression coefficients of BMI at both the total and direct effect had statistically significant values $\beta = 0.3374, p < 0.05$, and in addition, the product of the regression coefficients for EO at both the direct and indirect effects showed statistically significant values ($\beta = .3374, p < 0.05$). These results mean that at the introduction of EO as a mediating variable, the Coefficient of the BMI reduced as compared to the Coefficient of BMI when there was no mediator. Furthermore, the product of Coefficient of EO when it was introduced as a mediator and when it was regressed against BMI produced a statically significant result. Following the decision criterion given by MacKinnon, *et al.* (2002), that the statistical significance of mediating variable when introduced as a mediator subject to the significant value of the independent variable when mediating variable was introduced is an evidence of partial mediation effect. Therefore, this criterion is met (EO: $\beta = 0.5740$, BMI: $\beta = 0.1281$ & $p < 0.05$), and it can be concluded that entrepreneurial orientation had a partial significant mediating effect on the relationship between Business Model Innovation and firm's performance. The findings of mediating effect of EO in the relationship between organizational events and performance-related outcomes is in tandem with previous studies of Ciampi *et al.* (2021), and Aunalal and Aponno (2019).

Table 6: Regression Result for Mediating Effect of Entrepreneurial Orientation

Parameter	Step 1 Total Effect	Step 2 Direct Effect	Step 3 Indirect Effect	Test	Remarks
R	0.7993	0.8138	0.8454		
R ²	0.5466	0.6612	0.7148	$B_1 - \beta_2 = 0.3374$	There is a partial mediation
F-value	168.76	135.62	350.83	$B_3 * \beta_4 = 0.3374$	
Sig (0.05)	0.000	0.000	0.000		
BMI	$\beta_1 = 0.4655^{**}$	$B_2 = 0.1281^{**}$	$B_4 = 0.5879^{**}$		
EO	-	$B_3 = 0.5740$	0.3374		

Note: *Coefficient is significant at 5 percent. $p < 0.05$ ($\beta_1 - \beta_2 = \beta_3 * \beta_4$).

4. Conclusion

The thrust of this study was to empirically investigate the influence of BMI on a firm's performance and explore the mediating role of EO between BMI and the performance of micro and small businesses in Nigeria. This research's outcomes indicated a positive and significant relationship between BMI and micro and small businesses' performance. Besides, results showed that entrepreneurship orientation and BMI are positively related, and the former mediates the relationship between the latter and the performance of micro and small businesses in Nigeria. Therefore, the adaptation of BMI by small businesses will provide an alternative platform to remain competitive and attain sustainable performance over competitors. Since it had been statistically established that BMI and EO are significant determinants of a firm's performance, we concluded that the owners/representatives and managers of micro and small businesses in developing economies, especially in sub-Saharan African countries, should integrate BMI and EO activities into their operations in order to overcome the macerate performance that characterized Covid 19 pandemic period. This study finding has answered the calls for the extension of studies on BMI and research that link other components of BMI by identifying two BMI constructs, namely, market opportunities (external factor) and increment in revenue generation (internal factor) drive firm's performance. Based on our findings, we recommended that government ministries, departments, and agencies in charge of small and medium scale enterprises development in Nigeria should facilitate the adoption of BMI by small businesses through the creation of awareness programs on innovation generally, and particularly on the enhancement of customer satisfaction and retention, identification of market opportunities, and boosting of revenue generation.

6. Limitations and Suggestions for further study

This study focused only on the mediating role of EO in the relationship between BMI and a firm's performance. However, the role of other mediating variables such as efficiency growth, revenue growth, and organizational capabilities on the relationship between BMI and a firm's performance has not been intensively investigated; hence, there is a need for further research on how BMI indirectly impacts a firm's performance. Also, this study only covered a state out of the thirty-six states in the

country, which we considered to be small for generalization. Thus, we call for further elaborate research works that cut across all the six political, geographical zones in Nigeria. Besides, an attempt should be made by future research to examine the influence of BMI on a firm's performance in medium and large-scale enterprises in different sectors of the Nigerian economy. In addition, future researchers on BMI should endeavor to conduct comparative studies between two or more sectors/industries as this can provide more beneficial insights.

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Facebook Commerce (F-Commerce) and French Women: A Gender Perspective

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Abstract

The objective of this exploratory research is to investigate a mode of purchasing, social commerce and its main target, e-shoppers. Social commerce can take different forms: F-commerce, grouped purchases or discounts. Nevertheless, the best way to monetize social media remains the possibility to incite Internet users to promote the products or promotions obtained by their friends. Recommendations coming from friends are the main lever to create interactions between consumers, interactions centered on the purchase. However, many questions remain unanswered, especially regarding social acceptance and the real effectiveness of this type of promotion. In one study conducted on the "La Redoute" brand, we examined the extent to which our sample of women is likely to accept social shopping and, in particular, the product or service recommendations of their friends on their wall.

Keywords: social commerce, routes of persuasion, branding, recommendations, Facebook Commerce, F-commerce

Introduction

Social commerce is booming. The global social commerce market size is expected to reach USD 3,369.8 billion by 2028¹. Social commerce can be defined as a business practiced within social networks, but it also concerns on-site purchases benefiting from sharing applications or social recommendations. Within the social commerce ecosystem, Facebook is the most important player in this market. More than 80 percent of the so-called social sales are made on this network and its integrated online stores. They constitute the F-commerce (for commerce on Facebook). They are helped by social promotions that have several characteristics: they are viral operations, they are often associated with the world of games and entertainment. These operations are either automatically or voluntarily published on the walls of the

¹ <https://www.grandviewresearch.com>

participants. The friends of the latter know which brands they are fans of, which promotional operations they participate in, etc. This raises a number of questions: do these promotional mechanisms make friends want to participate? What image does the brand get out of it? Are there phenomena of rejection, since the social network is, for many, intended for exchanges and not for commercial solicitation? What type of mechanism should be favored? Are friends more influenced by close friends than by distant friends? Beyond these issues, social commerce appears to be a typically female phenomenon. The latest studies show that a quarter of women communicate about their purchases via social networks and that this phenomenon is all the more important as it concerns young working women aged 25-35². The phenomenon of "e-shoppers" is extensively studied by practitioners and researchers (Chen and al., 2017 ; Wang and al., 2019 ; Fu and al., 2020; Groothuis and al., 2020). Nevertheless, little research studies social commerce from a gender perspective (Rodgers et al., 2003). Therefore, the objective of this research is to better understand the mechanisms of persuasion that can be used by F-commerce with women.

The structure of the paper is as follows. The next section provides the study's theoretical background and hypothesis development. Section 2 reports the data analysis and preliminary findings, which are then discussed and interpreted. The last section provides a summary and makes recommendations for future work.

Facebook commerce, mechanics and results

According to Li and al. (2017, p 191), social commerce includes "commercial activities facilitated by or conducted through the broad social media and Web 2.0 tools in consumers' online shopping process or business' interactions with their customers". Its extreme diversity (online sales, virality of purchasing behavior, consumer opinions...) makes it difficult to study. Liang et al (2011) mention that, beyond its difficult conceptual delimitation, social commerce suffers from a lack of consideration of its founding concept, which is sharing among friends. According to several studies, online shoppers are likely to share information related to their purchase with their friends. Moreover, information received from friends is considered more reliable than information received from friends. Consumers' shared information, such as ratings, reviews, recommendations, and referrals, has been demonstrated to influence their social commerce use (Zhang, 2016).

Facebook is an important part of social commerce and is expanding access to new social commerce features. The tech giant is building an impressive set of social commerce tools that should make it a leader in the space¹. Many e-commerce tools are starting to appear on the world's first social network which is in a continuous testing phase in order to select the most efficient mechanics. We will mention *Facebook connect*, Facebook online stores that allow you to select items or make

¹ <https://www.businessinsider.com/facebook-dives-into-social-commerce-with-new-features-2020-07>

purchases without leaving the network and Facebook credits, which are promotional tools increasingly used by the big e-commerce companies. New functionalities are being studied, such as the "shop with friends" or "buy with my friends" that will be displayed on certain online sales sites and will allow Internet users to see the purchases made by their network. The goal of all these techniques is to sell where the consumer and his friends are. The F-commerce has been notably carried by the success of Facebook credits which represented a kind of virtual currency allowing Internet users to buy virtual objects used in game platforms such as *Farmville*. Social commerce on Facebook includes several mechanisms that are either traditional promotional mechanisms adapted to social networks or social mechanisms adapted to online commerce. The integration of friends' purchases as a viral element is used in many solutions. The latest launches of Facebook commerce concern *Facebook Shops* and its second hand market place (Chang and al., 2020).

The literature on user-generated recommendations is rich in lessons learned. It distinguishes between user-generated recommendations (UGC) and word of mouth, which can be spread by individuals who are not users of the product (Cheong and Morrison, 2008). UGC recommendations give more credibility to the information (Johnson and Kaye, 2004), work on interpersonal influence (Johnson and Kaye, 2004), and reduce the risk of making mistakes, particularly for highly involved product purchases (Goldsmith and Horowitz, 2006). Peer recommendations provide available information, which reduces research costs (loss of time) and gives more confidence in the product, especially if it is a low-cost product. Recommendations systems result in (Bhavik et al., 2010) more credibility than the brand's official discourse (1), reducing uncertainty about product quality (2), increasing awareness of the recommended product (3).

Nevertheless, certain conditions must be met regarding the effectiveness of sales recommendations. This effectiveness depends on the strength of recommendations (very favorable), their number, and their position within the site. In addition, they must relate to characteristics that are relatively unknown to be judged as a real value contribution by consumers (Bhavik and al., 2010). Furthermore, the notion of proximity is central to the positive impact of purchasing recommendations. The congruency of construal levels between social distance and temporal distance leads to a greater impact of others' recommendations on consumers' preferences (Zhao and Xie, 2011). The distance between the individuals who recommend and the individuals who follow these recommendations is crucial. This distance can be conceptualized along four axes: temporal distance (is the purchase planned for soon or is it long term?), social distance (is the recommending individual part of my group?), spatial distance (is the recommending individual geographically distant?) (Kim, Zhang, & Li, 2008).

With regard to temporal distance, it appears that recommendations are more effective in constructing consumer preferences when the purchase is planned in the

short term. Moreover, the consumer will rely on recommendations of individuals belonging to his social group. Conversely, for an expensive and complex product, consumers will trust individuals outside their social group who are perceived as more expert. These results show that the long-term purchase of a technological or complex product takes little account of the recommendations of family and friends. The social influence therefore differs according to the type of product.

Influence can be defined as a change in an individual's original state due to interpersonal relationships or changes in social factors (Goldsmith & Horowitz, 2006). It can be of two kinds: normative influence and informational influence. The normative influence can be negative (fear of rejection by the group) or positive (desire to assert one's belonging to the group). Many experiments show that individuals tend to model their behaviour on the dominant behaviour of the group even if the group does not agree with their own views. The informational influence is related to the problem of recommendations. When the individual lacks information or does not feel competent on a subject, he or she will tend to rely on the recommendations of peers. Moreover, the consumption context is a source of interaction and influence between consumers. The geographical context is particularly addressed and, in particular, the spatial environment (Steyer and al., 2006). This spatial environment can be transposed to network issues. An individual's wall is a source of interaction with others within a defined space. This new spatial configuration is linked to the concept of socio-spatial propagation. Thus, the purchase of new products can be propagated by simple vision, propagation from one individual to another, individuals who belong to the same social or geographical group (Whyte, 1954). This importance of social influence is an element to be taken into account in the participation process.

Indeed, the low level of individual participation in branding operations raises questions about the relatively limited impact of social influence.

The different fields of literature allow us to understand the mechanics that can explain the success of these social promotions better (Lăzăroiu and al., 2020). This success is based on :

Operations broadcast between friends in a purely relational context

Interpersonal influence and proximity to the Internet user who is adept at this type of operation

Multidimensional persuasion with an affective, cognitive and conative component

Mechanics focused on play and interactivity that would generate more adhesion than more traditional mechanics.

Mechanics relevant for each target (age, interests) but also different for each gender, with the literature showing large differences in network behaviour between men and women (Grubbs Hoy, Milne, 2010).

Theoretical and conceptual framework

Our research question aims to understand the mechanisms of F-commerce among women. This section presents the proposed domains of the conceptual framework :

The degree of acceptance by friends of Internet users of social promotions in an intimate context (the wall) and a priori non-commercial

The ability of users of a social network (in this case Facebook) to influence their friends solely by displaying on their wall their participation in a promotional offer.

The influence of the degree of closeness of friends to the Internet user-participant on their willingness to participate

The impact of the type of promotional operation chosen on the image of the organizing brand

Degree of acceptance of social commerce and influences on the organizing brand

The degree of consumer acceptance of social commerce is relatively little discussed in the literature. Considering social commerce as a form of advertising within a social network, the literature shows that network members feel exploited if there is too much advertising and that they do not wish to be confronted with social experiences interrupted by advertising (Zeng, Huang, and Dou, 2009). Thus, commercial communications within communities created for social sharing and not for consumption lead to a strong sense of intrusiveness (Nutley, 2007). These interferences lead to a sense of perceived loss of control and a feeling of invasion of one's personal space. These reactions translate into a feeling of irritation due to the intrusiveness of these communications. These are, above all, affective reactions. This is why the following hypothesis is proposed:

H1: there is a negative influence of mechanically triggered emotional reactions on the desire to participate (H1a) and the attitude towards the organizing brand (H1b).

Women who see notifications posted on their Facebook wall indicating that their friend has participated in a promotional operation may find this intrusive and unsuited to the spirit of the social network.

Influence of Social Commerce on Beliefs and Attitudes

These negative emotional reactions are momentary reactions (Lee & Lumkin, 1992). Perraud (2011) notes that "perceived irritation is defined as momentary impatience. Furthermore, this would be moderated by the informational value of the advertisement (Lee & Lumkin, 1992). Thus, taking beliefs into account concomitantly with affective reactions (positive or negative) makes it possible to hypothesize that irritation is the first reaction triggered by exposure to an unsolicited commercial communication, but that it can be followed by an activation of cognitions upon reading the ad. Moreover, these cognitions triggered in an online context have a direct

influence on attitudes towards the brand and promotional mechanics. The work of Karson and Fisher (2005) has made it possible to transfer the results acquired during research on models of persuasion by showing that the hypothesis of dual mediation (importance of beliefs and attitudes on persuasion) is perfectly observable in an online context. We will also hypothesize that the observed attitude towards promotional mechanics can be measured *through the* intention to participate. Hence the following hypotheses:

H2: There is a positive influence of beliefs (H2a) on the desire to participate and (H2b) the attitude towards the organizing brand.

Women who see notifications posted on their Facebook wall that their friend has participated in a promotion may find this mechanism interesting and informative, however, and encourage them to participate and have a favorable attitude towards the brand.

H3: There is a positive influence of brand attitude on the willingness to participate.

Women with a favorable attitude towards the brand will have a stronger desire to participate in the promotion than women with a less favorable attitude.

Interpersonal influence and degree of closeness to friends

As we have noted in the literature on interpersonal influence, the degree of closeness of friends is an essential element in persuasion. We will only consider the social proximity described by Kim, Zhang, and Li (2008) since it is a proximity based on belonging to a community. Nevertheless, we wanted to introduce a gradation among respondents' friends. Indeed, the continuous growth in the number of average friends per user means that within the same community of friends, some are considered close to the user (friends in real life, family members, etc.) while others are more distant (friends only on Facebook who do not know each other in real life, friends who are geographically distant, etc.). Facebook has adapted to these different configurations by offering to create its own lists of friends and adapts the visibility of their posts according to their status. We will therefore make the following hypothesis :

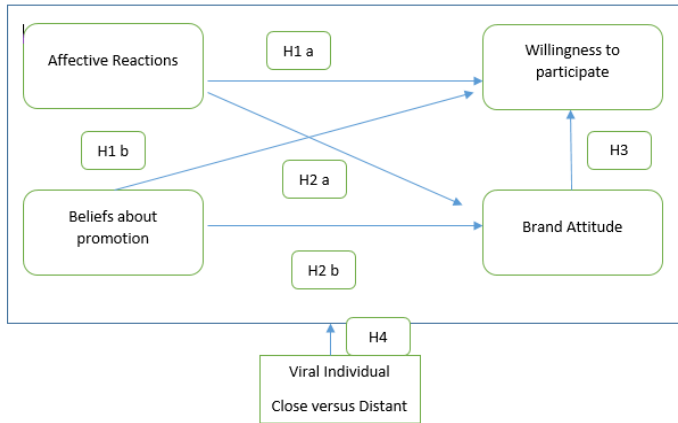
H4: There is a moderating effect of respondent proximity on all of the links in the model.

A promotion posted on a close friend's wall will have a stronger incentive effect than a promotion posted on a distant friend's wall.

Moreover, the notion of close or distant friend will be left to the sole discretion of the respondent in order to be closer to the natural conditions of exposure of the network.

The search model is therefore as follows (Figure 1) :

Figure 1. Search Model of the willingness to participate in social promotion



Description of the experiment, results and implications

Description of the experiment

The experiment took place in January 2020 on a sample of women (average age 31), online shoppers, La Redoute customers and Facebook members. For each of the respondents, they were asked to give the name of a close friend and that of a distant friend. Two groups described below constituted the experimentation.

Group 1 : Submission of an experimental Facebook wall belonging to a close friend (known as a viral individual). Visualization on his wall of the promotion "Give a second life to your purchases" (see description of the operation, Appendix - Second Hand Operation) (n=101)

Group 2 : Submission of an experimental Facebook wall belonging to a distant friend (known as a viral individual). Visualization on his wall of the promotion "Give a second life to your purchases" (see description of the operation, Appendix - Second Hand Operation) (n=101)

Each of the tests was subjected to a multi-group analysis to verify the moderating character of the status of the friend (viral individual) as well as the good quality of the measurement models. Tests of the mean on the variables emotional reaction triggered by the ad, brand attitude and willingness to participate showed a difference

in mean only for brand attitude and willingness to participate. The quality of the overall model was also tested.

Main results

Negative reactions due to the visualization of a promotion on one's wall are minor, do not generate real rejection in individuals and do not influence either their desire to participate or their attitude towards the brand (**H1 a,b not validated**).

Beliefs about promotion were measured at two levels: execution (i.e., the form of the promotion) and the message it conveys. It is the beliefs about the execution (attractive, warm) that will have a significant influence on the desire to participate when the viral friend is close. On the contrary, when the consumer is exposed to this type of promotion from a distant friend, his persuasion will be more central, i.e. he will prefer to examine the offer (credible, effective, persuasive message) rather than its form. Nevertheless, examination of the overall model shows that beliefs about promotion have a real influence on the desire to participate and the attitude towards the brand (**H2 a,b validated**).

Launching an original and fun operation benefits the brand, which appears innovative and modern and increases the desire to participate. When we study its influence within the overall model, it appears that the attitude towards the brand has a significant positive influence on the desire to participate (**H3 validated**).

The moderating nature of the viral friend status is confirmed (**H4 validated**). A promotion spread by a close friend must include a strong social aspect in order to make people want to participate, a social aspect that is not present in a more classic promotion such as the "Second Hand" promotion.

Conclusion

While brands are questioning their presence on Facebook and are starting to consider it as a real sales, promotion and image channel, it is interesting to look at the effects of this presence on the female consumer.

Facebook, a new distribution and promotion channel: what female consumer acceptance?

Facebook is more and more a place to promote brands. The problem that may arise is the consumer's acceptance of this type of communication within a network, initially designed for exchange and sharing. Won't female consumers end up rejecting brand solicitations that they may consider as distorting the spirit of the social network? It appears that female consumers do not develop (for the moment) a rejection of promotional messages posted on their wall when they come from friends. On the other hand, the premium is given to original, playful promotions. The promotion-

brand congruence must be replaced by a search for social network-promotion congruence. Adapting to one's media (Facebook) and codes appears fundamental in the success and acceptance of social promotions.

Social promotions, effective promotions in case of low involvement

Most of the promotions developed on La Redoute's Fan page adopt a resolutely social aspect. La Redoute has continuously developed game-oriented promotions: winning its makeover, playing with the Totally Spies, winning the special handsome casting .. These promotions use other participation mechanisms. They are no longer exclusively utilitarian but hedonic and experiential. They are intended to create social bonds. This social link can take place at several levels: between friends, between fans of a brand page, between the consumer and the brand itself.

Influence of gender on the acceptance of social promotion

Moreover, the difference in behavior between men and women on Facebook has given rise to a large body of literature showing that women are more concerned by the protection of their privacy than men and that they perceive more strongly the risks of revealing their private life on the Internet. *Conversely*, they are more likely to use Facebook than men. Nevertheless, Grubbs and Milne (2010) show that they accept behavioural advertising based on the use of their personal data and browsing less easily than men. We were able to show that social advertising (one of the many forms of behavioural advertising) is well accepted by the female gender.

These findings make it possible to consider Facebook as a distribution channel in its own right whose social codes must be respected in order to make the most of this network. To conclude this article, we can recall that viral operations are increasingly looking for new communication channels. Indeed, e-mailing and leaflets seem, in many cases, to record poor conversion and acquisition rates. Furthermore, social commerce is being driven to develop thanks to applications or recommendation sites that work on consumer opinions. But the recommendation industry is also in trouble. Few consumers share their shopping experience and it is often the same consumer profiles. Criteo type companies that monetize consumer opinions help to introduce doubt into the veracity of the recommendations put forward. The link between positive recommendations and advertising purchases by e-commerce sites on price comparison sites amplifies this phenomenon. The recommendations we have called passive are new forms of recommendation that work on the conatif: I am a fan of a brand page, I participate in a promotional operation, I buy at a certain place... All these acts of consumption are broadcast on networks (Facebook but also Twitter) and on certain mobile applications. As for influence, it also seeks new sources of understanding. Indeed, the literature on opinion leaders tends to show that leadership is diluted as Internet users frequently speak out. Therefore, the notion of influence by close friends regains an importance that had been diminished by the phenomena of e-reputation centered on a few influential bloggers and *seeding*

techniques. The limits of our research are numerous. They stem from the choice of moderating variables. It would be possible to envisage, in a second step, studying the moderating character of the brand congruence of promotion. Indeed, can technical or B-to-B brands develop the same social mechanisms as consumer brands? Can recourse to gambling be a factor in the loss of credibility of certain brands? Finally, the effectiveness of promotional mechanisms should be evaluated according to the habits of Internet users: gamblers versus non-gamblers, fans of price-based or non-price-based promotions, new customers of the brand or loyal customers.

Among the possible research perspectives, it would be interesting to estimate the impact of these social promotions on the frequentation of e-commerce sites. If their integration into Facebook stores is natural, what about the place reserved for e-commerce sites within more social strategies. Will they have to work on a better integration of the social activities of their consumers by adding more social applications than today or, on the contrary, will they have to limit themselves little by little to a more *corporate* and less commercial positioning?

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Human Capital and Production Structure: Evidence from Greece

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Abstract

The present paper offers a theoretical review of the concept of human capital and its component elements, namely Knowledge, Skills, Abilities and Working Activities, and attempts to sketch the requirements of the production structure in the Greek economy. In addition, the role is stressed of the educational model in Greece in positively affecting the changes underway under the simultaneous impact of the 4th industrial revolution and COVID-19.

Keywords: Human Capital, 4th Industrial Revolution, Production Transformation, Greece

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1. Introduction

Human capital as an essential component of economic growth has been extensively studied. As an element which founds human societies and (economic) continuity,

knowledge expands the range of (economic) activities by reducing the time required through its intergenerational transmission, thus transforming economies and structures of production. In contemporary economies, the constant changes brought about by technological developments, create shifts in the needs of the productive model and, hence, in the labor demands of businesses.

This paper attempts to establish the rudiments of the relation between human capital and productive model in the context of the Greek economy. Part 2 concerns an overview of the theoretical underpinnings of human capital. The theory of human capital bases economic development on both exogenous and endogenous models of development. Thus, in part 3, we focus on furthering the theory of human capital.

Out of a range of approaches, we focus on the most contemporary one which interrelates the requirements in human capital with the current tasks and activities of labor. The characteristics of human capital are analyzed through its internal categorization, whereby it consists of Knowledge, Skills, Abilities and Working Activities. This approach is not new (Autor, 2013; Acemoglu and Autor, 2011) but in the present paper, the effects are analyzed of the two great economic crises of 2008 and 2020 in the categorization of the quality of human capital and technological change (part 4). In part 5, concluding remarks are presented and possible recommendations for economic policy are discussed.

2. The Theoretical Background of Human Capital Theory

The emphasis on the concept of human capital as a growth factor makes its appearance in the 1950s. In general, the reference to human capital involves people's abilities and skills and the productive wealth that inheres in labor, knowledge and skills, thus contributing to the economic prosperity of individuals (OECD, 2001).

The importance of human capital and of education had already been noted in the era of the classical economists. Smith (Smith, 2007) acknowledged the acquisition of knowledge as a process that was expensive but beneficial for the wealth of nations. Owen (Bernard et al., 1988) recognized the fundamental importance of socialization as he believed that individuals' behavior and thinking could be modified by changes in the physical environment. Education was the essential means for improving quality of life, as was technology.

Even though the abstract concept of human capital and the view that education could affect scale economies both existed, the 1940s and 1950s with the neoclassic approach of the models of economic growth were the ones that consolidated the concept of human capital by using models to include and define the sense of human capital. In the 1940s, Solow and Swan (Dimand and Spencer, 2008) developed an exogenous model of growth. The Solow-Swan model states that long-term development is achieved through the accumulation of capital, specialized labor (human capital), population growth and technological progress (Solow, 1956).

Through Solow's exogenous model of growth, attention was increasingly paid to human capital (Miner, 1958; Shultz, 1961) leading in the 60s, to Becker's approach to human capital. In Becker's work (1994) human capital is conceived as an investment choice for individuals in the context of a cost benefit analysis. Following that, in the 1980s and 1990s, the endogenous models of growth appear (Lucas, 1988; Romer, 1991) in which education is incorporated and becomes the main factor of change within economies with particularly positive effects on human capital and economic growth.

Later, in the endogenous model of technological change of Galor and Weil (Galor and Weil, 2000) a solution is provided to the problem of the Malthusian Trap. Specifically, the accumulation of human capital leads to an increase in per capita income which, in turn, implies an increase of earnings in relation to human capital. This mechanism provides incentives for an even greater investment in human capital and knowledge, as well as a change of behavior on the part of parents who are now having fewer but better educated children. Thus, the change of demographic characteristics follows a shift from the extensive utilization of labor forces to an intensive one, through the operation of human capital (Galor and Weil, 200). This fact is attested to by the increase of children enrolled in primary education (Winthrop et al., 2018).

These processes led to an endogenous perspective of inclusion of human capital to economic theory coinciding with the movement of microfoundations of economic theory, mainly with the aim of improving its predictive capacity (Petraakis, 2020b). They also led to the theoretical research of growth in knowledge and innovation within the rational choice frame of action, but also to the need for an interdisciplinary approach that would encompass all the relevant determining factors (Petraakis, 2020a, 2020b).

In recent years, with environmental developments at center stage, the same is the case with the concept of sustainable development for the utilization of (non-recyclable productive) factors (Arrow et al., 2004). In this process, human capital can play an important role (González-Salamanca et al., 2020; Maremveliotakis and Manioudis, forthcoming; Osiobe, 2019). The development of human capital in this process is critical (Goldin, 2016; World Bank, 2019) and it hinges, by and large, on the efficiency and culture of the prevalent institutions and on the extent to which nations exhibit resilience (Petraakis, 2020b).

The institutional framework pursues through structural changes the improvement of conditions within economies regarding growth as well as social cohesion. These measures concern the improvement of conditions through promoting education, improving productivity and work conditions and reducing discrimination in the workplace (Borjas, 2015; Ngai and Petrongolo, 2017). In general, the quality of a country's education and literacy levels are reflected in the qualitative characteristics of the human capital (Bloom et al., 1914) which creates economies of scale and efficient resource management (Romer, 1990). The effect of knowledge

(qualitatively) on human capital (Nelson and Phelps, 1966) is seen in the ability to emulate successful techniques of the productive process which are employed in other developed economies.

3. Describing Human Capital

The measurement of human capital may be done either through the budget allocations for education or through the (marginal) productivity of labor (Borjas, 2015). The evaluation of human capital and its (productive) potential will need to take into consideration the needs of the existing production structures as well as the historical development of the cultural background.

At the turn of last century, the production structure required mainly knowledge at the level of functional literacy (that is to say, writing, reading, arithmetic and comprehension) insofar as the level of the technology was congruent with these requirements. One way of evaluating human capital is to break it down into its component elements. The approach that emerged after Becker's work, recognized two types of labor competencies, a "general" one which applied to the great number of businesses and a "specific" form that concerned specific businesses.

In other words, it entailed a distinction between competencies at the level of general knowledge and specialization in the context of the needs of specific enterprises. In terms of such specialization, individuals derived (upon completing their education) the benefits of knowledge accumulation with higher returns. Practically, this means that the initial categorization had to do with a distinction between levels of education and concomitant (choices of) specialization which is broken down into the cost of the provision of education, although without specifying the kind of educational provisions. This is a cumulative approach to the value of human capital which can scarcely be reduced to partial qualitative components.

In an attempt to arrive at a more specialized analysis of the components of human capital and how it is accumulated, Shaw (Shaw, 1984) introduced the concept of "occupational investment" to explain the accumulation of human capital on the basis of which, investment in the know-how of professions with common (or closely allied) characteristics, leads to "transferrable skills" through the contiguous branches of those professions. Next, Neal (Neal, 1995) confirmed the existence of "transferrable skills" since the earnings of the unemployed who were incorporated in the labor market related to levels of their earnings in their old affiliations, prior to unemployment. With Neal's contribution (Neal, 1995), the theory of Becker was subjected to a critique which emphasized the concepts of "industry specific" and "occupation specific" human capital –which, however, is not lost as it was in Becker's firm-specific theory, but accumulates and is utilized in comparable jobs with similar needs.

Another concept, that of "task specific" human capital (Gibbons and Waldman, 2004) links the accumulation of human capital with the requirements of specific jobs. In

essence, this approach establishes the idea that different kinds of work entail different requirements from (the qualitative kind of) human capital.

As different industries have different requirements of human capital, it makes sense to distinguish between their production structures so as to analyze their work-related features. In terms of distinguishing between kinds of production structures, three basic industries are found: a) the primary sector of agricultural production and mining, b) the secondary sector of processing and industry and c) the tertiary sector of services. This distinction, however does not provide details –beyond broad logical inductions– about the skills and knowledge that are required.

For the purpose of evaluating the skills and knowledge required in each industry data bases of occupational posts are used, comprised by statistical services and international organizations. In these data bases, the different occupations are classified and grouped into clusters of related professions. The three such largest data bases are O*NET of the US statistical services and ministry of labor, ESCO which is put together by the European Commission and CEDEFOP.

O*NET has 1016 occupations classified under 23 large clusters, 98 small groups and 459 broader occupations. ESCO is a data base of 2942 occupations classified on the basis of ISCO-08, into 10 large clusters before being further subdivided into various subcategories. The catalogues note the requirements of Task-Specific Human Capital needed for every occupation. For every occupation, a description is given and a list of competencies ascribed, necessary for efficiently carrying out the obligations attendant to the job. Also, a list is given of optional skills and competencies. The data bases vary somewhat in their descriptions of these processes.

These categorizations help to identify “task-specific” human capital. In ESCO, there are 13485 skills/competencies which are divided in: A (attitudes and Values), K (knowledge), L (language skills and knowledge) and S (skills). In O*NET, we encounter more categories, out of which we retain the following: Tasks, Knowledge, Skills, Abilities, Working Activities and Detailed Working Activities. There is, then, a common distinction in these two bases concerning occupational features between Knowledge and Skills while in O*NET there are also Abilities.

This distinction between occupations based on features is particularly important for understanding the requirements of human capital and can be helpful in better managing existing policies. Indeed, the distinction of human capital into knowledge, skills and competencies is not an innovation on the part of O*NET but widely referenced in the bibliography (Buta, 2015).

Initially, we need to distinguish between competencies on the one hand, and on the other, knowledge and skills. The latter are features which are acquired or intentionally cultivated by the workers, whereas competencies are categorizations to do with the employee and to the qualities of his characteristics. As far as knowledge and skills are concerned, they differ in what they describe and which their basic

sources are they derive from. Knowledge refers to data and principles acquired in some field of information.

To better understand the analysis of human capital into knowledge, skills, abilities and working activities, we include in the appendix an example of the human capital accrued in an occupation that wouldn't be thought to possess such characteristics, that of Logging Equipment Operator. It can thus be seen that the analysis of the characteristics of human capital is quite useful and illuminating regarding the way in which the labor market is organized.

It is seen that the basic source of knowledge accumulation is education, whereby one can accrue different types of information and understand a range of objects and their uses. Skills represent the processes of utilization and application of knowledge about the work process and they are acquired by the employee on the basis of experience. The requirements in skills, abilities and knowledge are formed on the basis of the tasks of every employee and the industry in which they work. Tasks comprise the Working Activities which the employee is called to perform, out of which stem all these requirements of human capital. On the basis of these four categories of employment characteristics (Knowledge, Skills, Abilities and Working Activities) the human capital which is required by every occupation can be described.

4. Consequences of 4th Industrial Revolution in the Structure of Human Capital The Greek Case

In the course of the 21st century, labor markets are developing faster than ever, and especially with the onset of the 4th industrial revolution, labor requirements are expected to change radically. To this, the COVID-19 crisis is added as an exogenous productive shock. Long-term forces (such as the 4th industrial revolution) and short-term ones (mainly COVID) interact and operate jointly.

For Greece, the effects of technological change do not result from COVID-19 but were already visible in the previous decade, during the fiscal crisis of 2010. If we isolate the effects of technological change on labor market tendencies (mainly through automation) during the previous crisis, we are able to see which industries were most impacted by it. In terms of intensity of impact, there are industries impacted worldwide according to the production structure of each country. For instance, according to the World Economic Forum (2020) the occupations in the USA with the greater pressure towards a technological shift were Computer Operators, Executive Secretaries and Executive Administrative Assistants, OI Word Processors and Typists and Telecommunications (Switchboard Operators including Answering Services and Telemarketing.)

Technological change has been occurring steadily in the past decade and the COVID-19 crisis greatly reinforces it, with the result that the changes observable today in the labor market in terms of roles and occupations have a decidedly technological character. COVID-19 is an exogenous shock that affected the channels of distribution

and demand through a sudden stop, and led to an acceleration in the shift of certain aspects of the production model.

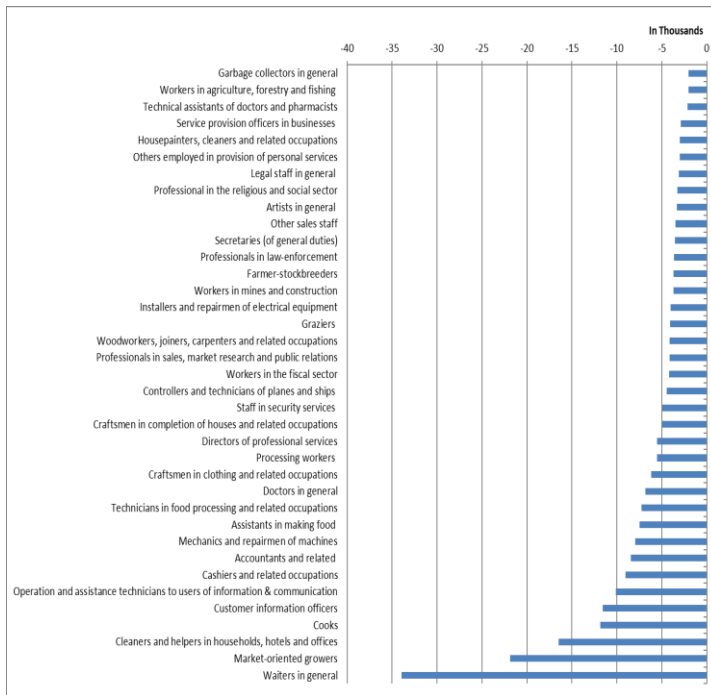
Occupations in which a decline in demand is observed internationally (World Economic Forum, 2020) relate to services of secretarial support and information provision, accountants, unspecialized labor (work in the production line of factories) but also specialized work (mechanics and machinery repairers).

On the other hand, under the impact of COVID-19, a range of technologies were accelerated. These technologies by order of importance in the process of acceleration are the following: Encryption and Cybersecurity, Cloud computing, Robots and Non-Humanoid (e.g. industrial automation, drones), Augmented and Virtual Reality (1%), Distributed ledger technology (e.g. blockchain), 3D Printing and Modeling, Artificial Intelligence etc. (BMI Research, 2018).

The coming decade will be defined by changes in labor distribution between human capital and material capital (machines). This shift (World Economic Forum 2020) will be more intense in branches where technology is already intensely present. Thus, new requirements are created for the structural elements and skills of human capital.

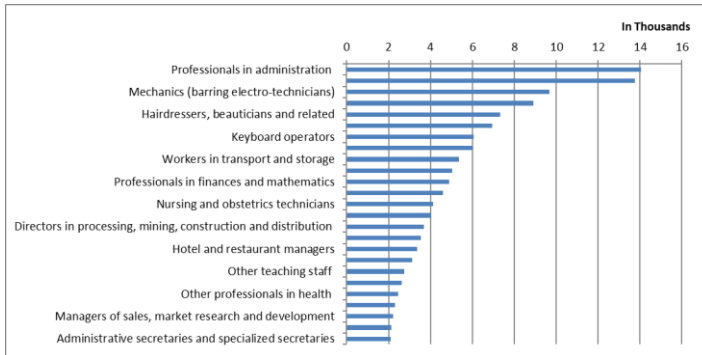
Regarding the Greek economy, the corresponding changes are presented in Diagram 1. Here, we see that the specializations with the greatest negative changes are waiters and related professions, cleaners and household helpers, customer information officers, cashiers, tellers and related professions, technical processing of food and clothing items. It is observed that these are products and services of low added value in relation to the GDP, although they do, nevertheless, have a pronounced presence in the productive structure.

Diagram 1. Occupations with a decline in employment in Greece 2019-2020



In diagram 2, we present the increases in occupations, mainly observed in administrative professionals, technical personnel in physics and engineering mechanics (barring electricians), sales assistants in shops, hairdressers etc.

Diagram 2: Occupations with an increase in employment in Greece 2019-2020



Changes in the distribution of labor are not expected to be the only ones in the production structure due to the 4th industrial revolution. Alongside the above changes, actual occupational activities in the course of work are expected to change, not just the ratio of workers. This makes sense as technological developments are modifying production and, hence, the work environment.

Moreover, in Greece (OECD, 2018) there is a lack in skills to do with verbal, reasoning and perceptual abilities. Another aspect of the profile of Greek work skills has to do with digital literacy. In Greece (OECD, 2018; DESI 2018) digital skills are at low levels. The prevalent skills in Greek society (OECD, 2018) are concentrated in the positive sciences such as biology, but also in sectors such as architecture and engineering (mechanical and building/construction knowledge, and repairing and installation skills). In terms of levels of knowledge (OECD, 2018) Greek society rates quite a bit higher than the average country, although this is not reflected in the income levels of the workers.

The direction of upskilling and reskilling is towards the development of digital skills and the utilization of Communications and Information Technologies (CIT) as these expand in terms of microeconomics in the changing behaviors of the employed and, also, in terms of macroeconomics in digital enterprises, in the boosting of new entrepreneurship and investment opportunities and the simplification of certain procedures (Bank of Greece, 2018).

5. Concluding Remarks

In the next decade, a considerable portion of new employment positions will come into play in new occupational activities or in existing ones that will be substantially modified in terms of content, skills and abilities (Acemoglu & Restrepo, 2018; Bessen,

Commented [MOU1]: Thank you for your comments.

According to revision comments, we enriched this section with references where needed. Also, we rearranged the paragraphs and added some sentences in order to better explain and discuss the concluding remarks. Also, in the references section, below, we added the extra bibliography used.

2019). The way human capital and employment posts will be affected is related to two issues: a) which sectors of the economy will register skill shortages and b) the extent to which qualifications are aligned with job requirements. The labor market is influenced by simultaneous forces in the one hand, and in the other by the financial crisis, the COVID-19 crisis and the 4th Industrial Revolution.

COVID-19 reinforced the need for shifting the productive model in line with technological change. The observable changes in the labor market are a result of shifts in labor demands and, inductively, changes in the needs of enterprises. Understanding this process can explain the intensity of the demand for input of human capital in the service of producing the corresponding goods (material or immaterial) required by the economy. In these conditions, it is the quality of human capital that will define the comparative advantage of different countries, *ceteris paribus*, as well as the institutional framework, both at the level of productive infrastructure and in terms of the receptivity of different societies to (technological) change and entrepreneurship.

In Greece, professional, scientific and technical occupations are in shortage while the construction sector, by contrast, experiences a large occupational surplus (OECD 2018). Also, the forestry and fishing sector are facing occupational shortages. Essentially, the middle level of the production structure creates the preconditions for a demand side weakness while there is a surplus work force (a supply side weakness) who do not appear to be in a position to adapt to the requirements of the middle productive model, nor to create the supply conditions of a workforce that would mobilize a restructuring of production along contemporary requirements. Besides, brain drain absorbs critical quantities and qualities of human capital (Petrakis, 2020a) and, hence, operates as an additional factor stalling the development of an endogenous growth model centered on human capital.

With reference to the educational and lifelong learning systems the present and the future of the production model worldwide and especially in Greece, will be better served by the development of more flexible (low constant costs) educational structures for lifelong learning because, due to their nature they can adapt faster and efficiently to the rapid and major changes in the labor market. This approach is reasonable for two reasons. Firstly, conventional education is a solid institution that needs time to adjust to changes of the cultural background while lifelong learning educational structures adjust accordingly to changes in the labor market almost immediately. Secondly, in Greece, public spending for education is low (Heinrich & Hildebrand, 2005) and unable to afford the upskilling and reskilling of the labor force.

Based on the features of technological change as well as the complexity of the occupational structure, we may conclude that the top upcoming skills for 2025 will have to do with analytic thinking and innovation, the solving of composite problems, creativity and the use of technology (Cedefop, 2018), lifelong learning, as well as psychological features such as resilience and stress management. To be sure, these

changes concern entire vocational clusters and extend in every direction of the production structure.

The outcome will be new occupations shaped by: new technologies and demand, new products and services which create professional clusters and relate to green economy, to care economy, AI economy, new roles for engineering, cloud computing, marketing, sales and content productions. More specifically, the systematic use of technologies is included, such as two-sided digital platforms, mobile economy, the Internet and social media, intelligent machines and AI, the economy of apps and of new technological trends such as interfacing, internet of things, big data 5G, encrypted coins and intangible assets and so on (Bank of Greece, 2018).

The specialization of the workforce leads to increased efficiency and production but has a social cost. Initially, the unspecialized labor force is displaced (specialization is required), the specialized unemployed may be discouraged because of the drastic changes and the costs involved in lifelong learning and turned into long-term unemployed, burdening the special security system. Also, specialization is a burdensome process which constrains creativity and, hence, the growth of entrepreneurship.

Concluding, technological change appears to point in the direction of technological specialization, which leads to an increase in the demand of specialized labor (Acemoglu & Restrepo, 2018). This demand is associated with specific skills but not without cost. In fact, COVID-19 crisis led to intensification of technology and to the crowding out of jobs with a background in smaller routines (Chernoff & Vartman, 2020; Acemoglu et al., 2021). A special issue to note regarding this direction, is that without adopting an interdisciplinary view, the persuasion of specialization will undermine creativity. That been, this must be resolved from the policy makers when they design the educational and lifelong learning systems as developing composite cognitive skills and abilities is a positive contribution to creative thinking.

Appendix 1.

Appendix 1 uses as a vocational example the Logging Equipment Operator from the O*NET data base, in terms of knowledge, skills, abilities and working activities. Below are presented the competencies involved in this particular occupation. The abilities relate to characteristics that serve in carrying out the requirements of the job, such as control of body posture, steadiness of hand movements etc. These abilities relate to inherent traits.

Table 1: Basic Abilities Requirements (5 of 22) for 45-4022.00 – Logging Equipment Operators

<i>Control Precision:</i>	<i>The ability to quickly and repeatedly adjust the controls of a machine or a vehicle to exact positions.</i>
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Reaction Time:	<i>The ability to quickly respond (with the hand, finger, or foot) to a signal (sound, light, picture) when it appears.</i>
Arm-Hand Steadiness:	<i>The ability to keep your hand and arm steady while moving your arm or while holding your arm and hand in one position.</i>
Multilimb Coordination:	<i>The ability to coordinate two or more limbs (for example, two arms, two legs, or one leg and one arm) while sitting, standing, or lying down. It does not involve performing the activities while the whole body is in motion.</i>
Depth Perception:	<i>The ability to judge which of several objects is closer or farther away from you, or to judge the distance between you and an object.</i>
<i>Source: https://www.onetonline.org/link/summary/45-4022.00</i>	

Table 2 presents the knowledge required in the occupation of Logging Equipment Operator which derive as a result of education system. This type of knowledge may correspond to other occupations with same requirements, though, the intensity in the use of such knowledge is the differentiating factor among occupations requirements (Handel, 2016).

Table 2: Knowledge Requirements for 45-4022.00 - Logging Equipment Operators	
Mechanical:	Knowledge of machines and tools, including their designs, uses, repair, and maintenance.
Public Safety and Security:	Knowledge of relevant equipment, policies, procedures, and strategies to promote effective local, state, or national security operations for the protection of people, data, property, and institutions.
Production and Processing:	Knowledge of raw materials, production processes, quality control, costs, and other techniques for maximizing the effective manufacture and distribution of goods.
<i>Source: https://www.onetonline.org/link/summary/45-4022.00</i>	

Table 3 presents the skills requirements for the Logging Equipment Operator which are a result of learning by doing.

Table 3: Skills Requirements for 45-4022.00 - Logging Equipment Operators	
Operation and Control:	Controlling operations of equipment or systems.
Operation Monitoring:	Watching gauges, dials, or other indicators to make sure a machine is working properly.
Equipment Maintenance:	Performing routine maintenance on equipment and determining when and what kind of maintenance is needed.
Active Listening:	Giving full attention to what other people are saying, taking time to understand the points being made, asking questions as appropriate, and not interrupting at inappropriate times.
Monitoring:	Monitoring/Assessing performance of yourself, other individuals, or organizations to make improvements or take corrective action.
Quality Control Analysis	Conducting tests and inspections of products, services, or processes to evaluate quality or performance.
Troubleshooting	Determining causes of operating errors and deciding what to do about it.
Source: https://www.onetonline.org/link/summary/45-4022.00	

All of the above were ascribed to the occupation of the Logging Equipment Operator on the basis of the tasks that need to be carried out and which in essence, comprise the working activities (table 4)

Table 4: Working Activities (5/27) for 45-4022.00 - Logging Equipment Operators	
Operating Vehicles, Mechanized Devices, or Equipment	Running, maneuvering, navigating, or driving vehicles or mechanized equipment, such as forklifts, passenger vehicles, aircraft, or water craft.
Controlling Machines and Processes	Using either control mechanisms or direct physical activity to operate machines or processes (not including computers or vehicles).
Repairing and Maintaining Mechanical Equipment	Servicing, repairing, adjusting, and testing machines, devices, moving parts, and equipment that operate primarily on the basis of mechanical (not electronic)

	principles.
Getting Information	Observing, receiving, and otherwise obtaining information from all relevant sources.
Monitoring:	Monitoring/Assessing performance of yourself, other individuals, or organizations to make improvements or take corrective action.
Inspecting Equipment, Structures, or Material	Inspecting equipment, structures, or materials to identify the cause of errors or other problems or defects.
Source: https://www.onetonline.org/link/summary/45-4022.00	

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Financial Management Role for NGOs

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Abstract

The main purpose of NGOs is to carry out public activities and not financial management - this is an idea that one may have often heard. However, as long as the NGO's finances and funds are unorganized, NGOs will not be able to achieve their goals with maximum effectiveness. For NGOs, the key importance of financial planning and management is determined by the achievement of organizational goals. They work on communities, suffer from a lack of staff, and this role is assigned to an employee who does not have a financial education and puts the successful operation of the organization at high risk. With limited funding, rational and planned cash management is important for the organization. The financial condition of any type of organization determines its future and long-term stability. Accordingly, NGOs should opt for sustainable use of finance. This means that NGOs have to spend today considering future expenses. Therefore, it is important to develop financial plans and their further implementation in order to maintain sustainability. Most NGOs rely on external funding and therefore having a proper financial management system is quite important. The NGO is accountable to donors and those who support the organization. An NGO with a sound financial management system is able to track its own expenses, plan future expenses, and submit timely financial statements to the donor upon request, which will help strengthen the organization's trust and long-term support. All NGOs are guided by pre-defined policies and procedures that are based on the overall goals of the organization. Each decision made by the competent authority is aimed at the successful achievement of the goals and objectives. Without organizing finances, it will be difficult for both the individual employee and the organization as a whole to achieve the set goal. We cannot ignore the fact that some NGOs are characterized by illegal activities such as excessive use of resources, fraud, theft, etc. With full financial planning, coordination and control, the issues mentioned above can be easily addressed. Through sound financial management, NGOs can make effective decisions on resource allocation, fundraising and mobilization. Financial management is a set of skills and approaches that can be changed from time to time. With financial management, NGOs improve their profile, which enhances donor trust. With well-defined financial plan and policy frameworks, NGOs also gain a good reputation in the community. Most NGOs

operate on their own funds, and well-organized financial management facilitates fundraising. Information on available finances, in turn, makes it possible to determine the exact amount of money that needs to be accumulated.

Keywords: Financial management in NGOs, financial planning, control and reporting practices of NGOs, issues of accountability and transparency, financial sustainability of NGOs, benefits and risks of self-financing NGOs, the impact of income diversification on NGOs, good governance principles, impact of strategic planning of NGOs

Introduction

Many people have the impression that financial management only involves the production of accounting records. In fact, financial management facilitates the effective planning of current and future expenses, and it differs greatly from accounting.

The purpose of this study is to examine the role of financial management in the sustainability of NGOs. In many NGOs, financial management has a low priority, characterized by weak financial planning and monitoring systems. NGOs work in a fast-paced and competitive world. In order to establish themselves in this environment and achieve their goals, NGOs must be able to effectively analyze the financial information available to them.

Depending on the purpose of the research, the following tasks are set:

- Identify best management practices and NGO challenges based on reviews of existing literature and in-depth questionnaires
- Identify the areas where NGOs need to improve, including planning and budgeting, basic accounting systems, financial reporting, internal control, grant management, staffing, etc.
- Identify how well NGOs are in line with good financial practice
- Define the role of financial and fund management in NGOs
- Determine the impact of financial management on NGO activities
- Determine the effectiveness of NGOs through financial management
- Determine the methods of financial planning and control of NGOs
- Review NGO financial reporting practices
- Define NGO financial reporting and human capital development
- Determine the impact of accounting systems on financial reporting in NGOs

- Identify accountability issues
- Analyze NGO accountability from a stakeholder theory perspective
- Review NGO governance: issues of accountability and transparency
- Identify the impact of internal controls on NGOs
- Determine the impact of internal controls on NGO financial reporting
- Identify the risk of financial mismanagement by NGOs
- Review the widespread problems of NGOs in developing countries
- Examine problems that threaten the survival of NGOs
- Identify determinants of NGO financial sustainability
- Identify the benefits and risks of self-financing NGOs
- Highlight the diversification of NGO income
- Examine the impact of income diversification on the commercialization of NGOs
- Identify the implementation of good governance principles
- Identify the impact of strategic planning on NGOs

Every organization is different, and financial management systems should reflect that. A “one size fits all” approach is ineffective. However, key aspects of good practice are the same for most organizations most of the time. The study focuses on these key aspects. They are the cornerstone of good practice.

Financial Management in NGOs

In present days, the role of NGOs has been increased significantly and with this increase, the role of financial management has become even more important to ensure the sustainability of NGOs and for achieving the set goals¹.

NGOs face various problems, including the ineffective resource management. Funds management skills help build trust with partners as well as attract additional resources. With these resources, there comes a high need for management tools, e.g. budgeting and cash flow analysis that is an effective tool for planning and

¹ Bany Strydom, Tim Stephen, Financial Management in Non-Profit Organizations: An Exploratory Study, 2014

coordinating the ongoing or planned activities as well¹. The financial performance of an NGO is important for sustainability, as well as for achieving the set goals².

Performance Improvement of NGOs through Financial Management

Strong financial management contributes to the efficient work of NGOs. If accounts are not managed properly, the organization will face some difficulties. Financial management is seen as defining, allocating and using financial resources to achieve the set goals and objectives. Measuring the effectiveness of NGOs is carried out by evaluating the achieved goals and results. Therefore, some studies show that there is a positive correlation between good governance and performance in achieving the set goals³.

Financial Planning and Control Practices of NGOs

Efficient financial management helps NGOs achieve their goals. Besides, without financial resources, NGOs will not operate effectively. Modern days, NGOs are getting used to modern financial practices, claiming to have reporting, budgeting and accounting in place⁴.

Financial Reporting Practices of NGOs

Financial reporting is one of the most important aspects of NGOs. Therefore, NGOs should define financial targets while considering annual planning and focus on the need for training staff in financial procedures. The agreement between the donor and organization is an important document that usually includes details related to budget, work plan, possible outcomes, etc. All actions should be carried out in accordance with the procedures that form the basis of the financial reporting considering the proper management of financial transactions, which will be followed by those responsible. Literature identifies the relationship between organization and the level of financial reporting. Organizations with bigger group of stakeholders are expected to disclose more financial information.⁵

Human capital development and financial reporting are assumed to be related. Human capital sets standards and provides a balance for financial reporting. Attributes to human capital include formal education, professional training, work

¹ Bharathi Karanth, Funds Management in Ngos-a Conceptual Framework, 2018

² Withz Aimable, the Effect of Financial Management on the Performance of Non-Profit Organizations, An Empirical Study in Haiti, 2014

³ Benedict Arthur, Performance Improvement of Non-Governmental Organizations Through Financial Management: Financial Management: a Case Study of Young Men's Christian Association of Ghana, 2020

⁴ Bharathi Karanth, Financial Planning and Control Practices of Selected Non-Governmental Organizations, An Empirical Appraisal, 2016

⁵ Yeaseen Chowdhury, Dr. Md. Mamun Habib, Financial Reporting Practices of Local Ngo's Operating in Bangladesh, 2019

experience. The quality of financial reporting is a matter of discussion and reflects financial accountability. Studies have identified the relationship between human capital and organizational productivity; increase in human capital have a positive impact on organizational effectiveness. A skilled and educated, experienced employee with a good character positively influences relevance of financial reporting¹.

The Influence of Accounting Systems on Financial Accountability in NGOs

Financial responsibility means no fraud and provides detailed explanations of financial activities, reporting to donors, ministries and other parties. Accountability aims to provide reports, justification of activities. Most donors require books of account and audited reports to increase transparency. Poor accountability can be a sign of a poor accounting system with weak control and monitoring measures. The accounting system consists of procedures and reports used by organizations to record transactions and provide feedback on results. The accounting system gives organizations a sense of direction and accountability. Financial responsibility deals with financial prospects and is designed for management and administration, where reporting practices increase NGO's accountability².

NGO accountability is a broad concept that is more complex than making it transparent. NGOs should set priorities for their stakeholders and commit to accountability. However, it is sometimes argued that if an NGO provides an evaluation of its performance, it may be unsatisfactory, raising concerns among future donors about providing funding. Even though, without accountability practices, NGOs risk its reputation that can cause funding loss. NGOs are already accountable to many parties, including members, donors, board members and others. NGOs depend heavily on reputation and trust for their existence, but providing inaccurate or misleading information puts the organization under the risk. Therefore, NGOs exercise their accountability in a variety of ways, including reporting, performance evaluation, public participation and self-regulation. NGOs can demonstrate that different types of accountability exist to ensure that they are responsible for actions that are well visible to society, with the increased public access to information through the Internet and the press, which means that being unaccountable is not an option, especially for smaller organizations³.

Weak accountability of NGOs can be judged by the financial reports that are presented to donors that lack information about community activities. According to the theory of agency relations, an agent hired by a principal is accountable to donors and the communities involved. Stakeholder theory is the relationship of stakeholders in the management decision-making process regarding resources and risks faced by an NGO, while broader definition also includes the relationship between people and the

¹ Md Mostafijur Rahman, Ngo's Financial Reporting and Human Capital Development, 2016

² Anas Rasheed Bajary, the Influence of Accounting Systems on Financial Accountability in Non-Governmental Organizations, 2019

³ Carol Ann Tilt, Ngos: Issues of Accountability, 2007

environment. Stakeholder theory focuses on legitimacy associated with risks and moral claims. Stakeholder theory is a theory with a good basic concept that is used to provide information that users need based on their interests. Stakeholder theory explains different interests from an ethical or moral point of view and believes that individuals and groups are able to influence the goals of an organization by certain behaviors¹. NGO accountability is transparency that allows stakeholders to use information and protect interests, and people have a right to know about NGOs' activities. Transparency is also important for beneficiaries, involved in program design and implementation. Stakeholder map analysis ensures that information is complete for the sake of accountability.

Monitoring Power over NGO Performance

Internal control systems are popular and important for financial reporting. However, the changing business environment is forcing executives to establish a reliable and effective control system. NGOs have relied on traditional and informal practices to support their operations. Internal control is intended to meet general objectives. It consists of procedures established by management to ensure that resources are used effectively and that actions are taken as effectively as possible.

Internal controls benefit organizations if they are functioning and can protect from fraud. To be effective, internal controls must be designed with organizational characteristics in mind and should respond to internal and external changes in the organization. It should be part of an organization's integrated enterprise risk management framework, where performance measurement serves as a planning tool for assessing impact. It also includes performance measurement, indicators to assess the NGO interventions along with the human resources, etc².

The Impact of Internal Control System on the Financial Accountability of NGOs

Internal control can help an organization achieve its goals and its system includes policies and measures that provide management with assurance that the organization is achieving set goals and objectives. Among the objectives of internal control, there are other important ones, including security in action and maintaining operational effectiveness. Control is considered one of the most important aspects as it helps manage risks and ensure that certain actions are performed. Besides, risk assessment is taking place to assess factors that may affect the achievement of expected outcome. Accountability includes the obligation of people to provide clear information about their actions and can increase commitment and effectiveness. It increases the legitimacy of NGOs. Accountability will improve organizational performance. It is very important for NGOs to ensure that funding received from donors is used according to

¹ Ni Wayan Rustiarini, Accountability of Non-Government Organization from the Perspective of Stakeholder Theory, 2016

² Moses Oppong, Alex Owiredu, Virgil Abedana, the Impact of Internal Control on the Performance of Faith-Based Ngos in Accra, 2016

the goals and no amount is allocated to other goals. Internal controls are important to protect this aspect, improve data reliability, improve compliance with laws and increase the efficiency.¹

Risk of Financial Malpractice of NGOs

Donor agencies have realized that corruption and other types of financial fraud can have a crucial impact on NGOs' activities. Several studies have looked at financial fraud in NGOs and assessed the risk of misuse of funds in NGOs and how can it be combatted. Based on the findings, the risk can be mitigated by stable collaboration and experience, shared between donors and implementing agencies. Studies also recommend that donors try to mitigate risks by adapting realistic financial control measures on the misuse of funds. Some studies have also tested a tool for assessing corruption risks from the perspective of the donors. The results identified important risk factors that donors and agencies need to take into account the NGO's capability and operational context².

The Widespread Challenges of NGOs in Developing Countries

One of the most problematic aspects of NGOs is the decision-making process. Tensions have arisen between staff and the senior manager because of staff expectations, as they will be equal in the decision-making process. Another problem is related to staff career development. Common problems also include fundraising, limited experience in finances and management, ineffective self-sustainability. Other challenges also include accountability. To be successful, NGOs need to improve their performance and put more pressure on their management and leadership. New NGOs mostly suffer from limited resources, the trust of stakeholders and fundraising. The lack of developed goals and objectives, mission and values is another problem that NGOs face. For the most part, they are less effective and goals are unrealistic. It is very important to make the decision-making process effective for staff and management. Communication is also an important issue for NGOs, as well as trust and relationships with donors. Poor financial resources and institutional capacity, structural development and the desire to scale up activities are among the most discussed challenges³.

Exploring the Challenges Threatening the Survival of NGOs

Availability of funding is critical to the operations of NGOs, while inaccessibility of funds plays a weakening role for various institutions. Since most NGOs operate on a

¹ Abdulkadir Abdulrashid Rafindadi, Aliyu Zakariyah, the Impact of Internal Control System on the Financial Accountability of Non-Governmental Organizations in Nigeria: Evidence from the Structural Equation Modelling, 2019

² Alhassan Musah, Financial Malpractice and Risk of Financial Malpractice of Ngos in Ghana: Perspective of Donors, 2018

³ Ali Akbar Bromideh, the Widespread Challenges of Ngos in Developing Countries, Case Studies from Iran, 2011

non-profit basis and depend on donations, survival becomes unpredictable. Corruption, misuse of the organization's funds, paying ghost workers, and misuse of the organization's infrastructure, such as vehicles for personal use, damage the effectiveness of NGOs. It is possible that NGO directors may be connected to those in power and may not feel the law. The goal of NGOs may not be to solve social development problems, and they may not follow legal norms. Sometimes the lack of cooperation between an NGO and the government leads to inability to achieve goals and objectives¹.

Financial Sustainability of NGOs

Social entrepreneurship in NGOs can be involved to achieve social goals. Entrepreneurs use their potential for social change. Although different ones limit the importance of social enterprise to a specific community task, this does not mean that organizations with existing products have to invent something new to have the features of a social enterprise. Products are mostly organic, e.g., local food, organic products, etc. Entrepreneurs get an economic advantage by expanding their ability to stay on their goals and at the same time, have a positive impact on society. NGOs can use their property to achieve their non-profit goals. Sustainability is measured by performance and effectiveness. Success is about integrating sustainability into organizational procedures, which is a key factor in their success. Sustainability has influenced the strategic orientation of NGOs. Financial sustainability is the ability of NGOs to diversify their funding base².

The idea of sustainability among NGOs is not clearly stated. Sustainability is the ability of management to take care of the organization in the near future. An organization's financial sustainability is the ability to take advantage of opportunities and is usually combined with financial capacity. Financial sustainability is a key issue. Research from different developing countries has shown a number of things that determine the financial sustainability of NGOs. These factors include: diversification of financial benefits, sound financial management practices, generation of own income and good working relationship with donor partners. Financial sustainability is crucial to the survival of NGOs, and they are mostly struggling when they depend mainly on governmental funding. Therefore, NGOs should look for different ways to make their activities more sustainable. Financial sustainability is the ability of an NGO to raise funds or generate income in order to be able to perform necessary actions and can be measured by the difference between income and expenditure, as well as by the increase in income to emphasize the organization's liquidity and its ability to remain in working condition. In other literature, sustainability is viewed in terms of income diversification, goes beyond resource mobilization, sound financial management

¹ Simon Murote Kang'ethe, Tatenda Manomano, Exploring Challenges Threatening the Survival of Ngos in Selected African Countries, 2014

² Hasan Metin, Bejtush Ademi, Financial Sustainability of Ngos: An Empirical Study of Kosovo Ngos, 2019

practices and is seen as the ability to adapt to changes in an ever-changing environment. NGOs working on sustainability should be able to raise funds and hire staff to ensure support and cooperation with each other. Typically, the key to NGO financial sustainability is donor relationship management, revenue diversification, financial management techniques, etc. NGOs usually have high operating costs and rely mainly on public support for some of their projects. Some studies show that it is very important for NGOs to diversify their sources to ensure sustainability. In addition, these studies also showed that the lack of strategic financial planning is a problem for NGOs. The vast majority of NGOs have a strategic financial planning system to ensure that their goals are achieved. Reliable methods of financial management included the process of managing present and future financial resources and defining strategic planning for NGOs. Good financial management has a strong impact on sustainability because it helps to convince donors that NGOs have financial control that ensures that the funding received is used for the purposes or goals set. However, there is a great need for NGOs to be more accountable and transparent where financial management can play a role. The concept of measuring good financial management practice is to have financial plans linked to a strategic plan. Good financial management practice is when an NGO stores all information related to assets and liabilities and finds ways to reinvest to generate more income, and one of the best tools is to have a double entry system, all international financial reporting practices that help make the right decisions, which can also lead to diversifying income and increasing income from local or foreign sources. Diversifying income is when an organization is able to receive funding from a variety of sources, including state, international, private, etc. Revenue diversification is when more than half of the funding comes from five different sources. Some think that diversifying income means that half comes from international sources, other part from membership fees or community fundraising activities¹.

Self-financing can be understood as a business to generate its own income and is the acquisition of internal sources bringing financial income and profit. It is strategically advantageous for an NGO to focus on self-supporting activities in line with its core mission. The risks of self-financing can be described in this concept as:

- Strong competition from the private sector
- The risk that the organization will forget its mission and become profitable is a priority²

The effective functioning of NGOs increasingly depends on financial sources that support their social goals. NGOs are not profit oriented, which is one of their main

¹ Alhassan Musah, Ahmed Ibrahim Anyass, Determinants of Financial Sustainability of Non-Governmental Organizations (Ngos) in Ghana, 2020

² Gabriela Vaceková, Mária Svidroňová, Benefits and Risks of Self-Financing of Ngos - Empirical Evidence from the Czech Republic, Slovakia and Austria, 2014

characteristics. The funds needed to implement a long-term idea aimed at supporting society are mainly resources received from public and private donors. The implementation of a strategy based on income diversification is seen as a chance to increase income and strengthen stability of NGOs. Moreover, additional investment opportunities may lead to greater autonomy for organizations in their mission-related work, which, at the same time, may lead to more effective monitoring of NGO functioning. Diversifying sources of income also helps limit the control of public and private donors, especially when any of them dominates the contribution of capital. Thus, it increases the independence of organizations in fulfilling their public mission and at the same time reduces the risk of pressure on NGO leaders to change or abandon the mission of the organization. NGOs are not profit oriented, which is one of their main characteristics. Missionary goals are mainly funded from several different sources. The strategy of diversifying income in NGOs is rejected for many reasons, which are mainly focused on widely perceived issues related to their independence and autonomy in fulfilling their social mission. Moreover, income diversification supports NGOs' financial security and improves their economic potential. Consequently, they must take a stronger market position and adapt to the conditions of stronger market participants. Access to many different sources of financial capital, on the one hand, limits the adaptation of non-profit organizations to areas of support imposed by government policies, and on the other hand, limits private donors. When any public or private support leads to capital investments, diversification of sources of income limits control by government agencies or individuals. Thus, it increases the independence of organizations in fulfilling their public mission, while reducing the risk of pressure on NGO leaders to change or abandon organization's priorities. Non-profit organizations with different income streams are less volatile and therefore less exposed to external factors such as recession. Diversifying income increases the likelihood that an organization will survive. At the same time, the authors argue that a higher level of income concentration increases the risk of bankruptcy of many organizations, especially during an economic downturn, when a decline in income from one source can be replaced by other financial sources. Non-profit organizations do not rely on one source of income, but their income is relatively concentrated. In another publication, the authors emphasize that this increases the autonomy of organizations in fulfilling their social mission and reduces pressure on managers of non-profit organizations to change or abandon their goals. Others explore the relationship between income diversification and the changing mission of the nonprofit organizations. They disprove previous studies, suggesting that access to many different sources of income reduces the variability of organizations. This effect depends on the structure of the portfolio. Based on the sources of funding rating, some note that national and foreign public funds are the most important for an organization given the scale of its social activity. NGOs that provide a wide range of services and products need different sources of funding. The way that nonprofit organizations use their chance to provide

services is reflected in their social mission. NGOs try to obtain financial resources while at the same time fulfilling their goals that serve a particular social group.

The way that nonprofit organizations use their chance to provide services is reflected in their social mission. Organizations try to obtain financial resources and at the same time to fulfill the adopted goals that serve a certain social group. However, the discussion about economizing the nonprofit sector is not without criticism of funding coming from commercial activities led by nonprofit organizations. This criticism mainly concerns the destruction of the social mission, which can often change or even abandon it. As many researchers note, from the financial point of view, it seems a justified choice to receive income from different sources. This provides an opportunity to increase their income and strengthen financial stability of NGO activities. Moreover, differentiation of investment opportunities may lead to greater autonomy of the organization. This facilitates more effective control over mission-related activities. Income from commercial activities does not play an essential role in case of NGO mission change. Similarly, it is not public funding either at the national or local level, nor foreign foundations. When discussing the role of NGO financial sources in changing the mission, further research is needed. In addition, many factors affect the implementation of the social mission. Certain changes in the social mission implemented by NGOs are necessary and reflect changing social needs¹.

The Effect of Revenues Diversification on NGOs

The problem of income diversification and its impact on stability has been observed. Commercialization of NGOs is a process in which NGOs perceived as nonprofit organizations involved in activities aimed at generating income from the sale of services and products. The goal of the commercialization process is to increase the economic stability of an organization through commercial sales of products and become independent from funding based on donations and/or charity, as well as from changes in the organization's leadership, with an emphasis on resourcefulness. Supporting the theory of dependence on source, researchers believe that non-profit organizations use commercial income. There are many reasons for the strategy of diversifying income sources in nonprofit organizations. It should be emphasized that both reasons for income diversification of the analyzed companies are closely interconnected and represent a desire to limit the risks associated with dependence on donors. Among the financial prerequisites, motive for diversifying the sources of income of NGOs is the fear of insolvency or decline in income. NGOs with diversified income are characterized by a stronger financial position than those that use only a few sources of income. Diversification of income increases the probability of survival of an organization. One condition of a stable NGO is access to different sources of funding. Financial stability is a key factor for NGOs because it not only supports planned activities, but also ensures that resources are available for hiring staff,

¹ Paweł Mikołajczak, Diversification of NGOs' Revenues: Implications for the Mission Changeability, 2019

purchasing equipment and maintaining jobs. Stability of funding ensures not only continuity of NGO activities, but also predictability and manageability. Regular access to the organization's finances creates opportunities for its continuous work. Concentration of financing on several stable sources contributes to the growth of organizations, ensuring greater financial stability. One way to diversify the income of a non-profit organization is to receive it from the commercial sale of goods and/or services in exchange for payment. The essence of the process of commercialization is to create economic stability for the nonprofit organization by ensuring its independence from donations or philanthropic funding and changes in its management, with an emphasis on entrepreneurship and the self-sustainability of the organization¹.

NGOs and the Implementation of Good Governance Principles

Good governance is a popular word, which has attracted public attention in the last decade. This concept is rapidly becoming an important in considering the ability of a state to meet generally accepted democratic standards. It seems that many countries around the world are seeking to use available resources to ensure the development of their society, which is a positive step towards good governance. The introduction of good governance principles into NGOs is being actively discussed in an international forum and in developer circles. There was no universal definition or single author that would actually explain satisfactorily what good governance means in NGOs or how they should apply it to help vulnerable communities. In most scenarios, good governance was closely linked to community affairs and how to properly manage enterprises or community resources. Most NGOs see themselves as catalysts for change and participants affected by external changes, such as capacity development, in the context of development discussions. NGOs can reorient and expand their activities by applying their skills and knowledge in a variety of areas, from training, information sharing, counseling and advisory services, as a way to facilitate change in other institutions whose responsibilities include providing support services to the government. NGOs see capacity building as a process through which a society, or changes its rules, institutions and standards of conduct, increases its social capital, which increases its ability to respond, adapt and discipline itself. The authors reflect on the idea that, as part of improving good governance, NGOs and donor agencies share costs of capacity building, reflecting the growing awareness that contributes to the allocation of resources and contributions that help improve an organization's performance. Implementing human resources policies and working procedures is critical for NGOs in good governance practices. In any organization, the effective implementation of quality control largely depends on the quality of the personnel working. NGOs in developing countries have an obligation to implement effective human resource initiatives through the adoption of various human resource

¹ Paweł Mikołajczak, the Impact of the Diversification of Revenues on Ngs' Commercialization: Evidence from Poland, 2018

policies, ranging from recruitment, training and promotion, monitoring and evaluation, compensation and other measures. For example, in hiring the workforce, NGOs should look for standards to ensure that they recruit qualified staff with extensive experience and knowledge and demonstrate ethical standards for the job. The authorities should ensure that transactions are approved by responsible officials to avoid unnecessary costs to the organization. NGO managers should play an oversight role by hiring managers who play a fundamental role in implementing effective control systems for effective management. This requires regular compliance checks in accordance with relevant operating procedures. These procedures entail what, how, why, where and when actions will be taken. Control and monitoring procedures were also important elements in ensuring good governance in NGOs. As the NGO sector expands in terms of funding and functions, concerns about professionalism and accountability are growing. Good governance includes many characteristics such as participation, rule of law, transparency, responsiveness, consensus orientation, fairness and inclusiveness, efficiency and effectiveness, and accountability. Transparency and openness, in turn, imply that decisions are made and implemented in accordance with rules and regulations¹.

The Impact of Strategic Planning for NGOs

Strategic planning is crucial to the strategic management process. Strategic planning is an integral part of the organization and is deeply rooted in providing clarity of purpose, followed by developing mechanisms that create value for NGOs. Strategic planning includes internal and external analysis, i.e. PEST or SWOT analysis. Some link the mission and strategy to the performance of the organization. Others think that maintaining proper alignment between mission and goals helps the implementation process. Financial accounting helps NGOs keep track of how well they utilize scarce resources and funds. The information obtained contributes to the NGO's accountability and additional fundraising. Internal processes are more cost related, and revision of internal processes depends on performance indicators. The success of an NGO depends on skills and competence. Therefore, an NGO needs to periodically improve the skills of its employees, manage information exchange, which will lead to an overall increase in productivity. In addition, training and volunteer development methods should also increase productivity. All of this is very important for strategic planning that improves the performance of NGOs².

Research Methodology

The research combines theoretical, quantitative and qualitative methods. Relevant Georgian and foreign language literature and data are obtained at the initial stage of

¹ Elvin Shava, Non-Governmental Organizations and the Implementation of Good Governance Principles, 2016

² Rohana Bandara Weerasooriya, a. Chamaru De Alwis, Ali Khatibi, the Impact of Strategic Planning for Non-Government Organizations in Sri Lanka: An Evaluation Using the Balanced Scorecard - Development of a Conceptual Framework, 2014

the research through in-depth interviews with NGOs based on pre-designed questionnaires.

Interviews are an excellent method for our research as they provide in-depth information about managers' opinions, experiences and challenges within the research. Interviews are effective because the topic to be addressed covers issues that require a complex approach. Face-to-face interviews provide maximum extraction of information.

Different types have been considered during the interview, including:

- **Structured Interviews:** The interviewer asks standard, pre-defined questions in a specific sequence. The respondent chooses his / her answer from the possible answers.
- **Unstructured Interviews:** In a non-structured interview, the interviewer has no specific guidelines, restrictions, pre-defined questions. The interviewer asks some general questions to participate in an open, informal, and spontaneous discussion.

In addition, within the framework of the research, researches of international organizations have been found on the Internet, on the basis of which literature, documents and secondary information have been analyzed, scientific papers, various reports have been collected. The document analysis method was used as an independent method to obtain important information on the research topic. Internet was used to collect documents. The search was carried out mainly on the basis of electronic scientific databases. In some cases, popular search engines, including www.google.com has been used. To collect data, different keyword combinations and free access documents have been used posted on scientific online platforms. It is important that no research in this area has been conducted in Georgia yet and this research is the first precedent in Georgia.

The research paper identifies the health of NGOs' financial management and assesses tool so that NGOs can identify the areas where they need to improve. Besides, all key areas of NGOs financial management are covered to consider how well organizations are in line with good practice.

Discussion

Based on the study, we can conclude that in NGOs:

- Managers are more likely to take an active interest in financial management issues
- Senior management leads by example and adheres to financial policies and procedures
- Program personnel typically adhere to accounting procedures and requirements

- Nonfinancial staff are consulted on the practicality and "usability" of financial documents (e.g., vehicle logs, payment forms, and expense claims)
- Financial personnel are known to be available and willing to discuss issues with program staff
- The finance department is "evaluated" by the organization - e.g., it is adequately resourced; it is represented on the management team
- Finance personnel are engaged in the strategic planning process
- Budgets are delegated, managed, and implemented at the project level
- Financial personnel are involved in the annual budgeting process

Research has shown that the following is not always true:

- Program staff job descriptions establish specific financial management roles and responsibilities
- Program staff receive financial management training, either through formal courses
- Program staff never complains that financial policies and procedures are too bureaucratic or not practical
- If any employee fails to follow policies and procedures, it results in some kind of sanction or warning (as opposed to people getting away with it)
- Financial policies and procedures are written down (e.g., in the Financial Manual) and distributed to all staff
- Finance and program staff meet regularly to discuss program plans and progress toward goals
- Program staff receive regular budget monitoring reports and use them to manage their programs
- Chart of accounts (list of account codes/categories) is available to program staff
- Program staff participate in the annual budgeting process

Mostly NGOs have a reasonable level of integration of financial management. But NGOs could easily improve matters with some careful planning. Other enhancements can be very helpful in avoiding misunderstandings and conflicts; making procedures more efficient; helping staff do their jobs better and more efficiently; and making more effective use of resources. For instance, a good first step might be to review the findings of the self-assessment with some of NGOs managers and discuss what NGOs can do better.

In most situations, NGOs have a fair degree of integration in financial management. However, NGOs can improve quickly with proper preparation. Further changes can help avoid misunderstandings and conflicts; make processes more effective; help workers to do their job faster and more effectively; and make more productive use of resources. For example, a successful first step might be to study the outcomes of self-assessment with some NGO leaders and explore which NGOs should do better.

Planning and budgeting

Research shows that these is the most common finding:

- Budgets are developed in a timely manner for all organizational operating costs
- Project budgets are based on planned operating costs
- A distinct budget is established for overhead
- Organizational budgets are endorsed by the Board
- Most anticipated operational costs are appropriately funded
- Most of the time, a cash flow forecast is prepared on a monthly basis

However, the following occurrences rarely took place:

- Financial and program staff assist with budgeting
- Budget sheets include explanatory notes and clear computations
- A designated person (budget holder) is responsible for implementing and administering each budget
- Budget codes align with accounting codes

Basic accounting system

Based on the research, it was identified that mostly:

- A supporting document is attached to each payment made
- All incoming cash or cheques are recorded on pre-numbered receipts in PDF format
- All payments and receipts are accounted for in cash books (date, description, amount)
- A separate cashbook exists for each bank and cashier account
- Each entry in the cash registers is referred to a supporting document

- All cash books are carefully produced in permanent ink or by computer
- A standard chart of accounts is used to code (or classify) each operation into cash records
- A bank reconciliation is conducted monthly for each bank account
- Cash counts are reconciled and recorded on a monthly basis
- The organization tracks amounts owed to others (e.g., vendors) and owed by others (e.g., staff)

However, the following has taken place rarely:

- All cash books are updated a minimum of once a month
- Transactions are also categorized by project or donor through a standard list of "cost centers"

Financial Reporting

Based on the research, it was identified that mostly:

- Financial reports are discussed by senior management at least once every three months
- Reports include details of cash and bank balances, amounts owing and owned
- Financial reporting serves for decision making
- However, the following has taken place rarely:
- The Board examines the financial reports on a quarterly basis
- Budget managers receive budget tracking reports each month
- Budget tracking reports include explanations and comments on differences
- Financial information is provided to beneficiaries at least annually in an accessible manner
- Annual audits are up to date (signed in the 6 months following the end of the financial year)

Internal controls

Based on the research, it was identified that mostly:

- All cash received is banked intact, i.e. without any being spent
- There is a detailed written policy that may allow expenditures of different types or values.

- All transactions are duly authorized
- Different stages of the procurement process (e.g., ordering, receiving and paying) are shared between different people
- Personnel salaries are audited monthly by an executive
- Mandatory deductions (e.g. payroll taxes) are done right and paid on time
- An approved policy and procedure manual is available which is relevant to the organization and known to employees

However, the following has taking place rarely:

- Money is kept securely in a safe or under lock and key is in the care of a single person
- All cheques are signed by two or more signing officers
- Cheques are not signed until all details have been correctly completed (i.e. no signatory has ever signed a blank cheque)
- Bank reconciliations are verified by a person that did not prepare them
- Cash payments are authorized by a person who is not the cashier
- Claims for personnel advances are verified by the same person who authorized the advance
- All capital assets (e.g. vehicles, computers, equipment) owned by the NGO are insured and monitored through a capital register
- The trustees shall select a duly registered verification firm

Grant management

Based on the research, it was identified that mostly

- A signed grant agreement is available for each grant
- Senior management checks that grant terms are reasonable before signing agreements
- Financial staff, budget officers and procurement officers know the terms and conditions of the procurement within grants
- Grant agreement terms and conditions are well respected
- Funders receive financial reports in the correct format and in a timely manner
- Financial and narrative reports from funders are coherent and clearly linked
- Funder funds are maintained for the activities for which they are intended and are never "borrowed" for other activities

Staffing

Based on the research, it was identified that mostly

- The board includes an individual who is qualified to oversee all financial activities
- Finance personnel have the necessary competencies (and qualifications) to perform all financial activities
- Program managers and personnel are financially competent to manage budgets and implement controls
- Finance staff and budget officers work well together on payment processing and budget tracking
- The various roles within the finance function are clearly defined, recognized and respected
- Senior managers set an example by using control procedures
- All personnel are provided with the training and support they require to fulfill their financial management responsibilities

However, the following has taking place rarely:

- Finance staff are hired freely and fairly on a merit basis only

Generally, there is clearly some good financial practice in place, but still plenty of room for improvement. There is a risk that financial problems will prevent NGOs from doing work. Sometimes, there is a high need that require attention from managers.

Findings, Conclusion and Recommendations

Budgeting means estimating the future costs of planned activities. Consequently, financial planning should include not only financial staff, but also project staff, which will also provide a good basis for cooperation. In addition, it is also important that board members are aware of budgets and approve them in advance to ensure that the strategic direction of the organization is not changed. Budgets are important to ensure effective financial management. The appointee must keep track of the ongoing costs associated with the programs and ensure that the appropriate codes are used for budget items that are also linked to the accounting codes. Tracking actual costs versus planned costs will also allow the manager to make appropriate changes. In addition, it is important to conduct a cash flow analysis, which is just as important as budgeting. A forecast should be made for at least 3 months, based on available cash flow. The analysis will help managers prioritize the timing and duration of planned activities and identify cash flow problems in time.

Each financial transaction must be accompanied by appropriate documentation, including invoices, receipts, etc., which serve as evidence of the specific transaction in question. Each transaction must be recorded accordingly. In this case, an Excel spreadsheet, accounting software or paper can be used. It is very important to check that the balance sheet is correct each month.

It is important for board members to have financial statements in order to know the financial position of the organization. Managers need to have up-to-date information to monitor the project and take appropriate action. Donors need reports to support the use of funds, which, in many cases, influence decisions about further funding. In addition, organizations share information with beneficiaries to build trust and accountability. In addition, external audits verify the accuracy of financial reporting.

It is important that monthly financial reports include income and expenditure information. In addition, project managers should ignore financial reports to make appropriate decisions to make sure that money is used correctly and is producing the desired results. Reports should be prepared at the end of each month in an appropriate format.

NGOs should have a system of internal controls to ensure the accuracy of accounting records, protect assets, and prevent fraud.

Many NGOs receive a portion of their funding from donors with a specific grant agreement. Donor-funded projects have specific requirements that are also part of the agreement and may include a number of grant conditions. Finance staff must work with project staff to ensure that the financial report and narrative are consistent. Sometimes NGOs work with different donors. It is important to keep track of where donor funds are distributed and how they are used. Using funds from another project for an NGO is not good practice.

Staff must have the right skills for effective financial management. The accounting department includes executive management, managers, etc. who incorporate effective financial management into programs, ensuring that the financial staff works with the budget assigned staff at all stages.

Results

At present, Georgian scholars have developed no literature or research related to the role of financial management in non-governmental organizations at a time when there is a high interest in this issue in the international scientific community. Financial management issues are quite relevant for NGOs as any NGO strives to achieve financial sustainability. For this, it is necessary to analyze finances for future planning. The results of the study are important to individuals involved in the management of the NGO or to other stakeholders. The research process revealed a combination of general and specific factors of financial management that affect the success of an NGO. In addition, interesting theoretical considerations related to the issue and NGO's

sustainability factors have been identified. The results obtained adequately and purposefully addresses the sustainability of the NGO and plays an important role for those interested in the issue. Also, local best practices, internal standards of the organization was analyzed and a number of recommendations have been developed to promote the sustainability and growth of the NGO. This research will help NGOs to better plan their activities. In addition, it will help the NGO decision maker to plan well for future activities without compromising financial stability.

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