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Marketing through the Coronavirus Crisis - How Marketers in Albania Deal with the Ongoing Crisis of Covid-19

Ana Buhaljoti

Abstract

None of the 21st century economic hardships have posed such a significant threat on businesses as the global pandemic COVID-19. In Albania beyond the evident threat it is causing to the human well-being, the coronavirus is threatening the health of businesses. According to the Albanian Institute of Statistics, in the second quarter of 2020, GDP in volume terms has decreased by 10.2% compared with the second quarter of 2019. This crisis gives a reflection to how the businesses in Albania do marketing and manage marketing risk. The purpose of this paper is therefore to investigate the Albanian marketers point of view and actions within the ongoing crisis caused by covid-19. The study aims to understand how marketers are dealing with the situation right now and whether they are taking a proactive or reactive approach. There is no current evidence whether marketers are managing crisis with a reactive method, purely tactical or proactively with a strategic viewpoint. In line with the purpose of this study a qualitative research approach was taken to gain insights on marketing through the coronavirus crisis in Albania. The depth interviews conducted with marketing managers of four different industries collected rich information on handling the coronavirus crisis and concluded that marketers were unprepared and adopted a reactive approach when dealing with the covid-19 crisis. Further the Covid-19 crisis gave rise to a more attentive and sensitive tone towards digital marketing in strengthening relationships with both partners and consumers.

Keywords: marketing, crisis management, Covid-19, Albania

JEL Classification: according to the JEL Classification System

Introduction

None of the 21st century economic hardships have posed such a significant threat on businesses as the global pandemic COVID-19. In Albania beyond the threat it is causing to the human well-being, the coronavirus is threatening the health of Albanian businesses. According to the Albanian Institute of Statistics, in the second quarter of 2020, GDP in volume terms has decreased by 10.2% compared with the second quarter of 2019. (OECD 2020)

The impact on the overall economy is severe, with large falls in tax revenue, increases in debt and loss of employment. Based on World Bank firms are suffering from reduced demand, reduced labor supply and from constraints to sourcing material inputs. 61% of firms remain profitable and almost all firms in the highly impacted sectors register losses. (World Bank 2020)

This crisis gave reflection to how the businesses in Albania are managing the situation and what implications it has for marketing. Although previous studies on marketing in times of economic crisis indicate to invest in marketing, in reality most companies in Albania are doing the opposite and are cutting their marketing funds. Marketing budgets are cut because of top managers' short-term focus and the changing behavior of customers. According to O'Malley et al., 2011, during a crisis consumer become more value-oriented, tend to have a consumption-discouraging lifestyle and trust less in businesses and the economy. (O'Malley et al., 2011) Consequently, marketers become more worried about cash and tend to cut off costs by reducing the support to brands together with reducing market research efforts. They also switch from traditional marketing to online marketing in order to reduce costs. (Nickell et al., 2013)

Whether coronavirus with its rapid spread has caused marketers to take a proactive or reactive approach has to be further investigated in this study. The aim is to understand how marketers are dealing with the situation and what are their actions and expectations for the future. In line with the purpose of this study a qualitative research approach was taken to gain insights on marketing through the coronavirus crisis in Albania.

Literature Review

Most of the studies on crisis are related to the management discipline analyzing crisis as a component in business planning and activating alternative plans in response to a critical situation. Although it naturally overlaps other fields, the number of studies that are related to how marketing should be conducted during a crisis are very few and studies that are specifically related to marketing during pandemics are rarer. (Jaques, 2007)

The review by Bundy et al. (2017) testifies a lack of integration across fields and limited consensus about crisis management. From a business perspective, crisis is the perception of an emergent event that threatens stakeholders' expectations regarding safety and economic matters and can damage an organization's performance. (Coombs 2019) Previous research on crisis has focused on developing frameworks for managing crisis and diminishing the impact of a potential crisis. By major authors crisis management is seen as more of a reactive activity as action is decided upon problems are escalating. (Coombs 2019, Bundy et al. 2017, Seeger et al., 2003 , Jaques, 2007)

Meanwhile previous studies on marketing in times of economic crisis testify a limited effort among businesses in regard to pre preparing for crises. How marketers approach a crisis often is reactive by cutting marketing expenditures and investments. Authors indicate that marketers tend to disregard strategic considerations and focus on situational circumstances. Marketing budgets are cut as a consequence of top managers' short-term focus and a lack of market orientation. (Quelch et al. 2009, O'Malley et al., 2011)

Nickell et al., 2013 investigated how marketers acted during the Great Recession and found that they decreased marketing spending and company's investments. High-performing companies strengthened strategic customer accounts and invested in customer relationships. The crisis became a catalysator for the shift from traditional marketing to online marketing (Nickell et al, 2013).

When entering a recession, marketers' success depends on their ability to adapt quickly to the new situation. Research argues for a critical need to re-strategise to adapt to a "new normal". (Piercy et al. 2010).

Jaques (2007) views crisis management with a strategic viewpoint. It includes proactive process that are interrelated such as prevention, preparation, response, and recovery. These phases are set by Pearson and Mitroff Model in Figure 1. (Jaques 2007, Pearson and Mitroff 1993)

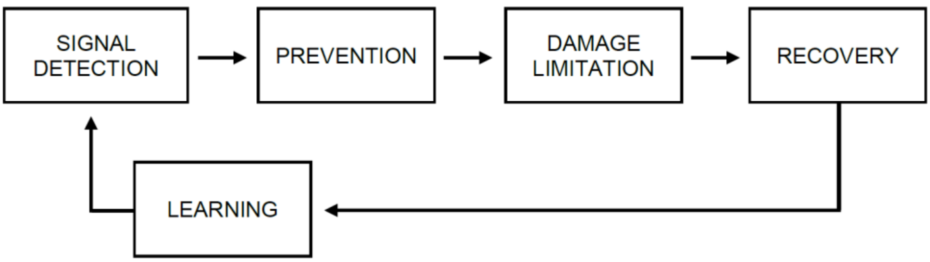

Fig.1 Model of Crisis Management (Pearson and Mitroff 1993)

The signal detection or recognition of a crisis earlier is crucial for minimizing the threat to the organization. Signal detection is difficult in crises of the sudden type, such as a pandemic crisis due to its unexpected nature. James and Wooten (2005) state that warning signals often are ignored, or even worse blocked by organizations, as they are hit by storm of information. Organizations shall continuously scan for potential problems before they escalate and grow into a crisis. (Pearson & Mitroff 1993)

Prevention is "a rational way to select which potential problems an organization should prepare for and which can be 'safely' ignored". (Pearson & Mitroff 1993)

Organizations can group crises of similar nature together in different categories. Thus, creating a portfolio of crises which will help determine the threat level and design a suitable strategy to approach at least in each crisis category. The goal of crisis management is not to prevent every possible crisis from happening, but to effectively prepare and manage the ones that cannot be prevented.

The organization shall prepare effective mechanisms and activities to limit damage. According to Pearson & Mitroff, 1993 it shall prepare an effective crisis management system over five different factors: (a) technical, (b) human, (c) infrastructural, (d) cultural, and (e) emotional (Pearson & Mitroff, 1993). Organizations must consider damage from the context of its environment and not turn their back to stakeholders in order to limit damage and protect their own interests.

This reasoning implies a proactive approach to crisis management. Crisis-prepared organizations have both short-term and long-term business recovery programs. (Pearson & Mitroff, 1993)

Recovery requires communicating correctly with stakeholders to reassure that the disruption caused is not affecting the operations. Organizations can approach a crisis as an opportunity to create a better organization by adopting a learning mentality (James & Wooten, 2005). Those that spend time to analyze and learn from past crises can use that insight into the crisis management processes in order to be better prepared for potential future crises. Some authors have connected organizational learning to the concept of resilience. (McCarthy et al., 2017; Williams et al., 2017) Resilience refers to anticipating and adjusting to secular trends that can permanently impair the earning power of a business (Weick and Sutcliffe 2007). According to Boin and van Eeten (2013) resilience is a solution to the challenging circumstances created by a crisis and depends on the organization ability to absorb the shock and bounce back after a crisis impact. (Boin and van Eeten 2013) Planning for unexpected risks sets organization's up for responding incorrectly using old solutions for new problems that are different to past situations. Instead organizations should learn to deal with adversity reactively by maintaining high-level performance despite the presence of environmental pressure. Weick and Sutcliffe (2007) further state that unexpected events often assess resilience by affecting how much an organization stretch without breaking and then how well it recovers. (Weick and Sutcliffe 2007)

Kotler and Caslione (2009) argue that resilience is crucial for marketing success in times of crisis. The marketer is required to gain the attention and engagement of the marketplace through the turbulence of the crisis. Key ingredients for success are an understanding of how the needs of stakeholders change by working closely with key clients, analysing the challenges that the dramatic downturn posed to them and finding innovative solutions to this new situation. (Kotler and Caslione 2009, Nickell, et al., 2013). This is crucial as sales largely depend on consumers' having sufficiently disposable incomes, positive outlooks on the future, trust in businesses and the economy. (Quelch & Jocz, 2009)

Thus, instead of responding tactically to the situation, by experimenting with digital marketing, Jaques (2007) encourages a strategic viewpoint that includes interrelated processes, such as prevention, preparation, response, and recovery in order to manage and nurture relationships with current stakeholders on the premises of relationship marketing.

Methodology

The purpose of this paper is to investigate how marketers are reasoning and acting in the ongoing crisis caused by Covid-19. In line with this purpose a qualitative research approach was taken to explore marketer's perception through the coronavirus crisis in Albania. The qualitative research is the most adequate method to study the phenomena in their natural settings with the meanings that people connect to it. The emphasis is on "the socially constructed nature of reality" (Denzin & Lincoln, 2005). The data collection method is in-depth interviews to ensure a rich data collection in a social context. Four semi-structured interviews were conducted with marketing professionals in Albania to collected rich information on their experiences in handling the covid-19 crisis. Marketing managers were interviewed in the middle of the crisis to get a more truthful view of how marketing should be conducted during a crisis.

To ensure confidentiality, only the industries of the interviewed marketing professionals are mentioned, instead of the names. A summary of the respondents in each industry is shown in Table 1

Table 1 Company industry and respondents per industry

Company Industry	*Respondents*
Telecommunication	*Respondent 1*
Retail	*Respondent 2*
E-commerce	*Respondent 3*
Coffee Manufacturing	*Respondent 4*

Empirical findings

All interviewed Albanian marketers shared that Covid-19 pandemic crisis came as a complete surprise and none of them had expected it. When asked about initial reactions, all respondents stated that they saw the crisis very distant in the early stages (January and February) as it could not affect them. The respondents continued describing how their attitude completely changed from the 10th of March, when the Albanian society shut down. At that point they began to mentally prepare for losing sales, take step back with marketing and put marketing expenditures on hold.

Respondent 2 expressed its initial feelings as: *"I always think that things will eventually settle. Its just a virus, it can't be a big deal."*

Respondent 4 expressed its initial feelings as: *"I could not see how this would come to affect us."*

When asked about how prepared the agencies were for a potential crisis of any kind, the interviewees agreed that no one was prepared for a pandemic, neither had plans for economic downturns. All respondents agreed that they do not have a crisis plan as it is not necessary, but being reactive and adaptable is crucial for any downturn.

Respondent 1 stated that "*Having a sufficient budget keeps us from falling under the pressure of a crisis"* Further as a large company representative the marketer stated that *"we tend to prepare for crises in times of accidents and associate it to something terrible happening at the company, such as a media scandal."*

Respondent 3 pointed out that they have a wide customer base and are not stuck in one industry. "*We reacted immediately by diversifying our product portfolio, considering the new products demanded as customers were spending more time at home"*

A change in consumer behavior was also noted by respondents 2 and 3, where consumption has moved to home-activities such as baking and furnishing, providing implications of the industries that are benefitting from the crisis, corresponding to the industries of respondents 1 and 2.

Respondent 2 stated that: "*you cannot prepare yourself so much, but it's more about being quick to think and make decisions about the next measure to take in the worst scenario.*"

All interviewee agreed that it was unlikely that any company could have prepared themselves for a crisis as the current one, as it was very unexpected.

In terms of prevention measures, marketers were asked about prior analysis of the situation to prepare for crisis.

Respondent 1 and Respondent 2 replied that their company conducts environmental analyses and risk analyses, **respondent 3** said they conduct situational analyses while **respondent 4** said they did not have any situational analysis oh hand immediately.

Respondent 1 explained that both environmental analyses and risk analyses allow them to form strategies and go through target groups and risk strategies: "we tend to *built scenarios around worst case, around sales, like how fast downwards can it go now"*

When asked about the damage caused so far by the pandemic crisis **respondent 1** and **respondent 2** meant that there are regional differences within the industry, in terms of the influence of the pandemic. **Respondent 4** brought up the profitability issue of the industry as a factor they believe is aggravating. *"The fear for one's health and of being in a public space with a surrounding crowd has heavily impacted the coffee retailers*. Consumers' fear is changing consumer behavior in bars*"* said Respondent 4.

The participants further said that layoffs were a preventive measure taken to be prepared for the coming months. The numbers of hours for workers have been lowered per week until we see how the situation is looking ahead.

Respondent 2 said that *"employees were asked to take out their saved vacation days from the previous period, in order to make sure that none of the workers are gone on long vacation once things start to speed up again*".

As for the strategies to mitigate the impact of the crisis **respondents 2** and **3** claimed adaptability to be the main strategy.

"*We have adapted to the current situation. We are developing daily, so this is a development into another direction.*"

Respondent 3 explained that their strength has been their digital expertise in regard to visibility to potential clients who switched from traditional commerce to e-commerce. "*It was a good time to work on branding and strengthening the relationships with our clients and suppliers".*

When asked about the opportunities of this crisis and what could be learned from it, the responses varied.

Respondent 1 and **2** believed that the situation has given firms an incentive to prepare for future crises better by increasing their savings and financial buffers. **Respondent 3** thought firms have to aim for a more careful growth strategy and more stable and secure operations, rather than focusing on "quick" and "short-term". **Respondent 1** expressed the importance of communication both internally and externally with stakeholders in order to handle the situation well.

Respondent 2 and 3 recognized that better digital knowledge and skills with technology are required as companies that digitalized marketing operations using technology are now in competitive advantage.

Respondent 3 stated that "E-commerce is an area that companies failed to see before and each has to exploit the digital potential further" **Respondent 2** stated that "*the digitization process is difficult, but in this situation, we had to do it overnight, no one could question it anymore."*

Respondent 1 and 2 considered strengthening online shopping and web shops as more is done digitally now.

Respondent 4 stated that *"everyone is online now, students in university are conducting online studies, public sector workers hold meetings online. online is becoming more normal"*

All respondents shared the idea that the current situation is a good time for self-improvement in terms of digital marketing. **Respondent 3** stated:

"*among marketing managers, there are many who understand digital marketing and many who do not. This is an opportunity to further develop the skills necessary for the digitalization process as the current marketing trend"*

Digital marketing is seen as a winner in this pandemic by all marketers of different industries. Marketers agreed that the crisis served as a catalysator for further digitalization.

The interviewees were at last asked to describe things they could have done better.

Respondent 4 noted that it is impossible to predict for future crises.

Respondent 1 stated that *"better knowledge and skills with technology would have been beneficial".*

Both Respondent 1 and 2 were forced to progress in e-commerce quickly and they could have taken more advantage of the technology. However, they feel more comfortable with using technology for managing daily business operations now than ever before.

All the marketing managers interviewed had learnt from this crisis that there are functions of marketing where they need help that they have not considered before. They are all open to digitalizing their marketing efforts, as well as certain parts of their operations.

Respondent 2 stated that "our business partners came to realize the importance of communication as well as the power of using digital tools and social media to accomplish it.

Respondent 3 further expressed that the crisis has acted as a catalyst for new ways of working such as video meetings are a new standard at work together with online interaction with customers.

The crisis has accelerated a digitalization process on the Albanian marketplace, which seem to have been on hold among the marketing departments of the Albanian businesses. All respondents agreed that they learnt from this experience and use it in preparation for the future, as there is room for improvement towards modern marketing methods.

Conclusion

The purpose of the study has been to answer the research question how marketers are reasoning and acting in the ongoing crisis caused by Covid-19 and whether they are taking a proactive or reactive approach.

Professionals of marketing in four different Albanian industries were interviewed in the middle of the crisis to get a more truthful view of how marketing should be conducted during a crisis.

After the collection of data, a thematic analysis was conducted to highlight certain themes. The findings give indications of Albanian marketers and consumers' reactions to the covid-19 pandemic crisis. The findings show that the marketers were unprepared for a crisis. None of the marketing representatives of the four selected industries had crisis plans prepared for any crisis at all. As the crisis arose, they were faced with the decision of whether to neglect the changing environment and continue as usual or re-strategize. None of the marketing professionals had considered a crisis scenario before, but after detecting the signals and realizing the reality of the crisis had returned to action planning. All the represented industries resorted to a reactive strategy for handling the situation. The participants generally agreed that it would have been difficult for any company to anticipate covid-19 pandemic.

The financial situation is what has had put companies under the pressure of the crisis, and therefore, the marketers speculated that building an emergency fund would be an option for the future. Also, effective internal communication has been important during the crisis, in order to turn fear into an opportunity for improvement.

Marketers enhanced that the crisis was a catalysator for further digitalization. The crisis has thus accelerated a digitalization process on the Albanian marketplace, which is something that has been long awaited among the Albanian marketers interviewed. Digital marketing is not a complement marketing strategy anymore, it is the core marketing strategy. Overall marketers showed their willingness to learn from the experience, as an opportunity to further develop the skills necessary for the digitalization process as the current marketing trend in Albania.

To sum up the findings, marketers need to rethink their strategies as the needs and behavior of their customers change. Marketing in times of crisis is seen by Albanian marketers as reactive only and marketing management is purely tactical. Marketers need to take a more proactive approach by being attentive in nurturing relations with clients as a competitive asset especially in a crisis situation.

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Increasing Youth Employability in Albania by Enhancing Skills through Vocational Education

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Abstract

Since the 1990s, Albania has experienced structural changes in education and the labour market as a result of increased globalization, the trend toward deindustrialization, and the increasing outflow of foreign direct investment, particularly from European countries such as Italy, Greece, and Turkey. Youth unemployment has increased drastically due to the transition of the economy from agricultural and public sector sectors into open market economy. This article through in-depth literature review aim to analyse the various variables and causes of youth unemployment, to analyse also the vocational education and training framework in Albania. Three research questions were raised: What are the factors that have contributed to the youth unemployment in Albania? What technical skills required the labour market in Albania? Can vocation education system in Albania enhance skills required by the labour market? This article suggests some discussions on how to increase youth employment by knowing what skills the labour market request especially in private sector and how we can improve them through vocational education and training.

Keywords: Youth Employment; Vocational Education Framework; Labour Market; Skills

Introduction

Albania in the last two decades has moved from being Europe's poorest country to an upper-middle-income country. However, the production base is limited, and the competitiveness of the primarily small businesses remains low, limiting the capacity for job creation and increased productivity. As in modern societies, also in Albania knowledge and education are central to human activities and production processes. Changes in the labour market are emphasizing the importance of individuals who can adapt to innovation, high technical skills, and the constant demand for change. As a result, greater emphasis is being placed on the importance of human capital and their technical skills to economic growth. According to INSTAT (2016) today's young people (aged 15–29), who generally have more education than previous generations, find it especially difficult to enter labour markets: at 28 percent, their unemployment rate is twice as high as that of the working-age population (aged 15–64). Youth unemployment is being addressed by the Government through many reforms in vocational education and employment reforms. One of them is the adoption of the National Employment and Skills Strategy (NESS) 2014–2020 in 2014 who was regarded as a milestone because it was the first time that a national strategy paper addressed employment promotion and vocational skills development as a singular entity in Albania.

Since Albania's current youth transition patterns appear complicated, blended, and lengthy. Vocational Education and Training (VET) can improve tomorrow's workforce, and thus plays an important role in economic growth, job creation, and social stability. (UNDP Albania, 2020, p.8). According to Harteis (2017), the primary goal of vocational and professional education and training is to develop an individual's skills and abilities so that the individual is well prepared for the demands of the workplace. The aim of the study is to analyse, to deepen the understanding of the main barriers and potential opportunities in increasing Albanian youth employment. And also, to analyse the role of Vocational Education in enhancing the skills required by the job market.

2. Research Methods

The methodology used is descriptive research design through an in-depth literature review of journals, articles, previous studies, official reports, documentations, etc in the field of youth unemployment, skills, labour market requirements, and vocational education. Also for the methodology of this study, a qualitative method was used in which 20 semi-structured interviews were used. The sample is composed of 10 business owners in the hospitality, tourism, and human resources sectors and 10 vocational education experts such as policymakers, vocational education school principals, and researchers in Tirana.

The hypothesis of the study is: "A good vocational education and training system by enhancing technical skills can increase youth employment in Albania". Three research questions were raised as follow:

- What are the factors that have contributed to youth unemployment in Albania?

- What technical skills required in the labour market in Albania?

- Can the vocation education system in Albania enhance skills required by the labour market?

2.2 Findings

2.2.1 Theoretical and empirical literature review

2.2.2 Variables and causes of youth unemployment

The creation of new job opportunities is a complex challenge that involves stimulating macroeconomic policies, a favorable business climate, and forceful and coherent educational policies.

Serjanaj, L., & Guga, K. (2017) summarize the determinants of youth unemployment that differ according to individual characteristics such as age, gender, marital status, education, and training. Furthermore, when the context changes, the same characteristics may be associated with different outcomes for youth. Hoxhaj, M. (2017) argues in his paper that the liberalization of the education market in Albania resulted in the opening of many private universities, as well as the government's tendency to direct young people toward higher education in order to reduce youth unemployment in the short-run (while continuing the university was not counted as unemployed) carried on a pattern with the increase in the number of young people who began to attend higher education and technical training. But the limited employment market has to increase youth unemployment who have a university degree.

Hoxhaj, M. (2017) also states that the transition of the economy and its exit from the agricultural and public sector sectors, both of which have been very important in terms of employment, has had an impact on employment in Albania, as it has in many other transition countries. In recent years the labour market it is mostly focused on service sectors like hospitality and tourism. Due to the low number of proper vocational education schools in this field, the hotel and tourism sector has a significant shortage of skilled workforce and ready to work in this field.

Given that this sector has the potential to employ many young people has led to an increase in unemployment among them who do not meet this high demand of the labour market.

2.2.3 Vocational education and training (VET) framework in Albania

Albania has made steady progress in establishing democratic political institutions and a market economy since the fall of communism in the 1990s. Albania became a candidate country for European Union (EU) membership in 2014, and since then, it has pursued public sector reforms, including in education, as required for the start of EU accession negotiations. Education reforms are critical for fostering democratic citizenship and developing the skills and competencies required for Albania's long-term economic development. Education systems as explained in the figure below, perhaps more than any other systems, serve as sites of identity construction. Over the last few decades, schools' roles have shifted from reproducing loyal communist subjects to fostering the growth and development of students' critical-thinking and digital competencies in preparation for participation in Albania's society and economy and beyond[1].

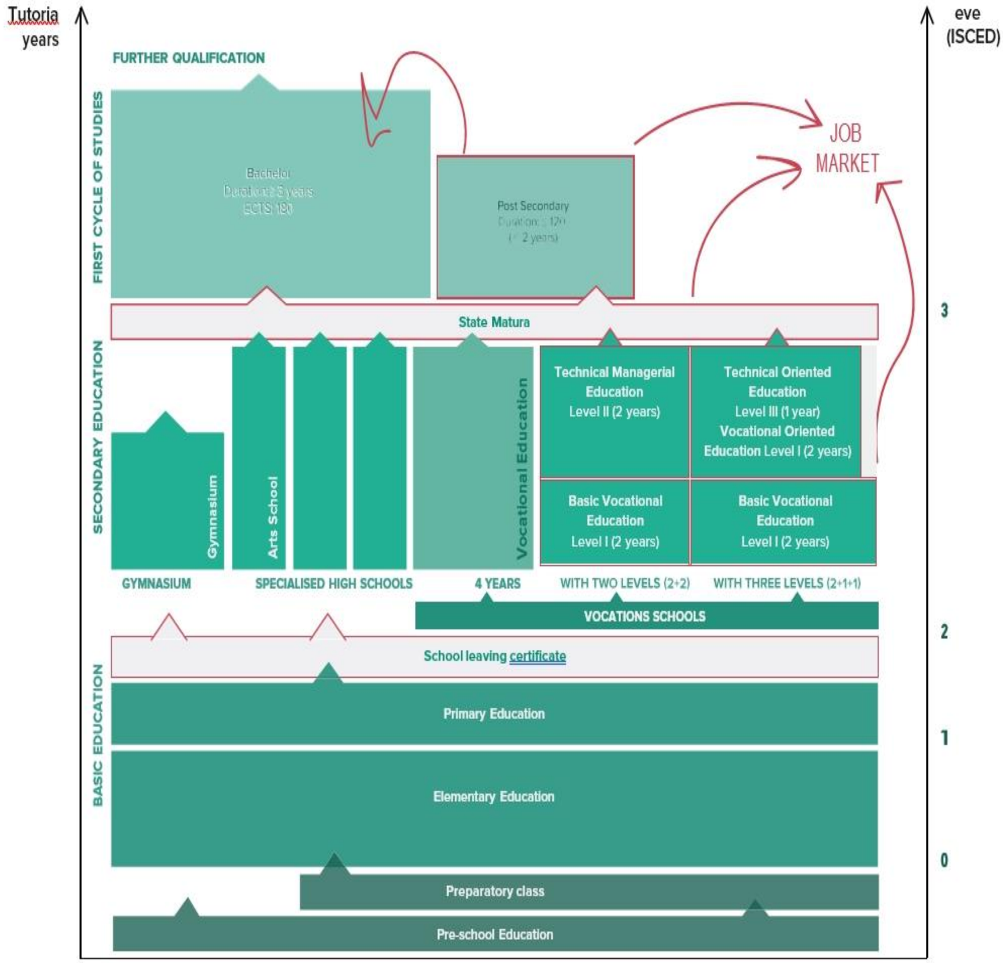

Figure. 1 Education system of Albania (www.vet.al; ECTS, European Credit Transfer System)

VET reform, as well as active employment and job creation policies, remain high on the Government's agenda, as demonstrated by budget increases in both areas. The vision of creating "higher skills and better jobs for women and men," as well as the four pillars of the National Employment and Skills Strategy, remain unchanged (2014-

[1] UNESCO Section of Education Policy. (2017) Albania Education Policy Review: Issues and Recommendations. (p.10). [Online]Available: https://www.researchgate.net/profile/TuuliKurki/publication/331011714_Albania_Education_Policy_Review_Issues_and_Recommendations/links/5c6136baa6fdccb608b7b1d2/Albania-Education-Policy-Review-Issues-and-Recommendations.pdf?origin=publication_detail

2015), namely: (i) fostering decent job opportunities through effective labour market policies; (ii) offering quality VET to young people and adults; (iii) promoting social inclusion and territorial cohesion; (iv) strengthening the governance of the labour market and qualification systems[1].

Despite all reform efforts, there is still a significant skills shortage and skills gap in the Albanian labour market, owing primarily to insufficient collaboration between the worlds of education and work. According to UNDP Review of Albania's Vocational Education and Training System (2020, p. 9) the major accomplishments of the last six years of VET reform, since the adoption of National Employment and Skills Strategy (NESS), have been the establishment of a comprehensive legislative framework that defines the guiding principles and structure of the VET system, the roles and responsibilities of the key actors, and overall standards for VET provision, assessment, and certification, which include the following: the amended Labour Code (2015), the Craftsmanship Law (2016), a new VET Law (2017), the amended Albanian Qualifications Framework (AQF) Law (2018), the amended Pre-University Education Law (2018), and the Employment Promotion Law (2019). The challenge is to put this legal framework into action. VET has recently been centralized under the Ministry of Finance and Economy, which oversees a state-funded system comprised of two types of providers: vocational schools for young people and vocational training centers, mainly for adults.

The reforms aim to help Albania develop into a more competitive economy and socially inclusive society by improving and expanding technical skill opportunities for unemployed women and men in Albania, with a particular focus on youth, allowing them to find an attractive and decent job, but only minor progress has been made so far.

2.2.4 Enhancing skills that facilitate the transition from school to work

In Albania, the transition from school to work is complicated. The demand for young workers is influenced by the industry and service sectors and their stages of modernization, as well as the operation of labour market mechanisms. According to the figures, young people's access to the labour market in Albania is difficult and at very low levels. But as Hackaj, A. (2015, p.17) argue it is widely accepted that countries with a dynamic economy, a functioning market, and appropriate public policies have the smoothest labour market transitions for youth. They should, more precisely, have:

- a favourable demographic structure;
- a favourable macroeconomic situation;

[1] Doe, J. (2021, March 31). National Reforms in Vocational Education and Training and Adult Learning. Eurydice - European Commission. https://eacea.ec.europa.eu/national-policies/eurydice/content/national-reforms-vocational-education-and-training-and-adult-learning_en.

• a high demand for youth labour;

• minimum wage rates;

• education and training systems that provide young people with required skills and prepare them for entry into the labour market;

• functioning welfare regimes that include active labour market programs.

As Hackaj, A. (2015, p.17) also states Albanian youth frequently face a protracted period of career insecurity as a result of a gloomy macroeconomic situation, dual labour markets, and education and training systems that lack elements of employer involvement and hands-on work experience. As a result, different transition experiences are caused by not only the level of educational attainment but also the quality of education and close links to the labour market. In general, countries with greater integration of school and work demonstrate a smoother and faster transition from school to work. They accomplish this through apprenticeship programs or by increasing the number of young people who effectively combine school and early labour market experiences. As a result, countries with a high level of specific vocational qualifications have lower youth unemployment.

2.2.5 What skills are requested by the labour market?

The Demand for Skills in Albania: An analysis of the Skills Towards Employment and Productivity Survey in 2018 provide two key sources of information on skill needs: (i) information on the types of skills used on the job by a "typical" high-skilled and lower-medium-skilled worker; and (ii) information on how employers rank the importance of different skills for jobs when recruiting.

This survey shows that workers use a combination of cognitive and socioemotional skills, particularly interpersonal skills, on the job. More than 75 percent of firms in Albania reported that workers in higher-skilled occupations use more new economy skills, which is consistent with the global skills shift toward higher-order cognitive and socioemotional skills, communication and problem-solving skills (tasks that require spending more than 30 minutes consecutively thinking and working on resolving an issue), client and team skills, as well as reading and numeracy, are all required. Workers in lower-medium-skilled occupations, as expected, use each skill less intensively than workers in higher-skilled occupations.

Jobs requiring a high level of skill are in high demand in dynamic firms. Dynamic firms, which are defined as innovative firms with international contacts, require more skills than other firms. In many of these firms, even foreign language skills are used by the typical higher-skilled worker (this is not surprising, given that they have international contacts). The use of cognitive skills is the most significant difference between dynamic and non-innovative firms; interpersonal skills are less important. Importantly, these firms have higher nonroutine skill requirements for lower-medium-skilled workers (team skills, making presentations, problem solving).

In the labour market as Albania when most businesses are family-based and employ at least one member of the family more studies are needed to determine which skills the market requires.

3. Results and Discussion

In conclusion, the Albanian progression towards an open market economy, being all by itself an ideal moment for the new business ideas, offered the labour force new opportunities for improvement. Then again, these new conditions put a disadvantageous skills trouble upon the workforce population, particularly upon the youth. The education system, including the vocational education and training system, was and is unfortunately unable to adapt in accordance with the rapidly changing market environment. Furthermore, the necessary supporting political policies to effectively upgrade this system were completely absent at the beginning of the 90s and 00s.

In the last decade, the under-taken reforms of the vocational education system have some impact on the country's economic and social development. Taking everything into account, from the entirety of the previously mentioned studies and report, it is clear we need to consider and set up a help structure comprising of valuable administrations for the vocational education and training in improving workforce skills. A closer collaboration with the business local area is needed. Youth unemployment in Albania has been and is in high figures, the fundamental reasons are lacking proper skills for the labour market and the economic incapacity to generate jobs. Vocational education can increase young people's self-confidence and improves their economic and social lives by improving individual skills, particularly those related to work Sela, E. (2016). Various international studies have found that countries with a high level of specific professional skills have lower unemployment in this category Sela, E. (2016). Albania as a country with a young population should invest more in creating new opportunities for employment through a good vocational education and training system.

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The Contribution of Emotional Intelligence to Human Resource Development and Career Success: A Review

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Abstract

This paper is the review of the main scientific literature about the role of emotional intelligence in career success and human resource development. It aims to analyze how emotional intelligence and its components determine human resource development or career success. Through documentary analysis the paper is based on reviewing leading scientific publications and summarizes main theoretical approaches. The results of the analyze show that emotional intelligence helps employees in many ways to achieve success at work and also highlight the need for more attention to the development of employees' emotional intelligence in organizations. The review also addresses promotion issues which consideration will avoid organizations further problems. This analysis will be especially useful for managers to improve the quality of employees' performance. This review on emotional intelligence issues in terms of career success contributes to review literature about human resource management and development and it may also indicate future directions for surveys.

Keywords: Emotional intelligence, Career success, Human resource development.

Introduction

During a lifetime, emotions determine a person's motivation, decisions and actions in personal relationships or at work. Due to such a power, emotions directly or indirectly determine a person's success. Regarding this, researchers have concluded that career success need to be discussed by extrinsic and intrinsic factors (Spurk, Hirschi, Dries, 2019: 35-69).

In organizational activities, a person has to be a participant in social relations, realizes his/her skills and knowledge, develops and gains new work experiences, achieves goals, advances on the path of career development. During this work life business environment is full of challenges, responsibilities, stress, difficulties or even failures. People have feelings and express emotions constantly, however, there is less of observation and thinking about them. Immature and uncontrollable emotions can even be the beginning of a number of destructive actions. At first glance, emotionality is perceived as a weakness at work, however, not the emotions themselves, but the emotion-thoughts-action process determines the successful or unsuccessful job performance. Nowadays stressful work environment and problems complicate to transform emotions into the right decisions, under which emotional intelligence has become even more important at work.

Emotional intelligence has always been contributed in human success, and its increasing popularity does not mean that it has become necessary only now. Reality has made it clear that strengthening the idea of a perfect employee in a modern, global, rapidly changeable and stressful work environment with technical knowledge and a high IQ (intelligence quotient) only is not enough. Consequently, scientific researches about emotional intelligence issues had begun and nowadays organizations pay attention to it in a frame of employee development. Emotional intelligence has an affect on communications and all areas where social relationships are crucial to success. In view of aforementioned, the study of emotional intelligence issues in the work environment and its role in career development are undoubtedly relevant, interesting and practical.

The organizational progress leads to the development of human resources and vice versa. Nowadays, organizational success is unreal without strong partnerships and without satisfied customers, and internally without harmonious, collaborative work of employees. A prerequisite for all this, among other important issues, are people with high emotional intelligence, technical skills, as well as high IQ. The aim of the research is to study well-known and recent researches and find out how emotional intelligence is realized in issues that contribute in human resource development and career success.

The results of the research have practical value for employees and managers, as well as for all interested people who work in social environment. From a scientific point of view, the paper contributes to the management field and development of human resources, also, it provides a basis for further research. In the future, the range of issues in which emotional intelligence is realized and how the career success of an employee is determined may be explored and enhanced.

Methodology

The general objective of this research is to examine the published scientific literature about emotional intelligence contribution in human resource development and on career success. To achieve objectives, the research proceeds through a qualitative approach with a systematic literature review-SLR design (Fink, 1998; Soaita, Serin, Preece, 2019: 1-24). At first, the following selection criteria were defined:

1. Harvard Business Review is the main database selected for research, with a number of well-known authors articles about emotional intelligence and human resource development.

2. Besides, different scientific databases were chosen for the research. Within the search characteristics, 3 word combinations were taken into account: Emotional Intelligence; Human Resource Development and Career Success. The search was carried out without a date limit and as for the type of documentation, articles, conferences-proceedings- and books were included.

Over 100 manuscripts were obtained from which 2 analysis criteria were applied:

1. Human resource development was considered only in terms of employees.
2. Emotional intelligence was considered only in terms of human recource development and career success.

The Essence of Emotional Intelligence

From the 19th century the interest in emotional intelligence was becoming stronger. Initially, its ideology originated with the concept of social intelligence (Thorndike, 1920: 227-235), then transformed into the term emotional strength and now it has formed as the subject of researches with the name of emotional intelligence.

Many authors interpret the essence of emotional intelligence differently according to the different theories. In the future it may lead to an excess of terms and cause confusion. In general, it can be said that emotional intelligence is the ability to understand and manage one's own and others' feelings (Alsughayir, 2021: 1310-1311). Since the last century, many authors have written papers on a number of issues of emotional intelligence and have begun to focus on it in terms of human resource management, however, the main practical value of emotional intelligence is success in social relationships or careers.

Daniel Goleman, who contributed greatly to the scientific research of emotional intelligence, in the last century focused on a bizarre fact: how it happened that some talented people were unsuccessful in their work, and some less talented employee were quite successful in their career. After have done 188 company competency model analysis, he named emotional intelligence as the reason for such strangeness, and it was completely different from cognitive and technical skills. It should be noted that Goleman was not denying the necessity of intellect and technical skills for the success, however, he presented them as an incomplete set of success without emotional intelligence (Goleman, 2004: 82-91). H. Gardner has a similar view. According to the theory of multiple intelligences, the author supports the fact that a high IQ alone is not sufficient for success (Gardner, 2011).

According to Goleman, learnable emotional intelligence combines 5 components: self-awareness, self-regulation, motivation, empathy, and social skill. As the author divides, the first three components are self-management skills, while the last two are relationship management skills. Often, a number of reasons lead to an inadequate perception of a person’s inner and outer world, simply put, insincerity to oneself. Therefore, self-awareness is revealed and achieved only when a person evaluates himself realistically and sincerely. In self-awareness, Goleman considers understanding one's own values and goals first. Goleman characterizes self-regulation as the liberation from the captivity of one's own feelings and compares to a "ongoing inner conversation." Self-regulation involves directing emotions in useful activities. Its productivity is manifested in the fact that instead of panic, people are able to make and adapt rational decisions. Goleman also notes that often, people with self-regulatory ability are perceived as insensitive people, however, based on research, he concludes the ineffectiveness of extreme manifestations of emotion (Goleman, 2004: 82-91). If we go deeper, the management of one's own emotions implies the existence of a controlling object, or feelings, which is logically contrary to the view that people with self-regulation are devoid of feelings.

Regardless of emotional intelligence, motivation is also considered to be one of the main characteristics of a leader. According to Goleman, emotional intellectual motivation arises not only for the sake of status and salary, but also, motivation is directed towards achievements. As for empathy, which may sound irrelevant for business, Goleman describes it as an in-depth understanding of employee's feelings in the decision-making process. The role of empathy is especially evident in teamwork, where it is difficult to reconcile emotions and thoughts of all members. The importance of empathy for a leader is also increased by the pace of globalization and cross-cultural relationships, when empathetic employees need to pay attention to even the smallest nuances. Since a simple definition of social skill does not exhaust the essence, Goleman offers a description of it. He describes that a person with social skills has a wide circle of acquaintances, can find common ground with any type of person and have a good ability to persuade. In the workplace, people with social skills may seem less hard-working, however, Goleman sees social skills as the basis of a leader's main task of doing the job through other people (Goleman, 2004: 82-91).

Emotional Intelligence at Work

Development and success for the employees who is not satisfied with their job is almost unrealistic. High emotional intelligence determines job satisfaction to some extent, after that employees begin developing and succeeding (Goleman, 1998; Kafetsios, Zampetakis, 2008: 712–722; Yuan, Tan, Huang, Zou, 2014: 1057-1068; Miao, Humphrey, Qian, 2017: 177-202; Urquijo, Extremera, Azanza, 2019: 4809). Self-awareness helps a person to understand aspirations, field of desired job and values. As a result, a person seeks and starts a professional career in a desired job, which is accompanied by a high level of job satisfaction. Job satisfaction in turn lays the foundation for development and success.

Job satisfaction is related to employee productivity. It directly or indirectly contributes to the success not only of the organization but also of the employees. Productivity is determined by many factors, among which are the inner state of a person, visions and attitudes (Kharkheli, Morchiladze, 2016: 618-619). An emotionally intelligent person clarifies his inner state through self-awareness, after that certain visions emerge and attitudes are formed. An essential prerequisite for productivity is employee purposefulness. Going towards the goal, the desire and effort to do the job best is nothing but motivation, which is the compiler of emotional intelligence as well.

Both, job satisfaction and productivity are typical of standard workflows. Often, professional or personal development means overcoming difficulties and thus learning. What if a person meets certain obstacles, stress, or failures on the way to success? How valuable would knowledge, experience, or talent can be if a person simply could not withstand such difficulties? Nowadays, in stressful, fast-changing, and unexpected world, such difficulties are not uncommon. On the one hand, motivation may play a major role in dealing with difficulties, however, motivation only is not enough to keep moving forward, employees need more - the ability to respond to external factors, but not in a way that destroys a person from emotion. Diane L. Coutu names that such ability is human resilience. In a view of ethics, the author does not consider the concept of resilience in positive or negative contexts. She sees it as the ability to maintain resilience under the high stress. She points out that according to almost all theories of resilience, there are 3 characteristic aspects of a resilient person: 1. Acceptance of reality; 2. A deep belief that life is meaningful. Such attitudes are often driven by rigid values and 3. the ability to improvise (Coutu, 2002: 46-51).

In order for a person to be able to manage something, it is necessary to give a name to a control object, which means to know the essence. Accepting reality is nothing more than self-awareness and empathy. Coutu notes that because the existence of meaning thus determines the resilience of people, it is not surprising that organizations have solid value systems: "Strong values infuse an environment with meaning because they offer ways to interpret and shape events" (Coutu, 2002: 46-51).

Important issues of meaning therapy are discussed by psychiatrist Victor E. Frankl, in his book Man's Search for Meaning. The issues are directly related to resilience and emphasizes that one should not lose the meaning of life even in a seemingly completely hopeless situation (Frankl, 1992: 45-50).

As for the third component of resilience - the ability to improvise, Coutu describes it as "the ability to make do with whatever is at hand". She points out that resilience may be based on human optimism, however, as long as it maintains a perception of reality. Coutu emphasizes that the main challenge when talking about resilience may be its unstable nature. It implies that showing resilience in one situation does not mean having the same ability in other difficult situations (Coutu, 2002: 46-51). Similarly, to this reasoning, although emotional intelligence is a consistently characteristic feature of a person, it does not imply the infallibility of the individual in making all decisions and by the equal activity level of the components of emotional intelligence.

In a work environment full of problems and stress, the flow of negative thoughts and emotions further complicates the situation, which may lead to negative consequences for organizations. Instead of succumbing to emotions or expelling thoughts, emotionally intelligent people are able to manage wisely, which David and Congleton call emotional agility. The authors highlight 4 practical steps adapted from acceptance and commitment therapy to manage this negative process and achieve a positive outcome, which were originally developed by Stephen S. Hayes: 1. Recognizing and understanding pattern); 2. Label thoughts and emotions; 3. Accept thoughts and emotions; 4. Act on values (Hayes, 2004: 639–665; Congleton, 2013: 125-128).

In a stressful situation, it becomes especially important to regulate emotions, which then becomes the basis for an effective decision. Stress management through emotional intelligence is thought to the management of own emotions to alleviate or avoid the negative effects of stress. Adaptation in a stressful situation means accepting and adapting to changed circumstances.

Conflicts and controversies in an organization are similar to stressful situations, which hinder the proper functioning of the system and which is undoubtedly a significant issue for organizations. Conflicting, non-teamworking and lacking social skills employees rarely if ever succeed. In exceptional cases, it is demotivating for employees to be subordinated for such a person, and his or her leadership is generally in question. That is why the importance of emotional intelligence is huge for both inside and outside the organization, for satisfied customers or for establishing win-win relationships with partners.

How does emotional intelligence handle conflicts? The best answer to this question would probably be conflict prevention. Neutralizing the very embryo of conflict requires much more effort and skill than it may seem at first glance. Self-regulation, which protects a person from emotional outbursts, will inevitably weaken the escalation of conflicts, motivate efforts to resolve problems, while empathy towards conflict party and social skills will facilitate the achievement of the set goals.

A sense of humor may be attributed to socio-emotional competence. Its rational use is of great importance in both non-conflict and conflict situations and is often very effective in preventing escalation. Emotional intellectual humor often relieves tension and reduces the negative impact of stress on the person, while in a normal situation it promotes the formation of benevolent social relationships. However, it is also noteworthy that humor can often have a negative impact on relationships and can be transformed into destructive forms such as sarcasm, manipulation, ridicule, insults, irritability and etc. (Nikic, Travica, Mitrovic, 2014: 281-292).

Development and success depend on internal processes, especially thinking and attitudes. According to psychologist Carol Dweck, people may be grouped into two contrasting groups based on their attitudes and thinking. Some are distinguished by unchanging thinking, perceive the environment as a given, and even small inconsistencies have a destructive effect on them. The second group is distinguished by a growing mindset, perceive change as a challenge, and address their growth and development. Exactly the last kind of employees achieve great career success than the first category of people, who may have possessed more intelligence (Dweck, 2006).

In an age of changes and innovations, the organization must also be flexible to the challenges of the environment. The same is required of the people who make up the organization. Growing, developing thinking and adaptability to innovations are undoubtedly of great value of employees, however, everything is necessary in parallel with the development of emotional and cognitive intelligence. The growth of thinking means personal growth, which is unreachable without the development of emotional intelligence.

„Success" can not always be successful. It is often the case when organizations promote talented, active and hardworking employees to higher hierarchical levels. After a certain period of time, the decisions made by them do not turn out to be so right, for which employee itself, the organization and even the consumer pay the price. The issues of such a paradox were explored by Bunker, Kram and Ting. The authors point out that it is erroneous to promote premature and ambitious top personnel with great potential, because they may do not have developed the most important aspects of emotional intelligence, which is a vital precondition for their career advancement (Bunker, Kram, Ting, 2002: 80–87). In the end, it turns out that speed is a waste of great potential.

If career advancement turns out to be timely, a much higher level of emotional intelligence will be required for further success. Interestingly, Goleman concludes that the higher a person's position in an organization, the greater the share of emotional intelligence in the effectiveness of his/her activities. In other words, emotional intelligence plays an increasingly important role for those working at the highest hierarchical levels of the organization for the best results of success and performance. Hence, it is logical to conclude that the concept of emotional intelligence is undoubtedly important for the characteristics of a leader (Goleman, 2004: 82-91). A major determinant of the need for emotional intelligence in activities at a high hierarchical level is an increase in the frequency of social interactions. Researches have shown similar results and have shown that managers, including those at a higher hierarchical level, have a better sense of humor, more satisfaction with life, and more social activity (Nikic, Travica, Mitrovic, 2014: 281-292).

Numerous studies confirm the importance of emotional intelligence in successful and transformational leadership (Hajncl, Vučenović, 2020: 119-129). Emotional competence directly determines the effectiveness of both general and team management (Kunalić, Mujkić, Jusić, Pajević, Rovčanin, 2016: 297-310). Because leadership is about motivate other people to work more effectively, it is emotional competence that plays a major role in this process. It may even be unrealistic that a leader could properly manage others without the ability of social relationships (Kharkheli, Morchiladze, 2016: 618-619).

Regression analysis has shown that emotional intelligence not only as a whole, but also its constituents individually determine the effectiveness of management (Saddiqui, Jawad, Naz, Niazi, 2018: 99-130). At the hierarchical level, empathy plays one of the key roles in achieving success. It is empathy that helps a leader influence employee by understanding and sharing his/her emotional state. Nicholas Epley has discussed this view in his book Mind wise: How We Understand What Others Think, Believe, Feel, and Want. He writes the extent to which the ability of empathy determines the success of leaders themselves. It is empathy that helps managers understand the needs and desires of employees, after which they are given the opportunity to motivate them (Epley, 2014).

What does it mean to use empathy skills at work? The answer cannot be simple and unambiguous, because empathy manifests itself in different ways in different situations. It can be observing anything while listening to a person, understanding in a certain situation or just solve others problem. For an emotionally intelligent person, empathy dictates the algorithm of action itself.

One of the most important issues in the study of emotional intelligence is the influence of leader's emotional style. Mood swings are a real neurological phenomenon in humans, as confirmed by numerous psychological and physiological studies. Goleman, Boyatsis, and McKee point out that a leader's mood has a huge impact on a job performance quality, because it governs the behavior of all other employees. The authors describe emotional intelligence providers in relation to leader's mood and the ideal leader as follows: An emotionally intelligent leader, through self-awareness, can track his own mood, use self-control to change for the better, empathize - understand his influence, and manage relationships to improve the mood of others (Goleman, Boyatzis, McKee, 2001: 42-51). It should be noted that the development of leadership in the organization in some way contributes to maintaining a balance between family and career, which is confirmed by researches (Pirtskhalaishvili, Faresashvili, Kulinich, 2021: 261) and which in some respects is achieved through high emotional intelligence.

Results and Conclusion

The number of papers selected according to the criteria from the retrieved publications reached about 80%. In conclusion, we can say that emotional intelligence contributes to the development and success of a person through different activities at different stages of career development. Initially, it may be intellectual abilities that will lead to career advancement, however, in the long run, emotional intelligence will play a much bigger role in career advancement. In this regard, for future success it is important for a person to realize the importance of a particular skill at a particular stage and to improve their emotional intelligence level through some kind of emotional training.

Development and success are largely based on job satisfaction, on which a career must be built. Even in stressful and conflict situations, emotional intelligence takes the form of resilience and does not lose meaning, which determines future vitality. A great deal of importance is attached to the sense of humor in defusing tense situations, however, transforming it into a destructive form is dangerous. As a recommendation, it can be said that it is important for a person to define his / her personal or professional values and values in a normal and quiet business period, in order to help him / her overcome difficulties in a difficult situation in the future. Along with meaning, it is important to show resilience, which is stronger the stronger and clearer the meaning of personality.

Emotional intelligence issues also consider growing thinking and rational attitudes that can contribute to a person’s future success. Growing thinking is in some ways also a teacher of personality development. A key issue is the timeliness of career advancement, where speed can be devastating even in the long run. The reason for all this may be the fact that career advancement requires more and more developed emotional intelligence.

Finally, a high level of emotional intelligence, or even its constituents individually, may be a kind of example and contagious phenomenon for other employees: the emotional style of management spreads throughout the team, the motivation of the leader also becomes a motivator for subordinates, and so on.

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Sustainability in Corporate Practice Certification Based on DIN and ISO

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Abstract

The term sustainability is increasingly evolving as a buzzword and is frequently used in a manner which is different to its original meaning. Building upon the triple bottom line discussion one can however ascertain that the current social, ecological and economic challenges represent fundamental issues for the corporate context. In this manner it is a matter of business sustainability (BST)/ "Corporate Sustainability" (CS) and the significance for "Sustainable Development" (SD) in an enterprise. SD can therefore be an expression of ethical thinking and conduct within an enterprise which means that sustainability should be embedded firmly in corporate strategies and role models and must be the object of all forms of corporate/political decision-making. In this manner a company meets the requirements of so-called sustainability ethics which represents a combination of ethical thoughts and sustainable objectives. In this regard certification in the company based on the German industrial norm (DIN)/ the instructions of the International Standard Organization (ISO) can help to ensure the implementation of sustainability in the company. However, these activities cannot merely be ticking off checklists but must be implemented in the context of the corporate culture.

Keywords: Sustainability, Certification, Ethics, Management, Corporate Management

JEL Classification : *E10, G30, M12, M20*

Introduction

1. Sustainability as result of the implementation of sustainable conduct behaviour in companies

In this chapter an introduction is provided. Following a general introduction of the issue in this chapter (Chapter 1), in chapter 2 certification based on DIN and ISO is analysed within the context of ethics. The article is completed by a conclusion which summarises the significant issues of the topic in a reflective manner (Chapter 3).

The term sustainability is currently developing (March 2020) increasingly as a buzzword. The current global problems such as the explosion of the population, climate change, resource scarcity, unemployment, increasing gap between rich and poor, exploitation of natural resources and child labour are frequently drivers of this discussion. In addition, we are experiencing the globalisation of the economy, international networks through web 2.0, the financial economic crisis between 2008 and 2010 and change in needs and demands of consumers (Armutat/Mödinger, 2001, p. 14 f.). In many cases however the term is used too superficially outside context of its original meaning and focus and in this regard people forget that sustainability nowadays goes way beyond the greenness of products, services or behaviour/corporate cultures/ - to be more precise must go beyond the latter (German Private Institute for sustainability and economy (ed.), 2013a, p. 1 ff.).

Based on a definition of the "Deutschen privaten Instituts für Nachhaltigkeit und Ökonomie" (private German Institute for sustainability and economy) the main idea of sustainability is to be defined as follows: "the sensible linking of ecology, economy and social responsibility only works at corporate level based on economic principles. Because: sustainability is more than green, sustainable commercial value creation ensures long-term competence in terms of ecological and social responsibility." (Deutsches privates Institut für Nachhaltigkeit und Ökonomie ed.), 2013b, p. 1 ff.) This idea/this key notion is implemented through the so-called "three pillar concept of sustainability". In this respect concept includes the ecological, economic and the social dimension of the term (Deutsches privates Institut für Nachhaltigkeit und Ökonomie (ed.), 2013a, p. 1 ff.). In more precise commercial terms it is to be understood as careful use of resources which has a positive effect on the environment and is also cost efficient. In a wider sense sustainability can be understood as a socio-political and holistic concept and be marketed to stakeholders, employees, business partners and customers (Pufé, 2012, pp. 6-9). This explanation builds on the so-called "Triple-Bottom-Line-Discussion" of the federal government/the United Nations (UN) and has been applied in the definition of sustainability on the part of the Enquete-Commission of German Parliament dating back to 2004 (Cf. Deutscher Bundestag – Enquete-Kommission (ed.), 2013, p. 1 ff.). The Enquete-Commission defines sustainability as a permanently future oriented development of the economic, ecological and social dimension of human existence" (Deutscher Bundestag – Enquete-Kommission (ed.), 2013, p. 1 ff.; Bechmann, 1993, pp. 296-305).

According to the German Duden the term sustainability expresses "an effect over a longer period". This means, based on the principle in forestry, that no more wood should be cut down than can be replaced and based on the ecological principle that no more should be consumed than can be provided again in the future (Pufé, 2012, p. 8). In this respect the dimensions of sustainability listed are like a "magic triangle" - dependent on one another and influencing one another (Hennicke, 2002, p. 10 ff.) and Hennicke for instance recommends portrayal in the form of a house because in his view ecology is to be regarded as a precondition in order to be able to act economically or be socially active (Hennicke, 2002, p. 10 ff.; Promberger/Spiess, 2006, p. 10 ff.; Huber, 2002, p. 307). Sustainability was first mentioned in forestry in 1713 by the mine captain Hans Carl von Carlowitz (Pufé, 2012, p. 56). Carlowitz compiled his piece of work Mine Captain Sylvicultura Oeconomica Oder Haußwirthliche Nachricht und Naturmäßige Anweisung zur wilden Baum-Zucht“ and referred to „ the balance between use of resources and maintaining resources as an economic factor which is more beneficial for corporate actions than exploiting resources Oberberghauptmann (Herzog, 2005, p. 4). This original definition of sustainability already shows that simply referring to the economic aspects in the context of sustainability and the resulting responsibility discussion has developed significantly further. Taken from its historical origins the understanding of sustainability prevailing today can be defined in the context of this paper as follows: "sustainable development is a development which guarantees that future generations are not in a worse position in terms of needs satisfaction than current generations which are still alive:" (Pufe p.14)

This definition can be supplemented by the aspect that the company is required to behave accordingly - expressed in the term "Business Sustainability" (BST) - enabling companies to put sustainability into practice and thus shoulder their social responsibility. The terms "ethics" or "ethical action" and "sustainability" are therefore closely related to each other, thus allowing the term "sustainability ethics" to establish itself as: "The market economy and competition are often declared to be a zone free of morality, from which those who are already better off benefit at the expense of those who are weaker. This prejudice is not correct. The market and competition drive growth, prosperity and social security. They thus significantly contribute to social development, which particularly benefits the less privileged. In addition to this, performance and creativity are rewarded by competition. It therefore establishes the opportunity for broad sections of society to share in the economic success" (*Die bayerische Wirtschaft* (vbw) (ed.), 2016, n.p.)

Against this backdrop, this paper will examine the issue of how sustainability can be implemented in companies by using DIN and ISO certifications in an ethical context.

2. Classifying certification per DIN and ISO in the ethical context

This chapter will discuss the classification of DIN and ISO certification in the ethical context. To do this, a general classification of sustainability in the corporate context will be dealt with first (Chapter 2.1.), then a connection will be made between sustainability in companies and ethical action (Chapter 2.2.) before the application of DIN and ISO standards are finally presented as instruments and aids for its implementation (Chapter 2.3.).

2.1 Classifying sustainability in the corporate context

As already described (cf. Chapter 1), sustainability must be firmly anchored in a company's strategy (i.e. in the mission statement, vision, mission and ultimately also in the management guidelines). This does not only apply against the backdrop of companies needing to comply with corresponding legal requirements, such as meeting the requirements for sustainability reporting or ensuring compliance with international guidelines on sustainability, e.g. those of the UN or the "Organisation for Economic Cooperation and Development" (OECD), but they must also in this context fulfil their social responsibility and their responsibility towards their employees.

Within the framework of its discussion on sustainability by the formulation of the term "sustainable development", this is also required by the EU Commission: "Sustainable Development stands for meeting the needs of present generations without jeopardising the ability of future generations to meet their own needs – in other words, a better quality of life for everyone, now and for generations to come. It offers a vision of progress that integrates immediate and longer-term objectives, local and global action, and regards social, economic and environmental issues as inseparable and interdependent components of human progress. Sustainable development will not be brought about by policies only: it must be taken up by society at large as a principle guiding the many choices each citizen makes every day, as well as the big political and economic decisions that have to be taken. This requires profound changes in thinking, in economic and social structures and in consumption and production patterns." (European Commission (ed.), 2015, n.p.) As formulated by the EU Commission, this requirement means that sustainability is often equated with the development of Corporate Social Responsibility (CSR). Literature, however, at least in part, first 'only' interprets CSR to be an expression of sustainability instead of sustainability per se and has therefore developed the term BST of Corporate Sustainability (CS) for sustainability in the corporate context (Kugler/Olbert-Bock, 2011, p. 18).

It therefore can be stated that when companies assume responsibility, they also meet the requirements for sustainability. At the same time, this should be seen as an opportunity to align a company's business models and processes with valid economic, ecological and social criteria and thus "overcome" the traditional mindset of orientation towards pure profit. To this end, the EU's sustainability strategy defines key fields of action (Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (ed.), 2013, n.p.): climate change and clean energy, the development of sustainable transport, sustainable consumption and production, the protection and management of natural resources, public health, poverty and sustainable development as well as social inclusion, demography and migration (Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (ed.), 2013, n.p.)

If companies take these approaches into account, they can have positive effects on the company itself - within the meaning of employee loyalty/employee recruitment, image and thus (ultimately) business success – as well as on the company's entire social environment or each individual employee. It is therefore the core task of every company to (a) be acquainted with the relationships described and to (b) use them positively for itself and its social environment without placing too much emphasis on the possible (previously) exclusive focus on monetary issues. As a result, if both individual components (making profits as a so-called business case) and social components (creating added value for society and individuals as a so-called social case) can be given equal consideration (Leitschuh-Fecht/Steger, 2003, pp. 257-266), sustainability in the corporate context can serve to overcome a dualism between ethics and economics and then to evaluate entrepreneurship as positive.

By not initially focussing on compliance with directives or standards, but instead by presenting measures on how a company can become "Truly Sustainable" (Dyllick/Muff, 2015, p. 1), Dyllick/Muff provide an interesting approach to its implementation. Accordingly, companies must achieve level 3.0 in their sustainability policy to be in order to be considered "Truly Sustainable". To achieve this, companies must embrace sustainability and focus on sustainability guidelines, thereby making a positive contribution to solving global problems (Dyllick/Muff, 2015, p. 14). This can be accomplished, for example, by meeting the requirements of the "Global Reporting Initiative" (GRI). To reach the mentioned stage of "Truly Sustainable", the path to this goal should occur over three stages (1.0, 2.0, 3.0). The following graphic illustrates what each stage is comprised of, the fields of action and their corresponding characteristics.

The initial situation and the objectives are recorded in the "Concern" phase, the "Values Created" phase is characterised by the creation of (new) (sustainable) values, and the "Organisational Perspective" phase is characterised by the transfer of inner values to society and the corporate field and thus the achievement of the "Truly Sustainable" objectives in the company (Dyllick/Muff, 2015, p. 13). The authors describe this last stage as follows: "Truly sustainable business shifts its perspective from seeking to minimise its negative impacts to understanding how it can create a behavioural positive impact in critical and relevant areas for society and the planet. A Business Sustainability 3.0 firm looks first at the external environment within which it operates and then asks itself what it can do to help overcome critical challenges that demand the resources and competencies it has at its disposal." (Dyllick/Muff, 2015, S. 10 f.)

BUSINESS SUSTAINABILITY TYPOLOGY	Concerns (What?)	Values created (What for?)	Organizational perspective (How?)
Business-as-usual	Economic concerns	Shareholder value	Inside-out
Business Sustainability 1.0: Refined Shareholder Value	Three-dimensional concerns	Shareholder value	Inside-out
Business Sustainability 2.0: Triple Bottom Line	Three-dimensional concerns	Triple bottom line	Inside-out
Business Sustainability 3.0: True Business Sustainability:	Starting with sustainability challenges	Creating value for the common good	Outside-in
The key shifts involved:	1st shift: broadening the business concern	2nd shift: expanding the value created	3rd shift: changing the perspective

Graphic: Sustainability model (stage model) according to Dyllick/Muff

Source: Dyllick/Muff, 2015, p. 13

2.2 Connection between sustainability and corporate activity in an ethical context: sustainability ethics

If one uses the method described in chapter 2.2. (cf. Chapter 2.2.) based on the observation made by Christen, it becomes apparent that CSR or respectively CS are often built on ethics when sustainability standards are met within companies (Christen, 2011, p. 3; Oermann/Weinert, 2014, p. 63; Schulz/Christen/Voget-Kleschin/Burger, 2013, pp. 115-133, Christen/Schmidt, 2012, pp. 400-410; Christen/Schmidt, 2012, pp. 400-410). It may be deduced from this that companies have an obligation to act ethically (Christen, 2011, p. 34), which also ultimately corresponds to the answer to Kant's second fundamental issue of philosophy "What should I do?" (Oermann/Weinert, 2014, p. 63). In this context, ethics in the company can be found on the level of the action and the level of orientation in its application as so-called "sustainability ethics" as, according to Christen, ethics can then demonstrate "that the idea of sustainability cannot be comprehended solely on the basis of scientific terminology and methodology, but as an orientation for action based on a genuinely normative foundation" (Christen, 2011, p. 35). Sustainability is therefore not an exclusively descriptive instrument, but instead aims at "regulating the relationship between society and its natural environment" (Christen, 2011, p. 35). In this context, "by introducing justified actions and convictions in decision-making situations and by placing expressions of opinion on a meaningful basis of justification" (Oermann/Weinert, 2014, p. 64), ethics also has a function in integration and orientation (Nida-Rümelin, 2017, p. 8), i.e. there is a weighing of different options on how it should be implemented, thus achieving a morally "right" action (Oermann/Weinert, 2014, p. 64 f.).

In this context, sustainability ethics are to be understood as applied ethics and deal "with ethical problems on a cross-generational time axis in the scope of the discourse on sustainability" (Oermann/Weinert, 2014, p. 67) and as an attempt to structure and "provide orientation in specific situations of action" (Oermann/Weinert, 2014, p. 67).

Thus, following Rogall (2008, p. 150), sustainability ethics are to be understood as an "ethical reflection of a definable and implementable inter- and intragenerative principle of justice" (Oermann/Weinert, 2014, p. 69). Hutterer emphasises that sustainable development requires decision-makers to take responsibility for their actions and, as a result, "(...) ethics are an indispensable prerequisite for making sustainable decisions" (Hutterer, 2003, p. 1). The ethical principles of Christianity lie in the pursuit of virtue (e.g. faith, hope, charity) (Michaelis, 2000, n.p.). This can be achieved by implementing the following aspects in entrepreneurial activities (rpi virtuell (ed.), 2002, n.p.; Federal Ministry for Economic Cooperation and Development (BMZ) (ed.), 2016, pp. 1-24):

- interpreting the world as a gift to mankind,
- perceiving the earth as a sensitive organism (a subject, but no object),
- people must "subordinate" themselves to the earth and establish a new relationship with the world,
- life and earth belong together; they are interrelated and interdependent,
- people must serve in the network of life,
- people have a responsibility towards the living and the world.

2.3 DIN and ISO certifications as implementation measures and assistance

Certifications must be interpreted and understood from both the perspective of "external confirmations" or "external recognitions" and as a guideline or way to implement sustainability within the company.

By looking primarily at "external confirmation", one often speaks of audits or auditing; in other cases, one speaks of certification or - if repeated accordingly - also of re-certification (so-called initial audits and annual repeat audits). Certifications therefore implicitly contribute to the efforts made within the company to either maintain and/or further develop the achieved standards. The following advantages can therefore go hand in hand with certification (TÜV Rheinland (ed.), n.s., n.p.):

- implementation of sustainability principles and thus confirmation of the company's corresponding (future-oriented) alignment,
- differentiation from the competition,

- proof of the entrepreneurial action's intrinsic value,
- reinforcement of the competitive position,
- positioning as an attractive employer (sustainability as measure for employer branding),
- indemnification of the verifiability, planning and measurability of sustainability activities,
- improvement of the company image and brand image,
- orientation of the company towards the challenges of the future,
- optimisation of processes and measures concerning risk reduction, risk control and risk prevention.

In accordance with ISO 17065, the certifications to be carried out must be accompanied or implemented externally by approved certification and supervisory authorities (so-called auditing supervisory authorities) and can be realised pursuant to DIN or ISO standards. The certificates are issued by approved issuers, such as EcoControl GmbH in Germany. Within the scope of the audits, the actual situation is recorded by checking the minimum requirements according to DIN or ISO and, as a rule, by formulating - if not yet available - at least three sustainability targets for the company and determining the time-limit for their implementation. The use of indicators must make it possible to check these goals. The certification itself is carried out according to national standards that meet the GRI's environmental standard ISO 14001 and indicators. The CSE seal (which stands for "Certified Sustainable Economics") is one common standard for Germany; current version: CSE Standard 5.0), which is a sustainability seal for certified corporate management and - in contrast to product certifications - tests sustainability throughout the entire company: "It [the CSE seal, author's note] stands for responsible business decisions that are made in harmony with all corporate environments. The three dimensions of sustainability - ecology, social responsibility and economy - are equally important core competencies for these companies and continuously optimised. The CSE standard satisfies the environmental standard (ISO 14001) and includes the indicators are checked according to GRI (Global Report Initiative). Companies that have been certified in accordance with the CSE standard are allowed to label their products with the CSE seal". (Society for Applied Business Ethics (GfaW) (eds.), 2016a, n.p.; Society for Applied Business Ethics (GfaW) (eds.), 2016b, pp. 1-20; Trajer, 2007, pp. 1 ff.)

ISO 14001 requires companies to take action in the following fields (*Gesellschaft für angewandte Wirtschaftsethik* (GfaW) (eds.), 2016c, p. 1-13):

- context of the organisation, understanding the context of the organisation, understanding the needs and expectations of interested parties, defining the scope of the (environmental management) system,
- environmental policy, environmental aspects, setting environmental objectives and plans to achieve them,

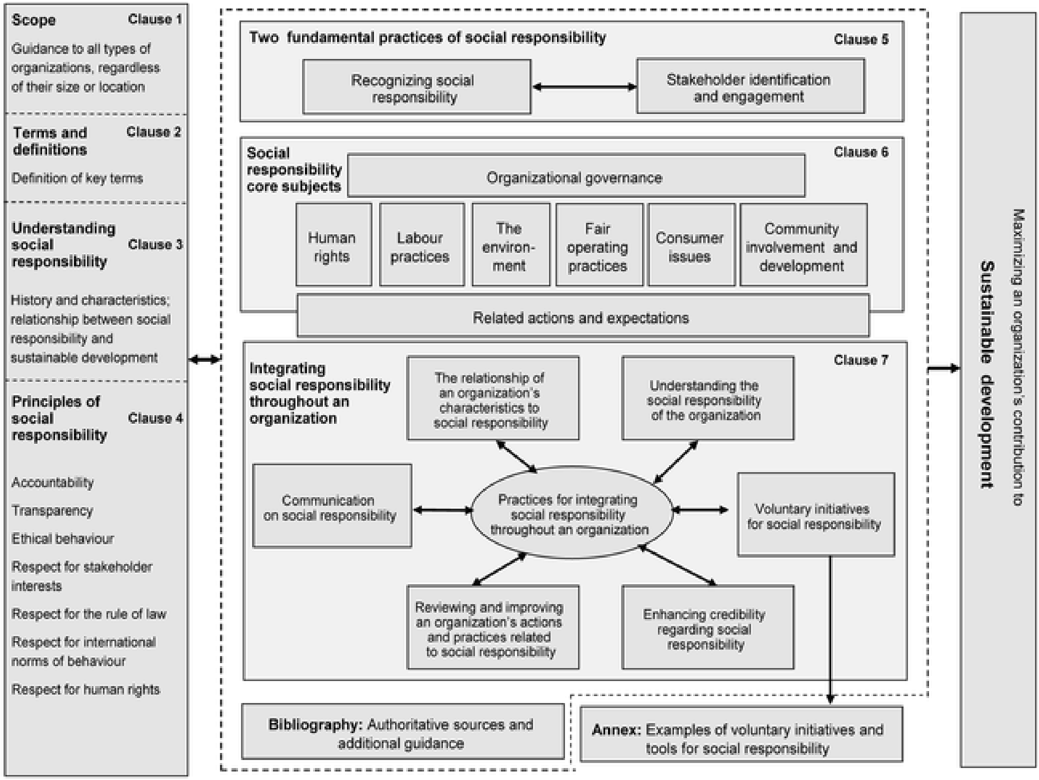
- planning, binding obligations, action planning, measures to deal with risks, operational planning and governance, emergency provision and danger prevention,
- leadership and commitment, roles and responsibilities, authorities, resources, competencies, awareness.

Although DIN does not - as with the ISO standard - focus on ethics as a key issue, the relevant DIN standard (DIN ISO 26000, November 2011 edition) calls for a guide to social responsibility. In line with DIN, sustainability is understood as a commitment, as a living culture of values, to act responsibly and is expressed in the following aspects:

- the relationship between corporate characteristics and social responsibility,
- evaluation and optimisation of activities and approaches to the implementation of ethical principles ("good action"),
- continuous observation and monitoring of an activity (so-called monitoring),
- communication of social responsibility (values, application of principles), internally and externally,
- supporting initiatives for social responsibility.

The fulfilment of these aspects should serve to address the core areas of ethical action according to DIN. These deal with fair ("honest") working, operating and business practices as well as the identification and involvement of stakeholder groups (Gehlen, 2012, p. 1). To this end, the DIN Institute has developed a guide to implementation, which is divided into four sections: "Corporate Ethics", "Corporate Governance", "Corporate Citizenship" and "Ethical Concerns of the Auditor" (Berner/Dettmann/Kohlhoff, 2006, p. 1 ff.), thus incorporating the seven sections of ISO 26000, with section 4, the seven principles of social responsibility, of particular relevance (e.g. ethical conduct is explicitly mentioned here in point 3).

The following graphic shows an overview of ISO 26000 and the regulations contained therein.



Graphic: Schematic overview of ISO 26000

Source: iso.org (ed.), 2010, Figure 1

It should be noted here that the German implementation of ISO in the form of DIN ISO 26000 is not a certifiable management standard, as is possible with ISO 9001 or ISO 140001, for example: "This International Standard is not a management system standard. It is not intended or appropriate for certification purposes or regulatory or contractual use. Any offer to certify, or claims to be certified, to ISO 26000 would be a misrepresentation of the intent and purpose and a misuse of this International Standard. As this International Standard does not contain requirements, any such certification would not be a demonstration of conformity with this International Standard." (iso.org (ed.), 2010, document N191)

3. Conclusion

This chapter will present the main conclusions that can be drawn from considering sustainability, certification and ethics in the context presented.

This paper examined the role of sustainability ethics in companies and how they can be interpreted as the realisation of corporate aspects in the corporate context. It demonstrated that DIN and ISO certifications can be understood as framework conditions or paths to sustainability in companies. The final conclusion here is that (corporate) ethics are an indispensable prerequisite for making sustainable decisions.

The key aspects of this paper can be summarised in the following propositions:

Proposition 1: Sustainability within the company is reflected in the compatibility of ecological, economic and social aspects. In some cases, the consideration of ecological aspects is considered here a prerequisite for achieving the economic and social aspects.

Proposition 2: A permanent implementation of sustainability ethics in companies can be ensured or initiated using certification. For example, companies can set themselves apart from the competition, fundamentally orient themselves towards sustainability and thereby strengthen their competitive positions.

Proposition 3: Companies use sustainable activities to do justice to their social and societal mission, while at the same time presenting themselves as attractive employers.

Proposition 4: The term “business sustainability” or “corporate sustainability” has become established in the sustainability context for companies. These terms represent an expression for sustainability - sustainability ethics in the context of the level of action and application-orientation - and not for sustainability per se, i.e. the assumption of responsibility results in companies meeting the demand for sustainability.

Proposition 5: A company must aim at becoming "Truly Sustainable", which can notably be achieved by integrating activities for sustainability into the company organisation (structural and process organisation).

Proposition 6: Certification can be obtained via ISO 14001 or, in Germany, DIN ISO 26000, even though DIN 26000 itself cannot be certified as a management system. Equivalent standards, such as the CSE standard or the specifications of the Global Reporting Initiative, must therefore be used.

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Relationship Between Exchange Rate and Trade Balance: "the Case of Albania"

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Abstract

This paper analyzes the relationship that exists between the trade balance and the exchange rate. For a clearer picture of the results, other macroeconomic factors that are thought to have an impact on the trade balance, such as economic growth, trade openness, foreign direct investment, and remittances are analyzed. The main objective of this paper is to empirically identify the impact that exchange rate volatility has on the trade balance, specifically Albania. The study uses data obtained from the World Bank and INSTAT for the period 2000-2018. The method used is the empirical method in presenting the facts and the performance of macroeconomic factors and the econometric method in analyzing the relationship between the exchange rate and the trade opening. The VAR model was used to estimate the regression results and the evaluation procedure for the parameters is time series, using data on trade as a percentage of GDP, Euro / ALL exchange rate, foreign direct investment, economic growth, and remittances. The results of this study show that in the case of the Republic of Albania according to the VAR model there is no stable relationship between the exchange rate and trade.

Keywords: Albania, exchange rate, trade balance, VAR test

JEL Classification: F11, F14, F31

Introduction

Many studies have been done to assess the impact of the exchange rate on the trade balance. The exchange rate reflects all transactions between economic agents, at home and abroad. Imports, exports and investments in domestic and foreign financial assets, not only affect the exchange rate, but also affect its current and expected values.

The real exchange rate indirectly affects the distribution of resources in the economy, tradable and non-tradable goods and consequently the trade balance. The purpose of this paper is to identify the role of the exchange rate in Albania's trade balance.

In the first part of this paper we will analyze the latest macroeconomic developments in terms of trade balance as well as theoretical and empirical assessments of the relationship between the exchange rate and trade balance. In the next section we will describe the performance of the trade balance in Albania for the last decades, an empirical summary of the facts and the performance of the trade balance and other macroeconomic factors over the years. The paper concludes with the econometric model based on the VAR test which aims to explain a possible relationship between trade as a percentage of GDP and the Euro / ALL exchange rate.

Literature Review

When assessing the impact of the exchange rate on the trade balance it is important to rely on the theories identified. Given the theoretical view that shows the relationship between the exchange rate and the trade balance, attempts have been made to analyze this impact through empirical studies.

A study that tested the bilateral J-curve effects for three transitional central European countries, namely Czech Republic, Hungary and Poland, and their bilateral trade with Germany was conducted by Hacker and Hatemi-J (2004), in their study. The trade balances are calculated as a ratio of exports to imports, and they are explained by bilateral real exchange rates and domestic and foreign income levels. Using a vector error correction model (VECM) and impulse response functions, the study finds that the J-curve effect is observed for each of the countries as the trade balances briefly deteriorate after a depreciation in the real exchange rate and then improve in the long run. (Hacker.R.S ; Hatemi-J.A)

The effect of depreciation on the trade balance of eleven Central and Eastern European countries was investigated by Bahmani-Oskooee and Kutan (2006). The study implemented the cointegration approach and error-correction modeling using quarterly data from 1990 to 2005. The results showed the presence of J-curves in the cases of Russia, Croatia and Bulgaria. (Bahmani & Kutan, 2006).

Salko and Osmani analyzed the time series of exports and imports only in relation to current and past exchange rate data. They find a potential impact of depreciation on exports but not on imports. (Salko & Osmani, 2002)

(Sojlli & Shtylla, 2006) have concluded that the exchange rate is an important macroeconomic variable for the short-term performance of imports in Albania, but not exports, and that in the long run the exchange rate has a greater impact than GDP.

Another author investigated the effect of exchange rate depreciation on Albania's trade balance. (HODA, 2013) The study used quarterly data from 1998 to 2012 and the results showed that the exchange rate effect is present in exports and has a significant impact on trade deficit reduction and revenues have a significant impact on trade flows.

(Cakrani, 2014) after studied the impact of the exchange rate on several macroeconomic variables in Albania (including exports and imports) concluded that the real ecxhange rate does not have a significant impact on the Albanian economy.

Many studies have been done in Albania but also in different countries to discover the relationship between the exchange rate and the trade balance and in many cases they present different results. Based on the contradictory conclusions that exist regarding this issue, this paper aims to contribute to clarifying the position of the real exchange rate in the trade balance.

Macroeconomic Factors in Albania

As it is known, since the beginning of the transition, Albania has adopted a flexible exchange rate regime. This means that the price of foreign currencies, even the euro against the Albanian lek is determined by the conditions of the foreign exchange market. Exchange rate fluctuations reflect the free movement of goods and monetary capital in Albania's trade and financial exchanges with its trading partners.

Exchange Rate

During the period 2000-2018 the exchange rate has had high volatility, we have both appreciation and devaluation of the ALL against the euro and the dollar. Fluctuations in the exchange rate of the ALL against the euro and the US dollar are also reflected in the Albanian trade balance. Therefore, it is important to note that Albania, like other countries in Southeast Europe, recorded a negative trade balance in the period 2000-2018.

Trade

The ratio of trade to GDP is an indicator of the relative importance of international trade in a country's economy. In Albania, trade has always occupied a significant part of GDP. From 2000-2018 the share of trade in GDP has been increasing from 60 percent of GDP already about 80 percent of GDP.

Foreign Direct Investment

Foreign Direct Investment (FDI) is a very important source of capital financing in small economies, such as Albania. In Albania, FDI appeared after the 1990s with the change of the political system and their level was low. But after the 2000s their volume began to increase significantly as the country offered great opportunities for foreign investors, not only for the many untapped resources in almost every economic sector but also because the implemented political system followed the path of privatizations in the sectors of energy, telecommunications, services, infrastructure and especially airlines, etc. The main investors in Albania are the countries of the European Union

Remittances

Remittances, according to Bank of Albania estimates, constitute the largest inflow into the Albanian economy, leaving behind foreign direct investment and exports. They have been the most stable and secure financial flow in the Albanian economy, over the years affecting the improvement of the balance of payments and the level of economic development in the country. (An overview of remittances, 2019). Since 2006 the level of remittances has been decreasing and their lowest level was during 2012-2014 as a result of the economic crisis affecting neighboring countries like Greece and Italy in which the level of population migration is higher. This difficult situation is also reflected in the reduction of the country's GDP.

Econometric Model

This research aims to determine the relationship that exists between the trade balance, the exchange rate, foreign direct investment, economic growth, and remittances. The choice of variables is based on the analysis of various kinds of literature that have studied the relationship that exists between the trade balance and macroeconomic factors. In this paper, the regression model is built based on the described conceptual framework and is adapted only for Albania.

$$Trade = \beta_0 + \beta ER + \beta FDI + \beta GDP + \beta REM + \varepsilon$$

Trade– represents trade as a percentage of GDP. It is an indicator of the relative importance of international trade in a country's economy. It is calculated by dividing the aggregate value of imports and exports over a period by gross domestic product for the same period. Although called a ratio, it is usually expressed as a percentage. It is used as a measure of a country's opening in international trade, and so it can be called the trade opening ratio.

ER- represents the Euro / ALL exchange rate. The value of the ALL against foreign currencies is freely determined in the foreign exchange market. Exchange rate fluctuations reflect the free movement of goods and capital in Albania's trade and financial exchanges with its trading partners.

FDI- Foreign direct investment as a percentage of GDP. Is a category of investment by resident enterprises (direct investor) in an economy, with long-term business interest in another economy from the country of origin of the direct investor, expressed as a percentage of GDP.

GDP (Gross Domestic Product) - represents the total cash value of all goods and services produced during a specific period by resident production units. Economic growth occurs when the market value of products and services in one economy increases in one period compared to another.

REM-remittances as a percentage of GDP. Remittances are defined as the sum of two components: income from work and personal transfers. Personal remittances received as a share of GDP are the flow of personal remittances expressed as a percentage of Gross Domestic Product (GDP)

Descriptive Analysis

Table 1: Descriptive Statistics

	TRADE	ER	FDI	GDP	REM
Mean	65.45108	132.7368	6.500064	4.623970	13.51915
Median	70.87253	134.0000	7.453973	3.841364	13.71852
Maximum	85.02975	140.0000	11.16018	13.50117	17.22092
Minimum	45.87242	122.0000	1.206527	1.000755	10.03355
Std. Dev.	8.42145	6.781037	2.917301	2.859078	2.379445
Skewness	-1.192750	-0.421614	-0.191790	1.511258	-0.025496
Kurtosis	3.276237	1.616951	1.733029	5.931555	1.588475
Jarque-Bera	3.423051	2.077220	1.387276	14.03594	1.579378
Probability	0.180590	0.353946	0.499755	0.000896	0.453986
Sum	1346.382	2522.000	123.5012	87.85542	256.8639
Sum Sq. Dev.	1519.916	827.6842	153.1916	147.1379	101.9116
Observations	19	19	19	19	19

The results from the descriptive statistics table can help give an idea best overall data by looking at a minimum, maximum, and values average for each. It can also be seen that ER, IHD, and REM have values of skewness close to zero and kurtosis less than 3 while Trade and GDP have respective values away 0 and 3.

ADF Unit Root Test

Initially constructing an equation on variables seems to give a model of power good explanatory with a regulated R2 of 66 percent and its overall importance high. However, time-series data can often present false results as a consequence of non-stationary data or otherwise called false regressions. This is the reason why further tests are needed to create an accurate model that gives relationships between variables.

To check for data stationarity will be used Augmented Dickey-Fuller test. Hypothesis zero for this test indicates that the unit root is present in the data. Any variable tested separately and the results can be seen in the appendices. When testing for variables is done in their level form, all of them except GDP, have high probability values therefore fail to refute the hypothesis base, which means that time series data is non-stationary. To continue testing is done for their first form of change and it helps to convert data from non-stationary to stationary. The analysis is then continued with the VAR method as we have ensured that all variables are stationary.

Heteroskedasticity Test

The problem of heteroskedasticity makes econometric analysis irrelevant. In order to proceed with the other steps, the heteroskedasticity test must first be performed. The Breusch-Pagan-Godfrey test show a p value for Obs * R-squared of 0.9 which it is not important, therefore the data are homoskedastic.

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.084071	Prob. F(4,14)	0.8974
Obs*R-squared	0.450734	Prob. Chi-Square(4)	0.9772
Scaled explained SS	0.204842	Prob. Chi-Square(4)	0.9856

VAR Model

VAR models are a well-known method for the multivariate time series, like that of this study. For VAR models to be applied the variables must be stationary. This is why the first change is taken for all variables except GDP which was stationary at the level so there is no need for transformation. The lag length number must first be determined, which is done using the lag length criteria option. From the tests done based on the criterion of the lowest values of AIC and BIC, the optimal number of delays to be used is 2.

After determining the optimal number of lag length proceed with the VAR model. Before analyzing the results, another test for the model should be done. According to the VAR model, trade and exchange rate have an inverse relationship but this relationship is not important in both Lag 1 and Lag 2. Therefore it can be said that in the VAR, there are no clear and strong relationships between the variables.

VAR Test

Vector Autoregression Estimates

Date: 11/01/20 Time: 19:58

Sample (adjusted): 2003 2018

Included observations: 16 after adjustments

Standard errors in ( ) & t-statistics in [ ]

	TRADE	*DER*	*DFDI*	*DREM*	*GDP*

TRADE(-1)	*0.272403*	*-0.033461*	*-0.031411*	*0.095102*	*-0.074564*
	(0.60134)	*(0.29851)*	*(0.19213)*	*(0.09102)*	*(0.13865)*
	[0.50835]	*[-0.13886]*	*[-0.16171]*	*[1.17451]*	*[-0.51324]*
TRADE(-2)	*0.713448*	*0.354891*	*0.164288*	*-0.186751*	*-0.065284*
	(0.61164)	*(0.35109)*	*(0.18422)*	*(0.09054)*	*(0.15228)*
	[1.21514]	*[1.01482]*	*[0.78828]*	*[-2.23521]*	*[-0.41348]*
DER(-1)	*-0.122344*	*-0.175527*	*0.313691*	*0.117776*	*0.142654*
	(0.35628)	*(0.27461)*	*(0.30167)*	*(0.13536)*	*(0.07861)*
	[-0.33447]	*[-0.93041]*	*[1.31243]*	*[0.71681]*	*[1.68314]*
DER(-2)	*-0.146257*	*0.103201*	*-0.190313*	*0.000824*	*-0.084051*
	(0.30415)	*(0.20321)*	*(0.09764)*	*(0.04603)*	*(0.08831)*
	[-0.48226]	*[0.50082]*	*[-1.86546]*	*[0.02242]*	*[-1.46357]*
DFDI(-1)	*-0.920534*	*0.005451*	*-0.037700*	*0.387826*	*0.132063*
	(0.94536)	*(0.54201)*	*(0.30926)*	*(0.13092)*	*(0.22205)*
	[-0.98756]	*[0.01075]*	*[-0.12190]*	*[2.96240]*	*[0.59474]*
DFDI(-2)	*-0.413153*	*1.541721*	*-0.527458*	*0.041112*	*-0.350213*
	(1.03027)	*(0.60520)*	*(0.28831)*	*(0.14225)*	*(0.31219)*
	[-0.35665]	*[2.50851]*	*[-1.74527]*	*[0.27964]*	*[-1.20115]*
DREM(-1)	*-1.600324*	*-0.782128*	*0.375027*	*0.312251*	*0.691502*
	(3.14641)	*(1.83535)*	*(1.04160)*	*(0.45022)*	*(0.74565)*
	[-0.50636]	*[-0.42312]*	*[0.34487]*	*[0.69099]*	*[0.92507]*
DREM(-2)	*0.702344*	*2.397251*	*-0.764851*	*-0.340281*	*-0.636245*
	(1.42512)	*(0.83448)*	*(0.52110)*	*(0.19855)*	*(0.34752)*
	[0.49572]	*[2.98025]*	*[-1.62073]*	*[-1.70509]*	*[-1.84762]*
GDP(-1)	*1.456682*	*-2.130406*	*1.040338*	*0.003576*	*0.785205*
	(1.65222)	*(0.94326)*	*(0.54238)*	*(0.22701)*	*(0.33032)*
	[0.98577]	*[-2.27607]*	*[1.94721]*	*[0.01425]*	*[2.03223]*
GDP(-2)	*-0.187083*	*2.422839*	*-0.201224*	*-0.314357*	*-0.183285*

	(1.17967)	*(0.58250)*	*(0.41004)*	*(0.16568)*	*(0.28389)*
	[-0.15684]	*[3.56830]*	*[-0.52237]*	*[-1.91280]*	*[-0.65542]*
C	*0.965385*	*-23.77879*	*-13.16567*	*6.654731*	*10.42158*
	(25.7414)	*(14.9783)*	*(8.55127)*	*(3.61354)*	*(6.20411)*
	[0.04527]	*[-1.64583]*	*[-1.55112]*	*[1.83573]*	*[1.70520]*

R-squared	*0.656482*	*0.808634*	*0.632480*	*0.656917*	*0.753440*
Adj. R-squared	*0.569445*	*0.725903*	*0.597441*	*0.470752*	*0.660321*
Sum sq. resids	*104.9667*	*35.35849*	*11.51233*	*2.062981*	*5.935027*
S.E. equation	*4.581848*	*2.659266*	*1.517388*	*0.642337*	*1.089498*
F-statistic	*1.554033*	*2.973619*	*1.368821*	*1.556813*	*2.912481*
Log likelihood	*-37.75145*	*-29.04661*	*-20.06966*	*-6.315523*	*-14.76928*
Akaike AIC	*6.093931*	*5.005827*	*3.883707*	*2.164440*	*3.221160*
Schwarz SC	*6.625086*	*5.536981*	*4.414862*	*2.695595*	*3.752315*
Mean dependent	*74.06261*	*0.750000*	*0.176113*	*-0.447982*	*3.734206*
S.D. dependent	*5.358510*	*5.081370*	*1.703844*	*0.743815*	*1.654179*

Determinant resid covariance (dof adj.)	*0.502625*
Determinant resid covariance	*0.001501*
Log likelihood	*-61.50325*
Akaike information criterion	*14.56291*
Schwarz criterion	*17.21868*

Granger Causality

Granger causality is a test used to find out if one variable can be used to predict another. It also shows the course of the relationship in the sense that it is one-sided or two-sided. The results for Granger Causality support the basic hypothesis that DER does not cause Granger Trade. Granger causality does not show a two-way causality between trade as a percentage of GDP and the Euro / ALL exchange rate.

Finally, it should be said that this study has its limitations that may affect the accuracy of the results such as the small number of observations and the fact that the variables have different levels of stationarity, therefore the parameters may be shifted.

Conlusions

This analysis was performed by applying the econometric VAR approach and using data on trade as a percentage of GDP, Euro / ALL exchange rate, foreign direct investment, economic growth and remittances.

The period in which the study was conducted is 2000-2018 and the technique used was the VAR model to measure the long-run relationship of macroeconomic variables.

According to the VAR model there is no stable link between the exchange rate and trade. It should be noted that the model suffers from a lack of data and does not give a very consistent conclusion.

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Behavioral Analysis of Sustained Individual Investors

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Abstract

With a direct access to 32 self-directed investors from two European countries and the USA, we found that with experience, investors learn to mitigate well-studied behavioral biases while new biases and convictions emerge. The explorative interview method revealed reasons for seemingly irrational behavior not discovered by existing empirical studies using aggregated quantitative data. Thematic analyses were done using open coding and predefined concepts of mainstream and behavioral finance. The findings were contrasted with empirical literature and validated with expert interviews. Learning from mistakes, investors in our sample acknowledged the presence of emotions and built ways to mitigate behavioral issues. We found that overconfidence referenced in numerous studies diminishes after initial enthusiasm; underconfidence may emerge after painful losses. Illusion of control could not be identified. Instead, investors reported feeling of insufficient control on their investments. An important new bias candidate, tangibility bias was discovered which makes investors accept lower financial utility if they feel being in control of their investments. Tangibility bias contributes to less efficient portfolios due to the priority for small number of well-known investments instead of well-diversified but not transparent funds. Beyond decision-making biases, investors had developed experience-based convictions which may be rational or unfounded. Taking into account non-financial motivations, we argue that seemingly irrational actions have a purpose and efficacy.

Keywords: self-directed investing, behavioral biases, decision-making, ecological rationality, portfolio management, underconfidence

Introduction

Existing theories in the Finance field such as Utility maximization, Efficient markets, Modern portfolio theory or Risk/return interdependence expose general principles of what a rational agent should do and avoid doing when investing money. These principles hardly translate into actionable methods, in part because the models are based on strong hypotheses - both about individuals and about the market – that are not satisfied in real life.

Professional investors may use frameworks grounded in these theories, but individual investors are known to largely move away for them, and research on individual investors "as a group" has shown that deviation from such guidelines leads to underperformance compared to the market.

Pooling individual investors creates a risk of masking important individual elements, as these people willingly decided to distance themselves from professionally managed portfolios, and proudly claim that their strategy has nothing average, and is instead fundamentally personal.

For this reason, we decided to adopt a qualitative approach with in-depth interviews of individual investors. Our sample is made of experienced investors, who have a sustained investing practice and have found their "style" after a learning period.

In contrast to the vague but still prescriptive theories of Finance, Behavioral science aims at starting the analysis from what investors really do, and understand the rationale behind it. The notion of biases, used and abused by practitioners, is a central concept in Behavioral science. A return to its core definition might help sort between what are real systematic deviations from optimal decision-making, and what are useful heuristics that bring value-added – financial or otherwise – to the decision-makers.

In this paper, we want to shed light on experienced individual investors' real investment practices, and question the idea of absolute rationality in contrast with ecological rationality driven by individual's motivations and capabilities.

Financial theories and empirical literature

Standard finance provides concepts, theories, and methodologies for creating investment portfolios meeting investor's return and risk preferences. The four foundation blocks are rational investors maximizing their financial utility, efficient markets, modern portfolio theory and the interdependence of risk and return (Statman, 2008).

Modern portfolio theory (MPT), is a mathematical framework for assembling a portfolio of assets such that the expected return is maximized for a given level of risk (Fabozzi et al., 2002). Since the pioneering work of Markowitz (Markowitz, 1952), diversification has been a fundamental concept in asset management and asset-pricing theories. A direct implication of Efficient Market Hypothesis (EMH) is that it is impossible to "beat the market" consistently. This is the theoretical ground behind passive index investing or buy-and-hold investing.

There is an ongoing debate upon the validity of finance theories, and the credibility of sophisticated mathematical models has been further questioned following the financial crisis of 2007–2008. Researchers have disputed the efficient market hypothesis both theoretically and empirically.

While traditional finance assumes that an investor is a rational person capable and willing to process all information without biases, and that the only goal of investing is to maximize financial utility, Behavioral finance studies how emotional, cognitive, and psychological factors influence investment decisions. Behavioral finance helps to explain the difference between expectations of rational investor behavior and actual behavior.

Prospect theory (Kahneman & Tversky, 1979), remains the most successful alternative to the Expected Utility Theory (Illiashenko, 2017). It is a behavioral model showing how people consider utility relative to a reference point and that utility of the same loss and gain is asymmetric. Among other, this explains the disposition bias – investors having trouble selling losing assets.

Shefrin and Statman (2002) introduced the *Behavioral portfolio theory* (BPT), a goals-based theory, where investors divide their money into mental accounts relating to investing goals like financing retirement, university education or just becoming wealthy.

The existing empirical research on individual investors end up to some common findings. Individual investors as a group underperform the markets. Barber and Odean (Barber & Odean, 2000) illustrate that the average passively investing US household earns a 1.5% lower return than the market return, whereas most active investors involved in trading underperform by 6.5% annually.

Findings of empirical research strongly supports the benefits of diversification. Goetzmann and Kumar (2008) found a 2.4% yearly return difference between the least and the best diversified investors in the same data.

Empirical research does not support investor interest in stock-picking. (Odean, 1999) found that the stocks investors buy subsequently underperform the stocks they sell. Findings of (Grinblatt & Keloharju, 2000) are similar: individual investors are net buyers of stocks with weak future performance.

As a group, individual investors have been found to exhibit poor market timing ability (Kamesaka et al., 2003). Barber et al. (2000) estimated investor timing to reduce the performance of individual investors by approximately 0.29 percent annually

Overconfidence is suggested to explain the excess number of transactions and part of stock selections (Barber & Odean, 2000); (Gervais & Odean, 2001). The poor timing of transactions has been explained by disposition bias (Shefrin & Statman, 1985).

Barber and Odean argue that attention greatly influences individual investor purchase decisions (Barber & Odean, 2008). Rather than searching systematically, many investors may consider only stocks that first catch their attention.

Results of existing empirical research raise questions: what are true reasons behind investor behavior? Do they apply also to seasoned investors?

Behavioral point of view

By adopting a behavioral science point of view, we can distinguish two classes of tools for decision-making: optimization, and heuristics (Mousavi & Gigerenzer, 2014).

Optimization can be defined as computing the utility-maximizing solution to a problem using deterministic mathematical methods, given a set of variables and constraints. It is, usually, what people have in mind when talking about a *rational* solution.

Heuristics are "simple strategies that ignore part of the available information" (Hafenbradl et al., 2016). Acknowledging that availability of both information and decision-maker computing power are limited, bounded (Simon, 1955), they aim at exploiting relevant characteristic of the environment in a decision process that is fast, and frugal in terms of resources. Their outcome can be as good – or even better – than optimization methods (Gigerenzer & Todd, 1999) if they are applied in the right context and correctly calibrated, which is what the authors call ecological rationality. However, it is also known that they have the potential to lead to systematic errors, called biases (Tversky & Kahneman, 1974) when applied out of their domain of relevance.

Modern mathematically grounded education, and spreadsheet-worshiping civilization, naturally pushes us to consider optimization as the gold standard, and heuristics as a lesser evil, to use in last resort but not without a touch of shame. Researchers belonging to the "fast-and-frugal heuristics" stream point this as a deep misconception (Mousavi & Gigerenzer, 2017). Indeed, optimization requires parameters, the set of possible events and their probabilities, to be known, and computable. They require the decision-maker to be in a "world of risk" (Knight, 1921). If, instead, the decision-maker is in a world of uncertainty, where the set of possible events – not to mention their probabilities and possible consequences – are unknown or impossible to compute, optimization is by definition impossible, and the correct approach is to embrace heuristic decision-making and start working at matching the right heuristic to the problem at hand.

Most of our decisions, small and big, happen in a world of uncertainty. The usual mistake is to artificially reduce uncertainty to risk, in order to pretend optimization is possible, and save the face the "rationality" to justify a decision. This myopic approach leads to unpleasant surprises when uncertainty comes to reclaim its territory – crisis.

It is interesting to note that practitioners in our study tend to over-use the term "bias" to designate any decision that is not backed by data and quantitative analysis. They also reject the idea that they use heuristics, and maintain the idea that the rational behavior – even if they do not pretend to always adopt it – is out there. However, of all the decision-making contexts that human can face, the world of investing is arguably one of the most uncertain. Variables are infinite, complexity is maximal, and many of the most reputable theories are either contradictory – down to the very debate of market efficiency – or do not provide actionable prescriptions on what to do in practice.

The interest of the behavioral approach for our research is that there seems to be a tacit but widespread schizophrenia in investors, who recognize the uncertain nature of the market, but want at the same time to maintain an image of "rationality", that, in their mind, means a deterministic mathematical approach. A behavioral approach can help recognize what are the biases at play but also what are the perfectly ecologically rational heuristics that investors use, and maybe reconcile their self-image of rational beings with their methods.

Methodology

The research goal calls for explorative research design using qualitative semi-structured interviews. The design allows gaining of a holistic overview and understanding investing in a person's context. (Miles et al., 2020) (Yin, 2011)

The primary data source was 32 investor interviews: Switzerland (14), USA (10) and Finland (11). Comparisons between countries was not the purpose of the study, but three countries with self-directed investing culture were selected to avoid single country sampling bias. A connection to a larger research project made access to this data set possible.

The main criteria for an investor to be included in the sample was a minimum investing experience of 5 years, self-directed sustainable investing style and minimum portfolio size of 50 000 euros. Multiple years of investing experience enables a longitudinal research perspective. The portfolio size requirement was added with the expectation of larger variation of investing styles. Investors using only automatic investing or discretionary accounts were excluded.

Expert interviews (8) were a secondary information source. By experts is meant professional asset managers, relationship managers, portfolio managers and advisors. Experts provided a new perspective helping to interpret and confirm the findings while limiting potential interview method biases (Eisenhardt & Graebner, 2007).

The main interview phase took place between February – December 2019. Of the 32 interviews, 20 were face-to-face interviews and 12 were telephone interviews. Interviews were recorded with those interviewees permitting recording of this highly confidential information. The interview agenda was organized into the following interview themes:

- Investor's investing history

- Current investing style
- Perceived investing performance
- Characteristics of current portfolio(s)
- Portfolio management style
- Analyses and decision-making
- Behavioral issues: self-assessment and researcher inquiry
- Reasons for not following common investing guidelines

Use of themes as a flexible interview guide follows the recommendation of qualitative research using *protocols* by (Yin, 2011).

The analysis method used is an adaptation of elements from Grounded Theory, Gioia Method (Gioia et al., 2013) and method introduced by Miles & Huberman (Miles & Huberman, 1994). Characteristics of the method include evolution of interview protocol, partially framework free initial coding and continuous analysis. Predefined hierarchic coding was used for established concepts related to portfolio management and behavioral finance.

Observed investing patterns

Investor experience cycle, learning process and sustainable investing phase

The first questions of the interviews explored the investors' reasons to start investing and their life story of investing. Narratives of initial stages in the self-managed investing career often included actions of trial-and-error or experimental nature; ex-sample people who had ceased investing were asked for the reasons behind their decision to quit. Figure 1 below depicts identified paths from a decision to start investing onwards.

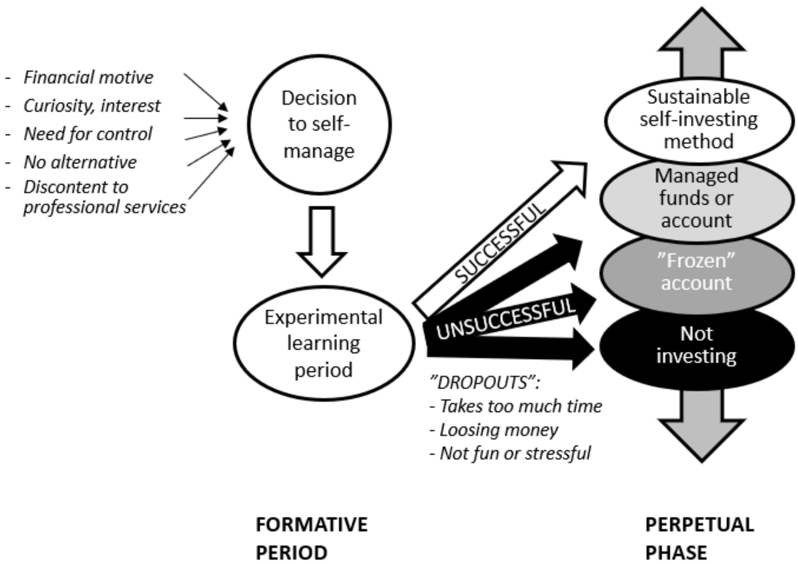

Figure 1. Investor experience cycle: formative period and perpetual phase. The investors in the interview sample started investing from various reasons. The initial learning period is named Formative Period. In the Perpetual Phase, they have found a sustainable way of investing. Frozen account means, that with disappointing results, accounts were left aside with no systematic management.

Common narratives included realizing one's own limits, need to understand instead of guessing or following others, becoming more passive, taking a longer investing horizon, becoming more selective in which securities to invest and not trusting secondhand information.

Motivation for investing

All investors had some form of financial objective for investing, if not more than "*saving for the future*". An unexpected finding was the importance of mental utility for self-directed investing. Generally distrusting commercial financial services, most investors wanted to feel being in better control of their financial assets. Many investors found some of the investing tasks enjoyable, like the search of next unicorns or the ideation future overperforming industrial sectors. Further mental satisfaction was derived from discussions with peers (belonging), supporting important themes (examples: renewable energy, sustainability, medical innovations) and self-actualization "[…] *this blond can make millions*".

Investing practices confirming with traditional finance expectations for rational investing

In the sample there was no criticism of the benefits of buy & hold investing strategy. In some literature (Reilly & Brown, 2011), buy & hold is synonymous with passive index investing, but in investor cases it meant keeping selected securities in the portfolio, unless there is an compelling reason to switch securities. In spite of all investors in the sample having a passive portfolio allocation, the more active investors kept also an allocation for more opportunistic investments. Opportunistic investing did not mean trading for short-term, but looking for new promising investing occasions.

No investor posited that market timing is possible. Still, when increasing investments, investors admitted looking for advantageous moments to acquire single securities.

A discovered contemplating and sense-making decision-making pattern was discovered, hereafter called Decision Incubation. Instead of reacting to single market events, investors spent considerable calendar time in collecting information and analyzing it.

Investing practices considered irrational from financial utility and portfolio theory points of view

From portfolio theory point of view, no investor had an efficient portfolio – and this was not a goal for investors. However, benefits of diversification were well understood as *" the only free lunch in investing"*, but not fully implemented due to practical reasons or perceived lack of importance.

Investors showed a strong priority on their individual investment positions and less interest for their portfolio as a whole. Only three investors started describing their investing portfolio from asset allocation point of view. Only one investor mentioned an explicit rebalancing practice.

According to efficient market hypothesis, it is impossible to overperform the market in long term, but four investors in the sample claimed overperforming the market index. One of these investors defended his overperformance claim by disclosing a spreadsheet showing a decade of overperformance

An unforeseen result was the investors common unawareness or ignorance of their portfolio performance. On the other side, the investors who did not know their portfolio performance, were often well aware of the under/overperformance of single assets in the portfolio. When asked does their portfolio reach or exceed market indices, they typically replied with disbelief or uncertainty – a representative quote: "*I don't know accurately, but I guess not*".

Literature review revealed the normative top-down investing process focusing on optimizing the portfolio as a whole; the process starts from investor needs and ends to investment selection for the planned target portfolio. Instead, a large majority of investors followed a bottom-up investing process starting from identification of winning investments. Depending on investor, portfolios were reactively and intuitively balanced later. Only one investor was able to show a written investing plan.

Observed Behavioral and Decision-making Patterns

It is to be noted that "bias" or "biased" are understood by investing practitioners as broader concepts than in behavioral science literature. By practitioners, the use of the term varies from biased decision-making to a synonym for bad decision-making.

Findings conforming with existing literature

Investor and expert comments demonstrated the existence of disposition bias by describing their emotions related to asset transactions. Affect bias appeared in the form of strong investor interest to talk about their favorite securities. A clear pattern found was investors' fear of their own emotions affecting rational decision-making. Other mentioned biases expressed by investors themselves were recency bias - prioritization of recent information and home bias – favoring domestic securities.

Findings not conforming with existing literature

Overconfidence often referred in literature could not be identified. Instead, investors frequently described themselves feeling not confident. Illusion of control suggested in empirical literature due to online platforms could not be identified – possible reasons including preparation of decisions outside platforms or gained experience.

Herding could not be identified. The following of the often successful "trend is your friend" heuristics - favoring assets growing in value or momentum investing strategy cannot be considered as herding.

New patterns observed

A new behavioral bias *tangibility bias* is suggested. This strong pattern means that an investor is ready to accept higher risk or lower financial utility if he better understands his portfolio positions. An example is avoiding well-diversified high-quality funds as funds feel like a black box. It can also exhibit as preference of underdiversified portfolios where security positions are well known. Whether tangibility bias is a bias or rational reasoning depends on how it systematically affects the quality of decision-making. The matter deserves confirmation through research with experimental design.

Unlike overconfidence, the pattern of underconfidence was encountered. The finding was confirmed by two experts. Underconfidence is a bias, if it systematically leads to unoptimal portfolios like large chronic allocations of uninvested assets. After anecdotes, amount of underconfidence can vary along time.

A seemingly experience originated decision-making pattern was *self-mitigation* of behavioral biases and emotions. This strong pattern made investors take proactive or reactive actions to mitigate effects of what they perceive as their biases. Proactive measures included accumulating knowledge and selecting lower risk portfolios. Reactive measures mentioned included mentally mitigating losses by putting performance in a longer perspective, applying ostrich method (Galai & Sade, 2006) or talking with advisors and peers. Several investors considered proactive measures the only effective way of mitigating compromised decision-making. Learning to mitigate biases and emotional decision-making implies that the effect of biased decision-making may vary along time.

Some investors had strong convictions developed from their own good/bad experiences. Based on our subjective assessment, convictions can conform with mainstream financial paradigm, like *"You cannot beat the market"* or be apparently biased (example: *"Buy & hold is dead. You need to take your profits"*). We assume that convictions may harm investing performance if based on insufficient or misinterpreted evidence. A financial expert interviewed divided convictions to *obsessive* or *convertible*. Convertible convictions could be removed or changed, but obsessive ones are self-defeating.

Analyzing investor decision-making patterns revealed deviations from commonly accepted investing tenets and empirically proven guidelines. Instead of calling this type of behavior "irrational" we suggest a concept *contextual investing rationality.* Departures from the norm were seldom based on only ignorance but also on deductive inference and non-financial motives. Examples: having a "biased" portfolio with a sectoral overweight by an investor with special sectoral knowledge, preference for a high-risk portfolio "[…] *as my investing horizon is 30 years*" or just enjoying to invest in companies "[…] *with a good purpose*".

Motivation and Experience, the Importance of Personal Aspects

Two characteristics of our sample are key to the behavioral analysis: the diversity of investment motivations, and the self-selection through a dropout process.

While investing is intuitively associated with the wish to make profit, participants in the interviews mention many motivating factors beyond financial. These factors, such as curiosity, enjoyment, and need for control, suggest that the motivation is not only extrinsic – the expectation of a financial reward – but also intrinsic to the investment activity. Therefore, the outcome of their experience cannot be reduced to the benchmark of their portfolio performance against the market or professional portfolios.

More importantly, deviations from investment theory – such as heightened interest in stock-picking – that might be detrimental to financial performance, needs to be analyzed on other dimensions too, as an overweight bet on a specific company can bring an investor significant satisfaction in terms of belonging feeling and self-actualization. These investors' utility function is a complex mix of financial and higher-level factors of the Maslow pyramid, and what is seen as biases by the portfolio-balancing solver is in fact ecologically rational when the model is calibrated to maximize the true and complex objectives of decision-maker.

Despite their paramount importance, these investment objectives remain elusive in the evaluation of investor experience. Our interviewees are able to identify various motivators when prompted about it, but the assessment of their performance is reduced to a measure of return on investment, that they often do not know. We suggest that a reason for that might be the absence of place for intrinsic motivation factors performance evaluation in investment frameworks, that are usually designed for professional investors and therefore focus on financial performance only.

The second important aspect of our sample is its self-selection aspect. Our participants are sustained investors who decided to carry on with individual investment after what we called *experimental learning period* depicted in Figure 1.

It is interesting to ask whether this process is purely passive – people who are not made for individual investing stop and those who are remain – or if it is possible for an apprentice to adapt, improve, and actively become a better individual investor.

(Klein, 2001) suggests that gaining expertise in a domain requires, beyond just accumulating experience, to understand the big picture. It might sound like an ambitious feat in an environment such as financial markets where feedback is not straightforward, delayed, and impact of decisions can easily be lost in the noise of general market performance.

Our interviewees described changes in their investing behavior that draw the picture of a calibration of their heuristics: common narratives included realizing one's own limits – a transition from an ideal of maximization to satisficing in the sense of (Simon, 1956) – need to understand instead of guessing or following others, becoming more passive, taking a longer investing horizon, becoming more selective in which securities to invest and not trusting second hand information.

The fact that these investors reached a steady state makes their set of heuristics worth studying as it suggests that they developed skills towards an expertise that allows them to get satisfaction out of the investment activity. Their experience could be used to develop a framework focused on individual investors, considering both financial and personal aspects.

Conclusion

Studies of investors and their practices are too often based on faceless and pooled quantitative trading data, or worse, skewed by samples overwhelmed by beginning experimenters or traders who do not represent investors. In this paper, we take advantage of a unique dataset of in-depth interviews with experienced investors, who went through a learning period, did not drop out, and found their personal sustainable investing practice.

We notice some convergence to practices that are in line with financial tenets, but we also identify ongoing behaviors that go against theoretical prescriptions: position focused stock-picking, sectorial overweight and underdiversified portfolios seldom rebalanced.

While these practices are often turned down under the overused label of biases, we argue that - at least to some extent - they might correspond to purposes and motivations of personal investment that go beyond just financial returns - a benchmark that is not even closely monitored by our investor sample. In this regard, what looks like irrational quirks are in fact effective heuristics that have an ecological rationality value. A "too" concentrated but tangible portfolio may better meet an investor's financial and mental needs.

To build on this exploration and to go further, there are two tracks to go. The first track involves building an experimental research design that allows for a formal testing of features identified in the interviews, such as the suggested tangibility and underconfidence biases. The second track moves on exploring: how online platforms and continuous information overflow affect investor behavior; how the increasing share of exchange traded funds in portfolios changes the investor mindset.

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Financial and Fiscal Reporting, the Effect on the Financial Statements: The Case of Vlora

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Abstract

Understanding and analyzing accounting and fiscal reporting practices is by no means simple, as they are characterized by complexity and ongoing dynamics. The relationship between accounting and fiscal reporting and the correlation that exists between them is one of the most debated and analyzed phenomena worldwide. It is an early relationship that has evolved over time and has often been accompanied by discussions about its convergence and divergence. The fiscal system has also undergone numerous changes, which has given its impact on the reporting of economic entities. These changes are an integral part of the process of reforming the fiscal system, which has faced many challenges, which definitely require high efficiency and effectiveness, led by the aspiration to be as close as possible to European standards. Often these changes in the fiscal system have not provided scope or do not converge with the accounting rules, which have served as the beginning of the creation of dual models of accounting and fiscal reporting. In this paper, both primary and secondary data were used. Primary research was based on quantitative research through the distribution of questionnaires and qualitative research through interviews with financial experts of entities and tax administration officials. On the other hand, economic development and the intention to be part of European countries, has brought the need for global integration of the capital market. Global investors are interested in cross-border financial reporting, making it a necessity to implement International Accounting Standards and adapt them to the spaces created by our country. The information needs of global investors have forced accounting professionals and institutes to work for harmonization. The result of the work is the construction and testing of an important conceptual model that dictates the potential factors of creating differences in reporting, as a result of dual reporting models. Therefore, there has long been a need for companies around the world to communicate using a common accounting language. Country-specific principles are so diverse that the aspiration for an integrated global capital market can only be fulfilled through a uniform financial reporting code.

Keywords: Financial Reporting, Tax Reporting, National Accounting Standards, Harmonization.

JEL classification: M40, M41, M48, K34, **Discipline:** Accounting

Introduction

The relationship between accounting and taxation is a relationship that has existed, exists and will continue to exist therefore more interest has been added to questions about the intensity, interrelationship and mutual consequences between them. Therefore, it is of a great importance that the information on the elements included in the financial statements is correct, coherent and based on legal regulations. When accounting is crossed with taxes, there are many topics that can be discussed. Variables such as income, expenses and profits are used by both financial accounting and taxes. They measure and report on the same transactions and circumstances. Sometimes they are calculated in the same way, but often there are circumstances in which different figures are appropriate for each of the systems. The basic point of course is that accounting and taxation exist for different reasons. Accounting involves the preparation of information for audit and decision-making purposes and may require interpretation as well as recording of factual information. Whereas, the main purpose of taxation is usually revenue collection. Taxation is also used as an instrument of government economic and social policy. For a tax system to function successfully within the law requires a degree of assurance that may not always be appropriate for financial and commercial accounting. Furthermore, there may be alternative methods of preparing accounts that are equally acceptable in terms of accounting standards, but the choice of which may be inappropriately affected by tax implications. In recent years, decisions in some cases seem to have shown a move towards an even greater reliance on accounting for tax purposes. Although commercial accounts prepared on the basis of financial reporting standards may often be the most appropriate basis for tax reporting and the preparation of tax returns, this is not always the case. For as long as there will be changes it seems that perfect harmonization between taxation and accounting will not be able to happen. The global move towards International Accounting Standards can also be seen as a reason to review the close relationship between accounting principles and tax practice and law, as well as a step towards harmonizing the tax base. There are different levels of dependency within countries and no country is able to avoid the difficult relationship between accounting and taxation. The evolving tax law influenced by many factors may deviate from the initial intentions of tax policymakers. It is therefore suggested that tax law should be constantly reviewed to ensure that it is meeting the needs of modern business practice and the principles and integrity of the tax system.

Purpose of the study

The purpose of this study is to show the relationship between financial reporting and tax reporting, focusing on some elements of financial statements to show what is the right way to present them and how they are classified according to Lamb et al. which expresses the influence of laws on the manner of fair reporting. Their relationship is so close and essential to stakeholders that the topics of discussion are very diverse. This study touches on some elements that affect the creation of dual reporting models, consequently the differences in these reports and where they are most evident in the financial statements.

Objectives

- Establishment of a theoretical and practical basis on the possible differences between financial and fiscal reporting and the potential factors that influence their creation, and consequently the creation of dual reporting models.
- To study and analyze which are the main components where the differences are most evident in the accounting and fiscal estimates of entities, presented in the financial statements.
- Indicate the impact of the law on accounting and how it is classified according to Lamb et al.

Research questions

Based on the above, accounting and fiscal reporting (valuation) are considered as a very important element in the decision-making process. However, given the current gaps in the literature, more studies are needed. As such, this study addresses the following questions:

1. How are the economic units operating in the Region of Vlora oriented towards the application of accounting and fiscal rules in the assessment of their activity and financial situation?
2. Are there duplicate models and differences in financial and fiscal estimates in entities and what are the main factors influencing their creation?
3. Where are the differences in accounting and fiscal estimates most evident in the financial statements of entities?

Financial reporting and tax system

Despite the continuing tendency of entities to pay lower taxes, the tax system needs to play its role as a regulator and be in continuous progress in terms of harmonization with accounting standards. The relationship between accounting and taxation is evolving and more complex than it initially seems. According to Green S.(1995): "Financial accounting and tax accounting are not the same. They have different objectives, are subject to different rules and serve different purposes[1]. In addition to the existing difficulties, both accounting and taxation are in an ongoing development process. The different degree, method and direction in which each develops the resulting conflicts between the two systems continue. The relationship between accounting and fiscal is an early relationship that has evolved over time, which has often been accompanied by discussions and debates about its convergence and divergence. The internationalization of the economy leads to economic globalization which is interpreted by the totality of its components, but for us, a special interest is the globalization of accounting and taxes. Although there was a synthesis in the beginnings of creating the "relationship" between accounting and fiscal reporting, today the financiers and accountants of entities need to work harder in order to coordinate and coordinate objectives that often appear to be conflicting.

Currently, as a result of globalization, the development of economic relations between countries, witnesses of a process of cooperation are seen in tax institutions, as well as the increasing role and involvement of the Organization for Economic Cooperation and Development (OECD) and the European Union (EU) in direction of drafting common rules of conduct. Depending on the nature of the prevailing tax, they may differ as follows:

- Tax systems with a predominance of direct taxes, as specific to governments which are more favored from an economic perspective and which are based on global income tax and income tax of legal entities;
- Tax systems dominated by indirect taxes, as specific to underdeveloped countries or those subject to an economic crisis;
- Tax systems with a complex predominance, as specific to economically developed countries, with balanced systems: social - economic systems, social - democratic political regimes;
- Tax systems which are dominated by general taxes, as specific to more developed countries, tax authorities and accounting structures are well organized. These systems are dominated by income tax and value added tax (VAT)
- Tax systems where special taxes dominate, where taxes are set according to different income categories and vary in types.

Over the past two decades, our country has undergone major changes. Political, social and economic changes created the immediate need for an immediate review of budgetary and fiscal policies. Of course, our fiscal system has also become part of these changes, which has given its impact on the reporting of entities and the tax system, shortcomings that had to be overcome in order to expand the private sector and promote tax reform.

[1] Green S. (1995) " Accounting standards and Tax Law: Complexity, Dynamism and Divergence" , page 445-451

Methodology

In the realization of this work, both primary and secondary data were used. Primary research is based on quantitative research through the distribution of questionnaires and qualitative research through interviews with financial experts of entities and tax administration officials. Also, in the paper I used the qualitative method. On one hand, theoretical analysis has been carried out in the form of comparison and description between the two forms of reporting (qualitative research). This paper is also based on a qualitative method, the purpose of which is to identify the importance of studying financial and tax reporting in order to identify and avoid overlaps in the financial statements. The resources provided are primary and secondary. Literature and in-depth interviews with financial experts and heads of entities have served as the basis for building the questionnaire, as a very important instrument in primary data collection. Secondary sources consist of scientific articles, texts of professors in the field, foreign literature, and reports from institutions. Which is the result of reviewing an extensive and contemporary academic literature, foreign and domestic, regarding accounting arrangements, accounting / financial standards, fiscal system and fiscal reporting, as well as the relationship between these two reports? From the analysis of this literature, the main dimensions of the orientation of the relationship between accounting and fiscal (consequently the relevant estimates) were identified. The literature was extensive and helped me a lot to focus on many different issues.

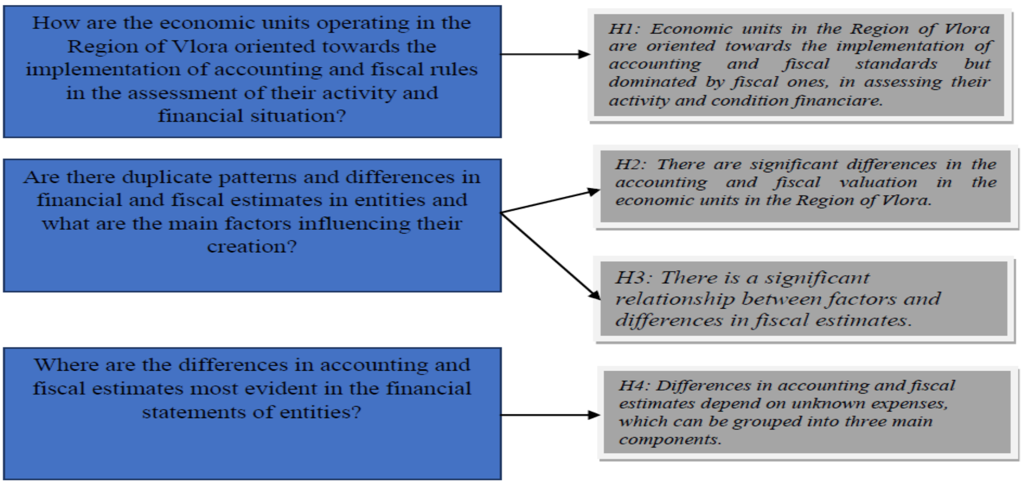

Figure 1: Designing the relationship between research questions and hypotheses

Variables

The variables considered in the paper are: The dependent variable in this paper is the differences in accounting and fiscal reporting (estimates).

The independent variables in this paper are:

- Impact of accounting standards
- Frequency of changes in fiscal legislation
- Different accounting and fiscal purposes
- Integrity and professionalism of the tax administration
- Tax rate
- Complexity of fiscal rules
- The culture of taxpayers
- Trust in fiscal policy and implementing institutions
- Size of economic units (the basic classification criterion is that of turnover according to the fiscal classification, specifically in small business without VAT, small business with VAT, large business and VIP)

Bartlett's Test of Sphericity- which is based on the examination of the observed variance-covariance matrix. According to this test it is checked if this matrix is an identity matrix. A matrix identity is a matrix in which the elements on the diagonal are one and the elements outside the diagonal are zero. If they are going to be one, that means the group variances are the same, so there is no variation between the variables. In the same matrix the diagonal elements show the covariance. If they will be zero or very close to zero this means that the variables are not correlated. If the test turns out to be insignificant, then this means that the correlations between the variables are zero or close to zero, so the variables cannot form groups or factors. When it gets a value less than 0.05 it indicates that factor analysis can be useful for our data. Kaiser-Meyer-Olkin (KMO) - The KMO indicator varies between 0 and 1.

Multiple Logistic Regression Analysis- In testing the third hypothesis, the questionnaire data were processed in order to test and explain the relationships that exist between the factors and the dependent variable difference in accounting and fiscal estimates. These relationships have been studied and tested using the statistical model of multiple logistic regressions. This type of regression has similarities to regression in the form of a linear equation. In the simplified form, when there is only one independent variable, the form of the logistic regression equation estimating the probability of Y is given:

$$P(Y)=\frac{1}{1+e^{-(\beta_0+\beta_1 X_1)}}$$

P (Y) - is the probability that a certain attribute of Y occurred,

e- is the basis of natural logarithm

βi -are coefficients from a linear combination similar to a simple linear regression.

Logistic regression can also be with many independent variables, which can write:

$$P(Y) = \frac{1}{1+e^{-(\beta_0+\beta_1 X_1+\beta_2 X_2+\ldots+\beta_n X_n)}}$$

Model evaluation: measured between the Wald test

This statistic has a special distribution, known as Hi-square. Both the t test in linear regression and the Wald statistic show whether the coefficient b is significantly different from zero. It is mainly used to ascertain whether the variable is an important predictor of results (Field, 2009).

$$\text{Wald} = \frac{b}{SE_b}$$

The simplest way to estimate Wald is to look at the significance level and if it turns out to be less than 0.05 it is concluded that this variable has a significant contribution to the prediction of the independent variable (Field, 2009).

Data analysis and findings

The questionnaire was distributed to the accounting officers of economic entities operating in the Region of Vlora and only 95 of them returned answers. In the surveyed economic units (41%) they exercise activity in wholesale or retail trade. At the same time, this is the largest sector of the surveyed units. The next largest group consists of those operating in manufacturing (22%) and then ranks the service sector with about 14% of the surveyed units. On the other hand, the construction sector occupies about 11% of the units that completed the survey. Meanwhile, the transport and public services sector accounts for 8% of the volume of surveyed units. The rest consists of those operating in the finance and insurance sector (3%) and agriculture, forestry and fisheries (1%).

Checking the first hypothesis

From the survey conducted in the economic units it results that all the dimensions presented in the evaluation questionnaire receive a higher than half of the Lamb scale, implying that in general the economic units that exercise their economic activity in the Region of Vlora "tilt" or “tend” towards evaluation according to the category where fisk dominates.

The total rating for the various aspects of reporting on a scale from 1 to 5 reaches

Level 4,354 out of 5 in totals, which mean the dominance of fiscal regarding unit valuations and reporting. According to the survey results, entities are oriented towards the application of the rules of accounting and fiscal standards but dominated by fiscal ones in assessing their activity and financial condition. **This means that the hypothesis raised is accepted.**

Control of the second hypothesis

To study the differences in the accounting / fiscal reporting of entities, respondents were asked to express their agreement (according to the Likert scale from 1 to 7) regarding the statement: "There are differences in accounting estimates and those fiscal during the exercise of the activity in the evaluation of the activity and the financial condition of your business "

The results from the questionnaire show that there are significant differences in the accounting and fiscal reporting during the exercise of the activity in the evaluation of the activity and the financial condition of the business since the collected answers reach the measure **6.08** out of **7** maximum. This serves as a dependent variable to check other hypotheses following the paper.

The following are statistics on differences in financial and fiscal estimates. There are **95** cases and their average rating is **6.08** on a scale of 1 to 7. The standard deviation indicating for rating fluctuations is **0.754**. It is confirmed that there are significant differences in accounting and fiscal reporting during the exercise of the activity in assessing the activity and financial condition of the entity. ***In this way the second hypothesis gets the answer: it is accepted.***

Control of the third hypothesis

Data collected from the questionnaire and results from the analysis so far. First, the question related to differences in financial estimates (reporting) serves as a dependent variable. We transform this question in the service of further analysis. On the other hand, in the questionnaire the design and composition of questions to gather the information needed to present the factors (independent variables) and to answer the above hypotheses is done as focusing on several dimensions according to the treatment in the chapter of methodology.

First, we recode the dependent variable of differences in estimates according to the format of a dummy variable with values 0 and 1, where the latter is taken for cases where the difference is estimated at the level above 4 and vice versa.

Second, we have the transformation of the model independent variables. To achieve this we use the dimension reduction procedure, which allows us to "compress" questions into a single variable.

The Model Summary table informs about the coefficient of determination of the variance of the dependent variable through independent factors. Since the dependent variable is dichotomous, ie dummy, then the R-square does not carry the same interpretive power as in the one-factor or multivariate linear regression, but nevertheless there are some R-squares, which are:

• Cox and Snell R2, which relies on the final model log-likelihood and the base model log-likelihood and data count.

Specifically:

$$R^2_{CS} = 1 - e^{\left(-\frac{2}{n} log-likelihood_{final} - log-likelihood_{bazë}\right)}$$

Nagelkerke's R2 suggests another type of measurement as follows:

McFadden's R2 is an alternative statistic for measuring the variance of the dependent variable and is calculated:

$$R^2_N = \frac{R^2_{CS}}{1 - e^{\left(\frac{2log-likelihood_{bazë}}{n}\right)}} \qquad R^2_{MF} = 1 - \frac{log - likelihood_{final}}{log - likelihood_{bazë}}$$

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	35.378a	.685	.915

For the regression estimated through SPSS we see that Cox and Snell's R2 is 0.685, while Nagelkerke's R2 is 0.915. The latest test shows that about 91.5% of the dependent variable variation is explained by the independent variables in the model. A value above 0.20 or 20% calculated for R2 is considered a good measure for explaining the variation of dummy variables. This means that we are satisfied with the level of R2.

Chi-square (Hi-square) statistics ratio with degrees of freedom if this ratio

Turns out to be greater than 1, and then the over distribution is present in the model. In this case it is 0.345 <1 then it is said that in the evaluated model there is no over distribution. Consequently, the model meets the conditions for assuming the independence of the error term.

The analysis of the logistic model reports that, taking into account all the factors listed, with the exception of the variable the impact of accounting standards all others are important in explaining the differences between accounting and fiscal valuation for entities.

This is true for a level of statistical significance of over 90% or a tolerance of 0.1 (10%) 33. The model table summarizes and groups the factors according to the level of importance (90%, 95% and 99%) that they represent in relation to the dependent variable.

Of all the hypotheses formulated, only Hypothesis 1 is not accepted or rejected. Others are accepted. Because we have the acceptance of at least one hypothesis, then **the third hypothesis is also accepted**.

Control of the fourth hypothesis

The two main tests are the Bartletti sphericity test and the Kaiser-Meyer-Olkin (KMO) sample suitability test. From the analysis of the data in this paper, the KMO and Bartlett test informs that the sample suitability index (KMO) for the whole sample is 0.815, which we will interpret as the sample is above average in terms of suitability for the type of analysis we are performing. There are eight questions that do not exceed the above limit since these questions do not meet the above condition, then they leave the factor analysis and consequently they are not integrated in the analysis that follows.

Also the variables (questions) are listed from those with higher value loads to those with lower value loads. This is done to facilitate interpretation.

Finally, there are three factors that measure the dimensions of unknown expenditures. They are:

- Debt expenses;
- Expenses for recognition of assets;
- Unjustified expenses with documentation. Finally, there are three factors that measure the dimensions of unknown expenditures.

Component Transformation Matrix

Component	1	2	3
1	.978	-0.653	-.023
2	.051	.967	-.294
3	.048	.279	.948

In conclusion, this factorial analysis suggests creating 3 variables instead of some questions related to business costs and expenses. These variables are Debt Expenditures, Asset Recognition Expenditures and Unjustified Documentary Expenditures.

This means that the unrecognized key expenses that affect the calculation and assessment of the entity's profit tax are those expenses that are related to debt expenses, asset recognition expenses and unjustified documentation expenses, which the tax authorities do not recognize them or recognize them in part, despite the fact that they are accounting for real expenses.

Conclusions and recommendations

The conclusions generated are in line with the objectives of this study. The following are the main conclusions of the study:

Entities that exercise economic activity are oriented towards the application of the rules of accounting and fiscal standards but dominated by fiscal ones, in assessing their activity and financial condition.

As a result, we can say that these units during the exercise of their activity, tend to be classified in the fifth category, according to the taxonomy of Lamb: in those rating systems in which, in conflict cases where accounting and fiscal rules provide interpretations of different, then the fiscal rules should be resolved (in this case it is said that fiscal reporting dominates, ie tax rules are used in determining tax and accounting profit). This is justified by the argument that such a trend is evident in Eastern European countries, where there is a strong correlation between accounting and fiscal estimates and that financial element were more classified in the fourth and fifth categories. The relationship between accounting and fiscal in Albania is supported by the principle of the link between fiscal and accounting. They are interdependent (hence the relevant reporting). This dependency relationship exists where accounting / financial estimates are based on fiscal rules or fiscal profit is determined by accounting / financial estimates.

The results from the questionnaire show that there are significant differences in accounting and fiscal reporting during the exercise of activity in assessing the activity and financial condition of entities. This can be translated by the fact that these units are "forced" to be part of a reality based on dual reporting models. In other words, entities in the preparation of financial statements pay more attention to the tax result and less to the accounting result; this is the reason for the differences in reporting. The entity attaches more importance to the tax result, because the application and enforcement of fiscal legislation brings tax effects to them, while non-compliance with MRS rules does not bring these tax effects, although this is always at the expense providing complete and reliable accounting information. The relationship between these accounting and fiscal reporting is characterized by a dynamic and a good treatment of this area requires a study extended over a long period of time.

The factors influencing the creation of dual models (based on the results of the analysis) are generally in line with the expectations of the literature reviewed.

The divergences between the accounting and tax methods of valuation in economic units in Albania are influenced, among others, by factors of subjective, decision-making, cultural, psychological character, factors related to inheritance, related to mentality, factors that have relate to the professional lifestyle of accounting professionals.

In fact, the expectations were that national accounting standards would have a significant impact on creating differences in accounting and fiscal reporting. This was not accepted during the analysis of the results despite the fact that the standards themselves have brought many innovations related to valuation, such as great dynamism and progress in accounting valuation, using fair value or market value.

The relationship between the creation of differences and the frequency of changes in fiscal legislation turned out to be significant and is explained by the fact that the more frequent these changes are, the more likely we are to have differences in reporting.

The analysis of the results showed a significant relationship between the creation of differences and different accounting and fiscal goals: the more different the perceptions that the accounting and fiscal goals are different, the greater the chances of having duplicate models reporting. Undoubtedly, tax legislation aims to generate as much revenue as possible.

The results from the factor analysis suggest that the three main components, where the differences in accounting and fiscal reporting are most evident, are debt costs, costs for recognizing assets and those unjustified by documentation. It is these expenses that are recognized according to the accounting rules and are not recognized at all or in part by the tax authorities; as a result they produce differences in estimates, thus not presenting the true and honest picture of the entity.

Recommendation

The harmonization of accounting and fiscal rules will reduce the duplicate reporting of entities when drafting the FS.

We think that it is important in making changes to get the opinion of professionals in order to improve the "shortcomings" in time in order to increase the quality of reporting such as adding illustrative examples, continuous access to the online package of standards and guidelines.

Consider the possibility of harmonizing and unifying as many accounting and fiscal rules as possible, in such a way as to minimize the gap created between these two reports.

Any changes in fiscal legislation should be made through consultations with stakeholders, especially the business community. The opinion of the business community is very important for building mutual trust.

All actors such as: drafters of FS, tax administration and accountants' associations, should require entities to complete the financial statements according to the improved NAS, because only in this way, the financial statements will give a true picture the reliability of the financial position, financial performance and cash flow of the reporting entity and its reliability to external users.

Interaction between institutions such as the KKK, the Ministry of Finance should be increased so that laws speak in the same way on specific reporting issues.

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Assessing the Effect of Tax Administration on Smes Tax Compliance Level in Kogi State

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Abstract

Effective tax administration is important for tax revenue generation. It has been observed that the loss of revenue caused by widespread of tax evasion and tax avoidance in Nigeria is due to inefficient and inept tax administration. The most common problem faced by taxpayers is to understand the instructions in the tax pack. This study assesses the burden of tax administration on taxpayers' compliance level in Kogi State. The population of this study comprises of registered small scale businesses taxpayers in Kogi State, with a sample size of three hundred and seventy eight (378). Questionnaire was used to generate the data while One Sample chi-square test was used to test the null hypotheses. The result shows that administrative tax compliance costs have a significant effect on tax compliance level in Kogi State. The study recommends that the tax authority should make tax administration less complex in the area of tax procedures, tax rules and tax computation to enhance the level of tax payment in the State.

Keywords: Tax Revenue, Tax Evasion, Tax Avoidance, Tax Compliance.

Introduction

Tax administration is centered on the implementation and enforcement of tax legislation and regulations. These activities include identification and registration of tax payers, processing of tax returns and third-party information, examination of the completeness and correctness of tax returns, assessment of tax obligations, (enforced) collection of taxes and provision of services to taxpayers. Ifueko (2011) opined that the very nature of tax administration requires participation by several parties, including those who are being taxed (tax payer), those collecting the tax (tax authorities), those who utilize the tax (Government ministries, department, agencies, etc), those who create the laws on the basis of which the tax is collected (legislature) and ultimately those on whose behalf the tax is collected and for whose benefit is it utilized (the entire citizenry).

In every society, taxation policy acts as a fundamental element for economic direction and also helps to ensure countries' economic growth and improvement of global competitiveness (Taha & Loganathan, 2008). The efforts of collecting tax revenues cannot be achieved unless there is strong tax administration which ensures proper tax collections and minimize tax evasion. Tax administration is rapidly changing and tax authority has to fulfill increasing demands and growing expectations from their stakeholders, including new demands from taxpayers for sophisticated tax services. Tax administrators must develop a contemporary vision. Rapid economic developments and ever-higher expectations on the part of taxpayers make it necessary for a tax administration to redefine its strategic course. Its relationship with taxpayers must be laid down in a system of rights and obligations in order to enhance tax compliance level in the State.

Tax payer’s behaviour is strongly linked to their views about the fairness of the tax system. Their reactions to their personal experiences with tax authority are rooted in their evaluations of the fairness of procedures the authority use to exercise their taxing power, actually, taxpayers who feel they have been treated fairly by the tax authority will be more likely to trust the tax authority and be inclined to accept its decisions and follow its directions. But, taxpayers are most likely to challenge a situation collectively when they believe that the procedure is unfair. The Australian Tax Office (ATO) has noted in one of its findings in 2004 that the ability of the taxpayers to trust the regulating body and their perception of fairness with which they are treated has a great influence on a person's choice to contravene tax rules than simple economic or rational self-interest does.

Facilitating tax compliance involves strengthening key elements such as improving services to taxpayers by providing them with clear instructions, understandable forms, assistance and information as necessary. The proper means of achieving tax compliance need to be designed in such a way that can help to deal with tax evasion. Thiga and Muturi (2015) divulge that tax rate and tax compliance cost are very significant aspects of tax compliance and tax awareness to taxpayers. Administrative compliance cost is another important aspect of tax compliance and should not be ignored when designing efficient and effective compliance strategy(Sandford,1995).

Adenugba and Ogechi (2013) revealed that revenue administration agencies are very important in fostering revenue collections, however; their mechanisms need to be reviewed in order to work out any weaknesses noted in their operations.

The presence of tax complexity in tax administration particularly in terms of record keeping, too many details in the tax law and ambiguity cause tax non-compliance particularly in the informer sector of the economy. Richardson (2006) found that complexity is the most important determinant of non-compliance. According to Price

Waterhouse Coopers (2008), SMEs consistently report that complying with taxation regulation is a constraint on their growth and development due to the cost they have to incur to become and remain tax compliant.

Omorogiuwa (1981) opined that ineffective tax administration is the main factor responsible for high tax evasion in Nigeria. Philips (1973) corroborates this view when he states that tax evasion is due principally to administrative ineffectiveness (Okoye and Ezejiofor,2014) further argued that one of the problems which makes developing countries to collect low tax revenues is inefficient and ineffective tax administration as a result of tax complexities. It is observed that in developing countries such as Nigeria, the infrastructure which taxpayers are supposed to enjoy is usually in a deplorable condition (Fafunwa, 2005), the educational system in disarray (Obaji, 2005) and the health system is in a worrisome condition (Ogbonna &Appah, 2012). The foregoing shows tax administration may have far reaching effect on tax compliance level. The study therefore assesses effect of tax administration on SMEs tax compliance level in Kogi State. Specifically the study assesses the effect of administrative compliance cost, administrative tax complexities and administrative tax equity on SMEs tax compliance level in Kogi State. The paper hypothesizes that:

H_{o1}: Administrative tax compliance costs have no significant effect on tax compliance level in Kogi State

H_{o2}: Administrative tax complexities have no significant effect on tax compliance level in Kogi State

H_{o3}: Administrative tax equity has no significant effect on tax compliance level in Kogi State

The outcome of the study will help the Kogi State Board of Internal Revenue and other revenue board in the area of addressing tax compliance cost, tax complexities and tax equity that will enhance tax payers compliance level in the State. It will also benefit the Kogi State government in enhancing their revenue generation from the taxpayers.

Literature Review

Conceptual Clarification

Tax administration is primarily concerned with ensuring compliance and enforcing sanctions The effective tax administration needs to be connected with identification, assessment and collections of tax revenues (Gurawa &Mansor, 2015; Bird, 2004). Effective tax administration is a key machinery of tax revenue collections in both developed and developing the economy. Vehorn and Ahmad (1997) point out four models of tax administration in a decentralized environment which are central to government tax administration, central government tax administration with the assignment of taxing powers to different levels of government, multilevel administration with revenue sharing and self-administration by each level of government.

The choice of the tax administration model depends on the structure and complexity of the country governing system which is either unitary states or federal states. Another tax administration model which is mostly preferred by most governments is contracting out services to private companies. Mikesell (2003) expounds that the extent to which national and sub-national authorities cooperate independently, the more reliance is likely to continue. Tax administration is very important and tax authorities need to design tax administration reform that can help to identify bottlenecks (Silvan& Baer; 1997) that in one way or other affects tax administration operations.

Aurioll and Warlters (2005) suggest that developing country governments consciously need to relax and open barriers to entry into the formal sector in an effort to enhance tax administration and maximise tax revenue. According to Aurioll and Warlters (2005), governments in developing countries need to work out observed internally degrees of corruption, malfeasance, and general administrative inefficiencies in tax revenue collection. In an attempt to address the challenges of tax administration in collecting government revenue in developing countries, Abiola and Asiweh (2012) examine tax administration focusing on its crucial role in reducing tax evasion. Their study revealed that effective enforcement machinery is very significant in increasing tax revenue. The objective of maximising revenue should be in line with effective tax administration that can help to work against corruption, tax evasion and all other bottlenecks of the system.

Tax Compliance Cost and Taxpayers Compliance Level

Tax compliance costs refer to all costs, besides the actual tax liability, born by taxpayers and third parties in the process of ensuring that they comply with the provisions of the relevant tax laws and the requirements laid on them by the relevant tax authorities, including the inconveniences encountered in the process of becoming and remaining tax compliant.

Sanford (1995) opined that tax compliance costs are the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. These are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax. These costs would disappear if the tax was abolished. They include the costs of collecting, remitting and accounting for tax on the products and profits of the business and on the wages and salaries of its employees, and also the costs of acquiring and updating the knowledge to enable this work to be done, including knowledge or legal obligations and penalties (Sandford,1995).

While there have been some attempt to clearly define tax compliance cost, there are also debate on the appropriateness of tax compliance cost definitions. The most frequently cited definition of tax compliance cost proffered by Standford (1995) has been regarded by Yesegat (2009) as inconsistent. By extension, Sapiei, and Kasipillai,(2009) noted that the first sentence of the definition confines compliance cost to cost incurred in complying with the requirement of the tax system, while the next sentence opened up the scope of tax compliance cost to include all cost except for the tax liability and the distortion cost. However, Sandfordet, Michael and Peter(1989) offers a justification for their definition of tax compliance cost in which the paper argues that complexities and interrelationships make it difficult if not impossible to define the various cost within absolute precision or in a neat mutually exclusive way.

Tax compliance cost from the administrative costs perspectives are the costs that exist besides the occurrence of compliance costs that are borne by the companies. These costs are cited as those that the government must also take into account as a public cost to ensure that the tax legislation is obeyed. These are to some extent substitutable, for example when a country transfers from a system where the tax office calculates the tax owed, to a self-assessment system as was the case in Nigeria in 1993. The consequence is usually an increased burden on the companies. Together, the compliance costs and administrative costs are defined as the operating cost of taxation (Sandford,1998; Evans, 2001).

Internal costs are generated by the accounts and administrative departments of the company. Internal staff will prepare all information and documents for the fiscal authorities and consult external advisors when necessary. External costs are generated by the services from lawyers, consultants and other advisors. These external costs are much easier to identify and quantify. Internal costs are more difficult to quantify since they involve subjective estimations of the time spent on different tax activities. Some studies have revealed that in most companies the internal compliance costs are substantially more important than the external (Tran-Nam, Evans, Walpole & Ritchie 2000; Hijattulah & Pope, 2008).

In describing tax compliance cost there is also the need to distinguish between computation costs and planning costs. The first are inevitable as for example, the costs necessary to have a proper accounting system that already prepares the necessary information and calculates the amounts due for tax purposes. They are considered as recurrent administrative costs which cannot be avoided by the company, but which management can only try to fulfil their administrative duty as efficient as possible (Hanfah ,Ariff &Kasipillai, 2002). Planning costs, on the other hand, occur when a company tries to lower or avoid tax payments in a legal manner. This activity is part of good management practices designed to optimise the profitability of the company (as long as the avoidable planning costs are less than the obtained tax savings) (Tran-Nam et al., 2000). According to Bhatnagar et al (2002), these avoidance costs contain planning and research costs and are considered as voluntary costs. They are considered as additional expenditures to increase the opportunities for avoidance.

Mills (1996) proves the hypothesis that firms, who are spending more on tax research and planning, pay less tax than other firms.

Tax Complexity and Tax Compliance Level

Tax complexity arises due to the increased sophistication in the tax law (Richardson & Sawyer, 2001). Tax complexity can take many forms such as computational complexity, form's complexity (American Institute of Certified Public Accountants, 1992), compliance complexity, rule complexity (Carnes & Cuccia, 1996), procedural complexity (Cox & Eger, 2006) and the low level of readability (Pau,Sawyer & Maples, 2007; Richardson & Sawyer, 1998; Saw & Sawyer, 2010).

In Malaysia, Mustafa (1996), who studied taxpayers‟ perceptions towards the self-assessment system which was to be introduced (at that time), suggested the presence of tax complexity in Malaysia, particularly in terms of record keeping, too much detail in the tax law and ambiguity. The findings were partly consistent with the six potential causes of complexity labelled as ambiguity, calculations, changes, details, forms and record keeping, identified by (Long &Swingen, 1987). Such complexity was also present in Australia, where it forces taxpayers to engage tax agents in dealing with their tax matters (McKerchar, 2001; 2003. McKerchar (2003) further identified the most common problem faced by taxpayers is to understand the instructions in the tax pack. This is followed by the problems of understanding the rules, the tax return forms and other relevant written information provided by the tax authority.

Richardson (2006), in his research on 45 countries, found that complexity is the most important determinant of non-compliance, apart from education, income source, fairness and tax morale. His findings were consistent with Cox and Eger (2006) who focused on the State Road Funds in the US State of Kentucky. The authors found that procedural tax complexity contributes to an increase in tax non-compliance.

Administrative Tax Equity and Tax Compliance Level

Tax equity is the distribution of burden among taxpayers in a manner regarded as fair. Evaluation of taxes on equity grounds requires knowledge of where the tax burden falls upon individuals or taxpaying units, some criterion of taxpaying capacity, against which the burden is compared, and a judgment or consensus as to the manner in which burdens should vary with differences in such capacity.(Eldridge,1964). Taxpaying capacity has been variously viewed in terms of wealth, income, faculty, or a general notion of ability to pay which may take into account not only the taxpayers' wealth or income but differences in circumstances with respect to family, age, and sources and uses of income. A criterion of individual taxpaying capacity widely accepted by tax students is personal income as defined by Henry C. Simons: "the algebraic sum of (1) the market value of rights exercised in consumption and (2) the change in the value of the store of property rights between the beginning and end of the period in question." This definition may serve as a point of departure. Much of the debate about tax fairness concerns the relationship of tax burdens to income. Federal income tax changes are judged according to the equity of their redistribution of the tax burden among individuals' income levels. Also, in comparisons of different forms of taxation, relative burden distributions are typically related to income, and fairness is judged by proportionality, regressivity or progressivity with respect to individual income.

Empirical Review

Aladejebi (2018) examined the level of tax compliance among owners of small and medium enterprises (SMEs)in Nigeria using a sample size of 223 SME owners analyzing it with SPSS. The study find that Female SME owners are more tax compliant than the male counterparts**.**

Rasheed (2016**)** assessed tax administration and revenue generation by Ogun State Internal Revenue Service. The study employed a survey research design. The population of the study was the entire staff of the Ogun State Internal Revenue Service which total 93 in number. A sample size of 70 staff was selected using a systematic sampling technique. The research instrument adopted was the use of a structured questionnaire. The collected data was analysed by both descriptive and inferential statistics. The result revealed that, in Ogun state, tax administration did not significantly relate to the amount of revenue generated ($r= 0.165$). Furthermore, the study revealed that tax evasion and avoidance significantly affected the revenue generation in Ogun State ($t = -2.474$, $sig < 0.05$). The study recommended that the tax administration in Ogun State should be reviewed and all possible measures should be put in place to reduce tax evasion and avoidance.

Theoretical Framework

Theory Relevant to the Study

Mookherjee and Png (1995) develop a theory of bribe paying and tax evading taxpayers and tax officials who accept bribes. Bribes are of two kinds. They are either beneficial to both parties (at the expense of government revenue) or are a coercive extraction by officials. The latter is a form of harassment. Both types of bribe costs have been found in the survey of Indian income taxpayers described in Chattopadhyay and Das-Gupta (2002). In the coercive case, bribe costs have effects similar to mandatory compliance costs except that an increase in these costs need not increase the probability of detection. For the former case, Mookherjee and Png model the situation as a (simultaneous move) game between a non-compliant taxpayer and a bribe accepting tax official. Taxpayers behave as in the AS model, except that they pay a bribe if non-compliance is detected rather than getting penalised. However, the maximum bribe they are willing to pay will not exceed extra taxes and penalties they would have had to pay if they chose not to pay a bribe. Tax officials, on the other hand, will not accept a bribe that is lower than the expected cost to them if their bribe taking is detected by a "vigilance" unit.27 The equilibrium bribe is a fraction of the "surplus available" or the difference between the maximum bribe the taxpayer will pay and the minimum bribe acceptable to the tax official. Given this equilibrium bribe rule, the (risk neutral) taxpayer chooses the level of evasion and the (risk neutral) tax official, who prefers not to work other thing equal, simultaneously chooses the work effort he puts in to detect evasion. The probability of detection increases with additional effort. This determines an equilibrium level of non-compliance and an equilibrium bribe. The equilibrium bribe and equilibrium non-compliance turn out to be positively related as would be expected, while tax revenue decreases if non-compliance increases

This compliance model theory is relevant to the study because the model suggested that the tax authority has the ability to influence taxpayers' behaviour through response and interaction. The theory also emphasized that so many factors account for tax compliance level and there should be put into consideration.

Methodology

The study assesses the effect of tax administrative on taxpayers' compliance level in Kogi State. The population of the study comprises of all the registered small-scale businesses (SSB) tax payers with Kogi State Internal Revenue Service. As at 2016 they were seven thousand one hundred and two (7,102) as obtained from Kogi State Internal Revenue Service, Lokoja, Kogi State. A sample size of three hundred and seventy-eight (378) registered small scale businesses tax payers' in Kogi State was used. Out of a total of three hundred and seventy-eight (378) copies of questionnaires distributed to the respondents, three hundred and fifty-three (353) copies were returned given a response rate of 93%. This study covers the period of 2016 fiscal year. The choice of this period is principally because the autonomy for effective administration was granted to the board in the year 2016 which led to employment of skilled staff which made it easier to access information.

Primary data were collected basically for the purpose of the study. The primary data for this study was generated through structured questionnaire ranked across a four-point Likert scale of strongly agree, agree, disagree and strongly disagree.

The research instrument was subjected to content validity to ensure that the content of the instrument measures the variables under investigation in the study. The first draft of the questionnaire was given to two Ph.D. students in accounting. Based on their suggestions improvement were made, the improved copy was given to two post-graduate lecturers who also made positive inputs. Their inputs were incorporated in the final copy, which was used in carrying out the study. The reliability test of instrument performed revealed a Cronbach's Alpha of 78.9% which is highly reliable.

The study used both descriptive and inferential statistics. Descriptive statistics include both measure of central tendency such as mean and measures of dispersion such as standard deviation, minimum and maximum. The mean scores were compared with the average mean of 2.5 for decision making. The average mean is computed as 4 + 3 + 2 +1 = 10/4 = 2.5. Any mean that is equal to 2.5 and above shows respondents' agreement while any mean below 2.5 shows respondents' disagreement. Inferential statistic of one sample chi-square test was used to test all the null hypotheses formulated while Statistical Package for Social Sciences (SPSS) version 20.0 was used to analyse the data.

Results and Discussion

The Table 1 presents the data generated on the demographic characteristics of the respondents.

Table 4: Demographic Characteristics of the Respondents

Category	Frequency (353)	Percentage (100)
Sex		
Male	199	56
Female	154	46
Age		
20-25	26	7
26-30	55	16
31-35	78	22
36 years and above	194	55
Academic Qualification		
O' Level	175	50
NCE/ND	107	30
B.Sc./HND	71	20
Year of Experience		
1-5 years	66	19
6-10 years	182	52
11-15 years	61	17
16 years and above	44	12

Source: Field Study 2017.

Table 4 shows that 199 respondents representing 56% of the total respondents are male while 154 respondents representing 46% of the total respondents are female. This shows that the majority of the respondents are male. Table 4 also shows that 26 respondents representing 7% of the total respondents are within the age bracket of 20-25 years, 55 respondents representing 16% of the total respondents are within the age bracket of 26-30 years, 78 respondents representing 22% of the total respondents are within the age bracket of 31-35 and 194 respondents representing 55% are within the bracket of 36 years and above. This shows that the majority of the respondents fall within the age of 36 years above.

Table 4 shows that 175 respondents representing 50% of the total respondents had O' Level qualifications, 107 respondents representing 30% of the total respondents had ND/NCE qualifications while 71 respondents representing 20% of the total respondents had B.Sc. /HND qualifications. This shows that majority of respondents are O 'level holders. Table 4 shows that 16 respondents representing 19% of the total respondents had 1–5 years business experience, 182 respondents representing 52% of the total respondents had 6–10 years business experience, 61 respondents representing 17% of the total respondents had 11–15 years business experience and 44 respondents representing 12% of the total respondents had 16 years and above business experience.

The Table 2 presents the responses generated with respect to the influence of administrative tax compliance and tax compliance level among SMEs.

Table 4.2: Descriptive Statistics on administrative tax compliance costs and tax compliance level in Kogi State

Appendix 2	N	Minimum	Maximum	Mean	Std. Deviation
Question1	353	1.00	4.00	3.1671	.69727
Question2	353	1.00	4.00	3.3938	.81231
Question3	353	1.00	4.00	3.1275	.65553
Question4	353	1.00	4.00	3.1671	.72523
Valid N (listwise)	353				

Source: Researcher's Computation Using SPSS 20.0 Version

Table 4.2 shows that the majority of the respondents agreed that increase in tax remittance physical stress discourages level of tax payment as indicated by the mean score of 3.1671 with the minimum scale of 1, maximum scale of 4 and standard deviation of 0.69727. Question 2 also shows that the majority of the respondents agreed that increase in tax computational cost discourages level of tax payment as indicated by the mean score of 3.3938] with the minimum scale of 1, maximum scale of 4 and standard deviation of .81231. Question 3 further shows that the majority of the respondents agreed that increase in tax planning cost discourages level of tax payment as indicated by the mean score of 3.1275 in relation with the average mean score of 2.5, with the minimum scale of 1, maximum scale of 4 and standard deviation of 0.65553. Question 4 shows that the majority of the respondents agreed that increase in tax consultancy fee discourages level of tax payment as indicated by the mean score of 3.1671 in relation with the average mean score of 2.5, with the minimum scale of 1, maximum scale of 4 and standard deviation of 0.72523.

Table 4.3: Descriptive statistics on the administrative tax complexities and tax compliance level in Kogi State

Descriptive Statistics

Appendix 2	N	Minimum	Maximum	Mean	Std. Deviation
Question5	353	1.00	4.00	3.1671	0.62871
Question6	353	1.00	4.00	3.1133	0.55766
Question7	353	1.00	4.00	3.4193	0.71896
Question8	353	1.00	4.00	2.4816	1.12074
Question9	353	1.00	4.00	3.0510	0.61024
Valid N (listwise)	353				

Source: Researcher's Computation Using SPSS 20.0 Version

Table 4.3 questions 5 above shows that the majority of the respondents agreed that complexity in tax procedures discourage level of tax payment as indicated by the mean score of 3.1671 with the minimum scale of 1, maximum scale of 4 and standard deviation of .62871. Question 6 also shows that the majority of the respondents agreed that complexity in tax rules discourage level of tax payment as indicated by the mean score of 3.113 with the minimum scale of 1, maximum scale of 4 and standard deviation of 0.55766. Question 7 further shows that the majority of the respondents agreed that complexity in tax laws discourages level of tax payment as indicated by the mean score of 3.4193 with the minimum scale of 1, maximum scale of 4 and standard deviation of 0.71896.

Question 8 shows that the majority of the respondents disagreed that complexity in tax forms does not discourage level of tax payment as indicated by the mean score of 2.4816, with the minimum scale of 1, maximum scale of 4 and standard deviation of 1.12074. Question 9 finally shows that the majority of the respondents agreed that complexity in tax computation discourages level of tax payment as indicated by the mean score of 3.0510 with the minimum scale of 1, maximum scale of 4 and standard deviation of 0.61024.

The responses generated on administrative tax equity and SMEs tax compliance level is presented in table 4.

Table 4.4: Descriptive Statistics on the administrative tax equity and tax compliance level in Kogi State

Appendix 2	N	Minimum	Maximum	Mean	Std. Deviation
Question10	353	1.00	4.00	3.3966	0.69183
Question11	353	1.00	4.00	3.2805	0.69747
Question12	353	1.00	4.00	3.0878	0.89232
Question13	353	1.00	4.00	2.3994	1.09581
Valid N (listwise)	353				

Source: Researcher's Computation Using SPSS 20.0 Version

Table 4.4 shows that the majority of the taxpayers agree that income tax is unreasonable high and are of the view that the complexity in tax computation discourage level of tax compliance. The benefit provided by the government equally discourage the level of tax payment as indicated by the mean score of 3.3966 with the minimum scale of 1, maximum scale of 4 and standard deviation of 0.69183. Question 11 also shows that the majority of the taxpayers agreed that current tax assessment result in more payment of income tax which in turn discourages the level of tax compliance as indicated by the mean score of 3.3938 with minimum scale of 1, maximum scale of 4 and standard deviation of .81231.

Question 12 further shows that the majority of the respondents agreed that compare with other taxpayers in the same income bracket, the respondents perceived they pay more than their fair share of income tax, as indicated by the mean score of 3.0878 with the minimum scale of 1, maximum scale of 4 and standard deviation of .89232. Question 13 finally shows that compare with amount pay by wealthy taxpayers, the majority of the respondents disagreed that they do not pay more than their fair share of income tax, as indicated by the mean score of 2.3994 with the minimum scale of 1, maximum scale of 4 and standard deviation of 1.09581.

The study hypotheses were tested using One Sample Chi-square test. The result is presented in table 5 to 7

H_o1: Administrative tax compliance costs have no significant effect on tax

compliance level in Kogi State

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The categories of Question1 occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
2	The categories of Question2 occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
3	The categories of Question3 occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
4	The categories of Question4 occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

Since all the significant levels are within 1% level of significance as indicated by all the significant levels of .000, the null hypothesis one is rejected, which means that 'administrative tax compliance costs have a significant effect on tax compliance level in Kogi State.

H_o2: Administrative tax complexities have no significant effect on tax compliance level in Kogi State

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The categories of Question5 occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
2	The categories of Question6 occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
3	The categories of Question7 occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
4	The categories of Question8 occur with equal probabilities.	One-Sample Chi-Square Test	.983	Retain the null hypothesis.
5	The categories of Question9 occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

Since all the significant levels are within 1% level of significance except question 8 as indicated by the significant levels of .000, the null hypothesis two is rejected, which shows that administrative tax complexities have a significant effect on tax compliance level in Kogi State.

H_o3: Administrative tax equity has no significant effect on tax compliance level in Kogi State

Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The categories of Question10 occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
2	The categories of Question11 occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
3	The categories of Question12 occur with equal probabilities.	One-Sample Chi-Square Test	.000	Reject the null hypothesis.
4	The categories of Question13 occur with equal probabilities.	One-Sample Chi-Square Test	.149	Retain the null hypothesis.

Asymptotic significances are displayed. The significance level is .05.

Since all the significant levels are within 1% level of significance except question 13 as indicated by the significant levels of .000, the null hypothesis three is rejected, meaning that administrative tax equity has a significant effect on tax compliance level in Kogi State.

This study revealed that administrative tax compliance costs have a significant effect on tax compliance level in Kogi State. This implies that tax remittance physical stress, tax computational cost, tax planning cost and tax consultancy fee discourage level of tax payment in the State. This study further revealed that administrative tax complexities have a significant effect on tax compliance level in Kogi State. This means that complexity in tax procedures, complexity in tax rules, complexity in tax laws and complexity in tax computation discourage level of tax payment. However, the study revealed that complexity in tax forms does not discourage level of tax payment. The findings are in agreement with Richardson (2006) who found that complexity is the most important determinant of non-compliance. Cox and Eger (2006) also found that procedural tax complexity contributes to an increase in tax non-compliance. Kirchler etal. (2007), further found that taxpayers were more likely to comply when the tax law was perceived as less complex.

This study finally revealed that administrative tax equity has a significant effect on tax compliance level in Kogi State. This implies that the income tax paid by SMEs is unreasonable high considering, the benefit provided by the government, and that the current tax assessment requires tax payment more than fair share of income compared with other taxpayers in the same income bracket, the taxpayers perceived they pay more than their fair share of income tax, which has affected the level of tax payment. However, compare with amount pay by wealthy taxpayers, the taxpayers disagreed that they do not pay more than their fair share of income tax. The findings are in line with the findings of Richardson (2006) who stated that general fairness, middle-income earners tax share or burden, and exchange with the government were statistically significant in influencing the behaviour of taxpayers' tax morale. Falkinger (1995) equally argued that lack of equity in an exchange relationship creates a sense of distress, especially for the victim and tax evasion may be seen as a reaction to restore tax equity. Spicer and Becker (1980) as cited by Krause, (2000), found that the amount of tax evaded increases when people are told that their tax burden is higher than that of the rest of the group. However, the finding contradicts Cowell (1992) who found that there is no relation between perceived inequalities and compliance of the taxpayer.

Conclusion and Recommendations

This study assesses the burden of tax administration on tax payers' compliance level in Kogi State. The following findings were arrived at:

This study revealed that administrative tax compliance costs have a significant effect on tax compliance level in Kogi State. This implies that tax remittance physical stress, tax computational cost, tax planning cost and tax consultancy fee discourage level of tax payment in the State.

This study further revealed that administrative tax complexities have a significant effect on tax compliance level in Kogi State. This means that complexity in tax procedures, complexity in tax rules, complexity in tax laws and complexity in tax computation discourage level of tax payment. However, the study revealed that complexity in tax forms does not discourage level of tax payment.

This study finally revealed that administrative tax equity has a significant effect on tax compliance level in Kogi State. This implies that the income tax is unreasonable high considering, the benefit provided by the government, the current tax assessment requires payment more than fair share of income tax and compare with other taxpayers in the same income bracket, the taxpayers perceived they pay more than their fair share of income tax, which has affected the level of tax payment. However, compare with amount pay by wealthy taxpayers, the taxpayers disagreed that they do not pay more than their fair share of income tax.

Conclusion

The Kogi State revenue board must make tax administration easy in order to reduce tax remittance physical stress, tax computational cost tax, planning cost and tax consultancy fee which have been identified as main sources of the low level of tax payment in the State. The complexity of tax procedures, complexity in tax rules, complexity in tax laws and complexity in tax computation must be reduced to the barest minimum in order to enhance payment of taxes in the State.

Recommendations

The Kogi State revenue board should introduce more flexible procedures in the tax administration in order to minimize tax remittance physical stress and to reduce increases in tax consultancy services by the taxpayers to enhance tax payment in the State.

The tax authority should make tax administration less complex in the area of tax procedures, tax rules and tax computation by constant enlightenment and tax advocacy to enhance the level of tax payment in the State.

The tax authority should ensure that taxpayers are provided with benefits commensurate to the actual tax paid.

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Tax Revenue and Nigeria Economic Growth

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Abstract

This study examines the relationship between Tax Revenue and Nigeria Economic Growth. In order to achieve this objective, data was gathered through secondary means. Tax Revenue is proxy by Petroleum Profit Tax, Value Added Tax and Companies Income Tax, while Economic Growth is proxy by Gross Domestic Product. Data collected were analyzed with the aid of the Stata computer software. The study revealed that Petroleum Profit Tax (oil tax revenue) has a positive but no significant relationship with Nigeria Economic Growth, while Value Added Tax and Companies Income Tax (non-oil Tax Revenue) have significant relationship with Nigeria Economic Growth. The study recommends that government should minimize the wide spread corruption and leakages prevalent in tax administration in Nigeria, and transparently and judiciously account for tax revenue generated through the provision of more quality public goods and services, and need not to increase the rates of Value Added Tax and Companies Income Tax in the short run, but to closely monitor the operations of companies engaged in petroleum operations to minimize tax evasion, and as well as support the development of entrepreneurial activities in order to significantly increase Tax Revenue so as to sustain the significant relationship of VAT and CIT (non-oil tax) revenue with Nigeria Economic Growth.

Keywords: Tax Revenue, Economic growth, Company Income Tax, Value Added Tax.

Introduction

The necessity for taxation emanated from the need for government to provide essential amenities for societal growth and development. This will enable the government to effectively superintend human affairs in a given geographical space. The government will need financial and material resources to carry out its functions which include the provision of basic amenities of life such as good roads, pipe borne water, electricity, health facilities as well as security over lives and property.

Osita (2004) described taxation as the most important source of government revenue from the view point of certainty, consistency, and reliability. The Nigerian Government has over depended on the oil sector of the economy for most of its revenue since the mid 1970's, despite the unreliable and fluctuating nature of oil prices in the international oil market. According to Ariyo (1993), this development has led to the neglect of other revenue sources like non-oil tax, Agriculture and solid minerals, and also that the advent of oil boom in Nigeria encouraged laxity in the management of non-oil sources of Government revenue, leading to a sustained reduction of non-oil revenue to the government over the years. This has culminated in persistent shortage of government revenue to fund its obligations to stimulate economic growth, thereby leading the country into economic recession in 2016 and the attendant socio-economic crisis.

According to Hendrik (2001), economic growth involves increasing the capacity of the economy to satisfy the wants and needs of inhabitants of a nation, and also that 'economic growth refers to increase in output, while economic development refers to all the changes in the economy, including the social, political and institutional changes that accompany changes in output.' In his book *The Wealth of Nations,* Adams Smith documented that the economic growth of a nation deals with sustained increase in real gross domestic product (GDP), per capita income, and expansion of the production possibilities of an economy.

. The Economic Recovery and Growth Plan (ERGP, 2017) believes that the economic growth recorded during 2011-2015 which averaged between 4.8% per annum was mainly driven by high oil prices, and was largely non-inclusive. Continuing, this document (ERGP, 2017) maintains that"majority of Nigerians remain under the burden of high poverty, inequality and unemployment". In the opinion of the growth plan document, this unfavourable economic scenario may be due largely to the seeming lack of critical investments in agricultural production and food security, infrastructural development; power and energy provision, roads and rail construction, industrialization, education and critical skills acquisition, solid minerals development, the provision of good quality health care for a healthy work force, as well as high corruption and mismanagement of public finance, thereby leading to a positive but jobless economic growth trajectory.

The Economic Recovery and Growth Plan (2017) document believes that after more than a decade of economic growth, the sharp and continuous decline in crude oil prices since mid-2014, along with a failure to diversify the sources of government revenue and foreign exchange in the economy, led to economic recession in 2016. The capacity of government spending to stimulate economic growth was equally constrained, especially due to lack of fiscal buffers to absorb the shock, thereby culminating in the resultant socio-economic crises that accompanied the economic recession in the country.

As the functions of government increases especially in a modern economy, government's revenue to finance its obligations must necessarily increase. Thus the need for more certain, consistent, reliable and diversified sources of government revenue in Nigeria (such as Value Added Tax Revenue and Companies Income Tax Revenue) can therefore not be overemphasized. According to the Federal Ministry of Economic Planning in their Economic Recovery and Growth Plan (ERGP, 2017), following the crash in the price of crude oil in the international market, where crude oil sells well below $120 per barrel, coupled with decline in oil production on account of militant activities in the Niger Delta, government's financial position has decreased to low levels, and consequently hampering the spending capacity of the government on critical investments in Agricultural production and food security, infrastructural development; power and energy provision, roads and rail construction, industrialization, education and skills acquisition and employment generation, thereby plunging Nigeria's economy into a recession in 2016 with its attendant socio – economic crisis on the country's economy.

From the empirical review in this study, it came to light that previous researchers such as Chude and Chude (2015), as well as Afuberoh and Okoye (2014) did not clearly bring out the relationship of the variables (VAT, PPT and CIT) in the Nigeria economic growth. Secondly, most of the research work on this topic stopped between 2015 and 2016, and therefore does not include the most recent data on this topic. Due to the economic reality of today, the scope of the study will cover up to 2017. This study will also provide clear analysis for appropriate identification of the relationship of the variables (VAT, PPT and CIT) and Nigeria Economic growth through the use of the Stata Econometrics computer software package. By so doing, this study will help to close the gap earlier identified in the works of previous researchers.

The study therefore examines the relationship between tax revenue and Nigeria's economic growth. The specifically the study assesses the relationship between Value Added Tax (VAT) revenue, the relationship between Petroleum Profit Tax (PPT) revenue, the relationship between Companies Income Tax (CIT) revenue and Nigeria's economic growth. The paper hypothesizes that:

H_o1: Value Added Tax (VAT) revenue has no significant relationship with Nigeria's economic growth.

H_o2: Petroleum Profit Tax (PPT) revenue has no significant relationship with Nigeria's economic growth.

H_o3: Companies Income Tax (CIT) revenue has no significant relationship with Nigeria's economic growth.

Literature Review

Conceptual Clarification

Economic Growth

According to Hendrik (2001), economic growth involves increasing the capacity of a country's economy to satisfy the wants and needs of inhabitants of that nation. Hendrik (2001) continued that "economic growth refers to increase in output, while economic development refers to all the changes in the economy, including the social, political and institutional changes that accompany changes in output."

In his ageless book, *The Wealth of Nations,* Adams Smith documented that the economic growth of a nation deals with sustained increase in real gross domestic product (GDP), per capita income, and expansion of the production possibilities of an economy. Sharp, Register and Grimes, (2002) documented that economic growth is the long run process that results from the compounding of economic events over time. Similarly, Dwivedi (2002) posited that economic growth means a sustained increase in per capita national output or net national product over a long period of time. It means that the rate of increase in total output must be greater than the rate of growth of the population.

The Kaldor Model of distribution

In this economic growth model, Kaldor postulates that the saving-income ratio is variable in the growth process. Here, Kaldor based economic growth on the classical saving function which implies that savings equals the ratio of profits to national income. This is given by: $S = P/Y$

The Pasinetti Model of Profit and Growth.

This economic growth model is an extension of the Kaldor model of distribution by incorporating worker's profits as returns on their savings. This shows that there exists a distribution of income between profit and wages, thereby keeping the system in long run- equilibrium.

Joan Robinson's Model of Capital accumulation.

In her book, "The Accumulation of Capital", Joan Robinson builds a simple model of economic growth based on the capital rules of the game. In this model, net national income is the sum of the total wage bill plus total profits which is expressed thus: $Y = WN + PK$

Meade's Neo-Classical Model of economic growth.

In this model, professor Meade constructed a neo-classical model of economic growth that is designed to indicate the way in which the simplest form of economic system behave during a process of equilibrium growth. Here, the net output produced depends on four factors. These include: The net stock of capital available in the form of machines, the amount of labour force available, the availability of land and natural resources, the state of technological knowledge which continues to improve over time.

Petroleum Profit Tax (PPT) and Nigeria's Economic Growth

Odusola (2006) documented that Petroleum Profit Tax (PPT) is a tax applicable to upstream operations in the oil industry. He continued that PPT is particularly related to rents, royalties, margins, and profit sharing elements associated with oil mining, prospecting and exploration leases. According to the definition of the Petroleum Profit Tax Act (PPTA), Petroleum operations essentially involve petroleum exploration, development, production and sale of crude oil.

The importance of Petroleum Profit Tax (PPT) to Nigeria's economic growth cannot be over-emphasized. Ogbonna (2011) documented that Nigeria's petroleum industry constitutes a major source of revenue to the government, and occupies a strategic position in the economic growth of Nigeria. According to Onaolopo, Fasina and Adegbite (2013), Petroleum Profit Tax (PPT) is the most important tax in Nigeria in terms of its share of total revenue, contributing 95% and 70% of foreign exchange earnings and government revenue; and the importance of foreign exchange to Nigeria's import-dependent economy cannot be over-emphasized. Onaolapo, Fasina and Adegbite (2013) continued that the petroleum industry is the largest generator of Gross Domestic Product (GDP) in Nigeria, which is Africa's most populous nation, and contributed to national economic growth in varied ways through employment generation, income generation, industrialization, as well as improvements in other economic variables.

However, Ogbonna (2009) expressed the opinion that the administration of Petroleum Profits Tax in Nigeria has mainly been focused on revenue generation to the detriment of stimulating economic growth and development of the country.

Value Added Tax (VAT) and Nigeria's Economic Growth

Okoye and Ani (2004), defined VAT as "an indirect form of taxation based on the general consumption behaviour of the people". This definition is in line with the Statements of Standard Accounting Practice (SAAP) number five (5), issued in the United Kingdom in 1974, to be a tax on the supply of goods and services which is eventually borne by the final consumers, but collected at each stage of production and distribution chain.

Margaret, Charles and Gift (2014), believed that the impressive performance of VAT in all the countries it was introduced actually influenced the decision of the government to introduce VAT in Nigeria in 1994. The Federal Inland Revenue Service (FIRS) documented that VAT, which replaced the old sales tax, is a consumption tax which is relatively easy to administer, easy to collect and difficult to evade, thus increasing government revenue thereby aiding Nigeria's economic growth. The FIRS is responsible for the administration of VAT in Nigeria.

Companies Income Tax and Nigeria's Economic Growth

According to Ani (2004), CIT is a direct tax levied on the profits of companies. Companies Income Tax is derivable from the taxable profits of companies which are incorporated under the Companies and Allied Matters Act, 1990 as amended till date or any other law that may replace it dealing with the incorporation of companies. In line with section 8(1) of the Companies Income Tax Act (CITA), CIT are payable upon profits of any company accruing in, derived from, brought into, or received in Nigeria in respect of any trade or business that may have been carried out. Currently, the rate of CIT is 30% of assessable profit.

Dickson and Rolle (2014) posited that government often use CIT incentives such as tax exemptions to attract and retain local and foreign investors to engage in productive activities thereby increasing economic growth, and also influence a favourable balance of payment with other countries. Since companies income tax is progressive (the higher the earnings, the higher the CIT), it encourages economic growth. Ani (2014) mentions the objectives of CIT which aids Nigeria's economic growth to include: Source of government revenue to finance infrastructural projects. Equitable distribution of income/wealth. Achievement of favourable balance of payment. As an instrument of fiscal policy to regulate the economy and influence economic growth. To discourage the manufacture and consumption of undesirable goods inimical to public health so as to maintain a health society and work force to aid economic growth.

Empirical Review

Many empirical studies have been carried out on the contribution of taxes to government revenue generation and Nigeria's economic growth. For instance, Cornelius, Ogar and Oka (2016) examined the impact of tax revenue on the Nigerian economy. The objectives of their study were; to examine the relationship between petroleum profit tax and the Nigerian economy, the impact of company income tax on the Nigerian economy, and the effectiveness of non-oil revenue on the Nigerian economy. Data were sourced from Central Bank of Nigeria's Statistical Bulletin and extracted through desk survey method. Ordinary least square of multiple regression models was used to establish the relationship between dependent and independent variables. The finding revealed that there is a significant relationship between petroleum profit tax and the growth of Nigeria economy. It also showed that there is a significant relationship between non-oil revenue and the growth of Nigeria's economy. The finding equally revealed that there is no significant relationship between company income tax and the growth of Nigeria economy. It was recommended that government should endeavour to provide social amenities to all nooks and cranies of the country. It was further recommended that government should engage in a complete re-organization of the tax administrative machineries in order to reduce to tolerable levels the problem of tax evasion and avoidance, and finally, to enhance the tax base of government, employment opportunities should be created, and a good environment for entrepreneurship and innovation to thrive should be made available, using tax proceeds.

Achor and Ekundayo (2016) examined the impact of indirect tax revenue on economic growth in Nigeria. The study uses value added tax revenue and customs & excise duty revenue as independent variables, and economic growth was proxy with real Gross Domestic Product as the dependent variable. The study employed secondary data collected from Central Bank of Nigeria's statistical bulletin for the period covering 1993 to 2013 for the empirical analysis using the convenient sampling technique. The research design is time series and the data were analyzed using descriptive statistics, correlation, unit root test, co-integration test and error correction model regression. The result revealed that value added tax had significant impact on real Gross Domestic Product. The study therefore recommended that existing tax administrative loopholes should be plugged for tax revenue to contribute immensely to the development of the economy since past value added tax and custom and excise duty had a significant impact on economic growth.

Chude and Chude (2015) investigated the impact of company income tax on the profitability of brewery companies in Nigeria. The study employed the augmented Dickey Fuller Unit Root test, Johasen co-integration test and Ordinary Least Squares techniques to analyze time series secondary data. The study revealed positive correlation between taxation and profitability.

Dickson and Rolle, (2014) studied the impact of tax reforms on tax revenue generation in Nigeria. Specifically, the researchers attempted to verify the relationship between federally collected revenue and specific tax revenue generation sources. The study employed annual time series data spanning the years (1981-2011). The various income taxes were used as a proxy for tax reforms. By way of preliminary test, the Augmented Dickey fuller was employed to test for unit root. All the time series variables were non-stationary at levels but became stationary after first differencing. The Johansen's co-integration test shows that long-run relationship exists between tax reform and federally collected revenue in Nigeria.

Onaolapo, Fasina and Adegbite (2013) examined the effect of petroleum profit tax (PPT) on Nigeria Economy. In order to achieve their research objectives, secondary data were obtained from Central bank of Nigeria statistical bulletin covering the period of 1970 to 2010. In concluding their analysis, multiple regressions were employed to analyse data on such variables as Gross Domestic Product (GDP), Petroleum Profit Tax, Inflation and Exchange rate were all found to have significant effects on Economic Growth with the adjusted R square of 86.3%. Following the outcome of this study, it was concluded that the abundance of petroleum and its associated income has been beneficial to the Nigerian Economy for the period 1970 to 2010, and that income from a nation's natural resource has a positive influence on economic growth and development. It was recommended that Government should transparently and judiciously account for the revenue it generates through Petroleum Profit Tax by investing in the provision of infrastructure and other public goods and services, and that government should more effectively and efficiently utilize revenue generated from PPT to create growth, employment opportunities and wealth in the economy so as to encourage tax payers to be more willing to meet their tax obligations to the Government.

Umoru and Anniwe (2013) examined the effect of tax structure on Nigeria's economic growth. The researchers employed co – integration and error correction methods of empirical estimation to analyse their data. They came out with the conclusion that direct taxation is significantly and positively corrected with economic growth, while indirect taxation had significant negative impact on economic growth. On the basis of the empirical analysis, the study concluded that petroleum profit tax is one of the most important direct taxes in Nigeria that affects the economic growth of the country and should therefore be properly managed to reduce the level of evasion by petroleum exploration companies in Nigeria. The study recommended among others that companies involved in petroleum operations should be properly supervised by the relevant tax authority (FIRS) to reduce the level of tax evasion; government should show more accountability in the management of tax revenue and finally, the level of corruption in Nigeria and that of government officials should be drastically reduced to win the confidence of tax payers for voluntary tax compliance, thereby increasing government tax revenue.

Adesina (2011) studied Value Added Tax and Economic growth in Nigeria. To achieve their objectives, the researchers employed time series data on Gross Domestic Product (GDP), Value Added Tax (VAT) revenue, total Tax Revenue, and Total Federal Government Revenue from 1994 to 2008. Their data which was sourced from the Central Bank of Nigeria were analyzed, employing both simple regression analysis and descriptive statistical method. The result showed a positive relationship between VAT and economic growth.

Theoretical Framework

Harrod-Domar theory of growth

The Harrod-Domar theory of economic growth assigns a key role to investment in the process of economic growth. It places emphasis on the dual character of investment to facilitate economic growth. In the first instance, it creates income, and secondly, it augments the productive capacity of the economy by increasing its capital stock. In this model, as long as net investment is taking place, real income and output will continue to expand. However, in order to maintain full employment equilibrium level of income from year to year, it is important that both real income and output should expand at the same rate at which productive capacity of the capital stock is expanding.

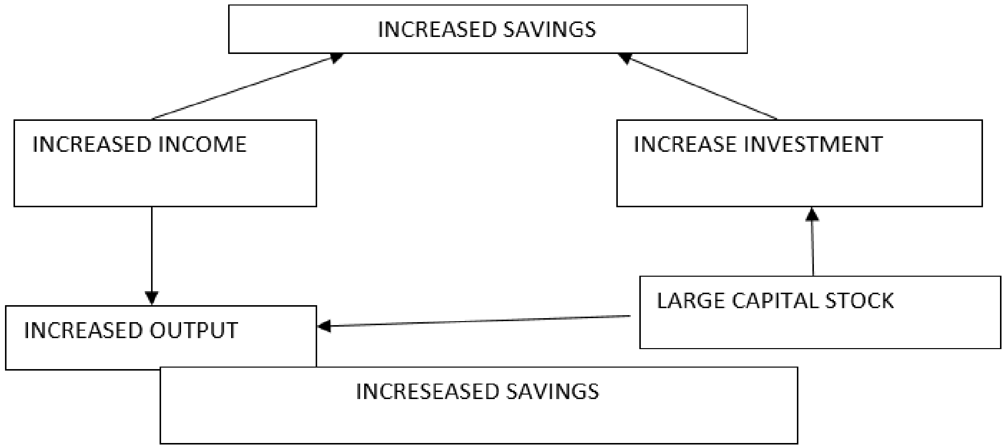

Figure. 2.1 Harrod-Domar Economic Growth Model

The Harrod-Domar Economic growth model above suggests that the rate of a nation's economic growth depends on the level of savings, productivity of investment, as well as the amount of capital employed.

This study is anchored on the Keynesian theory of taxation. This is due to the fact that if high taxes are not imposed, it will lead to shortage of government revenue, thereby impeding the ability of government to effectively meet its obligations to citizens. Such a scenario is capable of creating socio – economic crisis and the resultant adverse consequences in the economy.

Methodology

The study examines Effect of Tax Revenue on Economic growth in Nigeria**.** The explanatory research design was used for this study. This is because this study is considered explanatory in nature, as it seeks to explain the relationships between tax revenue and economic growth This study focuses on all the tax data on economic growth in Nigeria between 2003 and 2017 as provided by the federal Inland Revenue service.

Secondary data was obtained from the office of the Federal Inland Revenue Service (FIRS), Abuja, and the annual report of the Central Bank of Nigeria (CBN), office of the National Bureau of Statistics, Abuja, as well as academic and professional publications. Upon completion of data collection, combinations of both descriptive and inferential statistics were employed as methods of data analysis. The regression analysis was conducted using the stata computer software package. The reasons for employing this software package are because time series data are employed for this research. It enhances the quality of the data, data becomes more variable, more degree of freedom and it reduces and eliminates bias in the data (Baltagi, 2005). Since multivariate regression is used to test the hypotheses, assumptions of multi co-linearity, normality and linearity were also tested. The Pearson correlation matrix is used to test the multi collinearity assumption while Multivariate regressions for the model were conducted for the year (2003-2017).

Operationalization of Variables

The variables for this study are divided into two (2), the independent variables and dependent variables. All these variables are included in the framework designed by the researcher. See below the framework for this study in figure 3.1

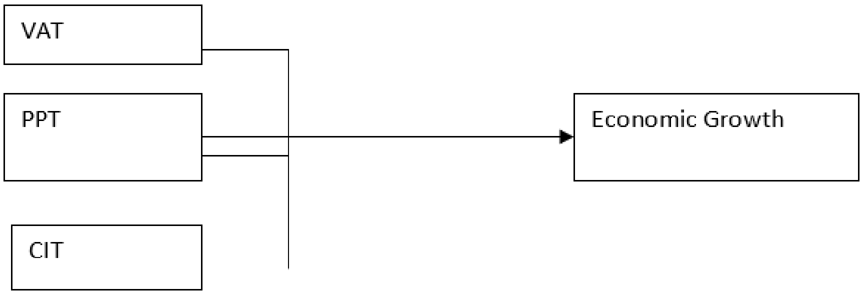

Figure 3.1 research Framework

Table 3.1

Operationalization/ Justification of variables

Variables	Acronyms	Operationalization	Sources
Value Added Tax	VAT	Value added tax	Adesina (2011)
Petroleum Profit Tax	PPT	Petroleum profit tax	Okafor (2012)
Companies Income Tax	CIT	Company income tax	Akwe (2012)
Economic Growth	GDP	Gross domestic product	Owolabi and Okwu (2011)

Sources: Researcher, 2018

Explanatory Variables

The explanatory variables for this research work include:

VAT - Value Added Tax

PPT - Petroleum Profit Tax

CIT- Companies Income Tax

GDP - Gross Domestic Product

µ - Error Term or Stochastic Variable

Tax Revenue (proxy by VAT, PPT & CIT) is the independent variable

Economic Growth (proxy by GDP) is the dependent variable

Model Specification

The functional relationship between tax revenue and Nigeria's economic growth is expressed thus:

Nigeria's Economic Growth = f (Tax Revenue)

GDP = f (VAT, PPT,CIT)

$$GDP = B_o+B_1VAT+B_2PPT+B_3CIT+\mu_t$$

Unit of Analysis

The unit of analysis is very important in the determination of sample, instruments and of data collection. Aggregation of the data collected during the succeeding data analysis period is called unit of analysis (Sekaran, 2000). Furthermore, Sekaran (2000) stated that the unit of analysis can be individuals, groups, division, industries, organization or countries. This study uses only data from Tax regulatory body and National Bureau of statistics in Nigeria as unit of analysis. The justification for adopting this method is as a result of secondary data employed for this research.

Results and Discussion

The study uses VAT, PPT, and CIT to indicate tax revenue and Gross Domestic Product as proxy for economic growth for the period of 2003 to 2017 (that is 15 years). Table 4.1 presents the figures of Gross Domestic Product (GDP), Value Added Tax (VAT), Petroleum Profit Tax (PPT), and Companies Income Tax (CIT) in Nigeria for the period of Fifteen (15) years (2003 – 2017).

Table 4.1 *Data for the research in Billions*

Year	GDP	VAT	PPT	CIT
2003	33,004,796.34	136,411,195,482.82	432,604,082,464.54	114,773,549,268.15
2004	36,057,737.78	163,297,644,060.50	878,625,818,385.40	130,791,877,049.62
2005	38,378,796.06	192,656,500,238.13	1,352,240,333,801.02	170,303,596,128.54
2006	40,703,681.36	232,697,196,045.77	1,349,522,480,302.02	246,671,752,648.75
2007	43,385,877.08	314,545,459,426.o6	1,132,039,173,131.73	332,443,891,962.36
2008	46,320,014.94	401,736,686,467.03	2,060,883,883,648.70	420,582,988,206.56
2009	50,042,360.65	481,407,349,067.46	939,412,237,977.13	600,590,101,017.74

2010	54,612,264.18	564,892,034,367.62	1,480,363,895,241.91	666,132,500,585.70
2011	57,511,041.77	710,555,190,249.19	3,070,591,156,709.50	715,441,977,939.77
2012	59,929,893.04	802,964,773,457.72	3,201,319,571,023.34	846,591,938,812.83
2013	63,218,721.78	767,333,425,892.48	2,666,366,902,994.02	998,436,121,814.50
2014	67,152,785.84	802,964,773,457.72	2,454,064,276,673.66	1,204,833,776,449.03
2015	69,023,929.94	767,333,425,892.48	1,289,960,879,877.01	1,408,432,864,503.65
2016	67,931,235.93	828,199,394,271.89	1,157,808,090,922.32	1,124,721,669,907.67
2017	68,496,917.93	972,348,407,529.22	1,520,481,810,364.95	1,262,009,217,165.73

Source: FIRS, Abuja and National Bureau of Statistics, Abuja. (2003-2017). Note: for the analysis, Natural log of each numbers were used.

Descriptive Statistics of Variables

Table 4.2 presents the descriptive statistics of continuous variables. The variables are Gross Domestic Product, Value Added Tax, Petroleum Profit Tax and Companies Income Tax in Nigeria. Economic growth is proxy using the Gross Domestic Product (GDP). The data analysis was conducted with the aid of Stata computer software. This is so because it makes data to become more robust and informative.

Table 4.2: *Descriptive Statistics Analysis of the Variables*

Variables	Mean	Min.	Max.	SD
GDP	7.71	7.52	7.83	.110
VAT	11.65	11.13	11.98	.289
PPT	12.16	11.63	12.51	.232
CIT	11.71	11.05	12.14	.370

Note: N =15, GDP=Gross Domestic product, VAT= Value Added Tax, PPT = Petroleum Profit Tax and CIT= Companies Income Tax. Min= Minimum, Max= Maximum and SD = Standard deviation. Source: Researcher's Computation(2018)

The results in table 4.2 show the descriptive statistics for the overall data set. Measures of central tendency; mean was used to summarize the data, while standard deviation tested the degree of dispersion among the variables under investigation. GDP, VAT, CIT and PPT value for the period of 2003-2017, showed a mean of 7.71, 11.65, 12.16 and 11.71, with their standard deviations of .110, .289, .232, and .370 respectively. All the distributions were positively skewed, indicating that they are not symmetrically distributed. The Kurtosis values of the distributions indicated that they are not normally distributed. To ensure that the data for this study were fit for the study, the stationarity test was carried out on the data.

Table 4.3: Result Summary of Unit Root Test

Trend and Intercept at 5%, and 10% level of significance

Variables	ADF Test Statistic	1% critical Values	5% critical values	10% critical values	Order	Remarks
LGDP	-1.584426	-4.0113	-3.1003	-2.6927	1(0)	Stationary
LVAT	-1.484133	-4.0113	-3.1003	-2.6927	1(0)	Stationary
LPPT	-1.180389	-4.0113	-3.1003	-2.6927	1(0)	Stationary
LCIT	0.173195	-4.0113	-3.1003	-2.6927	1(0)	Stationary

Source: Researcher's Computation (2018)

The results of the unit root test using Augmented Dickey –Fuller at 1%, 5%, and 10% level shows that all the time series variables are stationary at levels. This shows that the findings of the study will be reliable in explaining the relationship between tax revenue and Nigeria's economic growth. Following the result of the stationarity test above, the study adopts the technique of ordinary least squares for the regression analysis. This is based on the premise that, all the variables in the data set are robust and can yield best linear unbiased estimates.

Diagnostic Tests for Multiple Regression Analysis

Before the commencement of regression analysis, the basic assumptions in multiple linear regressions using stata are checked. These assumptions include, multicollinearity, normality and outlier

Multicollinearity

This form of normality test of data distribution inspection focuses on the degree of the relationship that exists between independent variables. A serious multicollinearity and correlation between the independent variables exists when the correlation is above 0.86, and this is insignificant in this study. (Hair et al 2010). See table 4.4

Normality

It is important to test for normality of variables across two or more variables (Coakes and Ong, 2011; Pallant, 2003). In order to uphold the assumption of normality in respect of data distribution, normality is one of the pre-requisite for multivariate analysis. If this is neglected it can lead to misleading relationship between the variables under investigation and hence distort the findings of the research (Gujarati, 1995). However, normal P-P plot was used in this study to test for normality as suggested by some previous scholars. For example, Hair et al., (2010) delineate normal p-p plot and histogram as graphical representation of data distribution that enhance visual inspection at a glance. This study adopts normal P-P plot to check for the distribution of the data. See appendix 2 for P-P results.

Outliers

Outliers are unusual observations present in a set of data with extreme values that differ from the rest of the data (Karioti, 2007). It can also be referred to as observation with extreme values which are different from other observation in the same category. It does not strongly influence the estimated slope of the regression line but could adversely affect the model fit and estimated error (Latin, Douglas, and Green 2003) and leads to wrong conclusion and inaccurate prediction. When outliers are identified, the next consideration is either to delete or to retain the outlier. However, for the current study, the robust regressions were used because this method gives less weight to outliers and also check the robustness of the model (Hair et al., 2010).

Correlation Matrix of Variables

The Pearson correlation matrix in this research is presented in the Table 4.4. Generally, all correlations between independent variables are less than 0.86, thus it is said that there is no issue of multicollinearity. The current study posits absence of multicollinearity. See Table 4.4

Table 4.4 *Correlation Matrix of Variables*

Variables	GDP	VAT	PPT	CIT
GDP	1.000			
VAT	0.782	1.000		
PPT	0.608	0.671	1.000	
CIT	0.990	0.686	0.603	1.000

*Note *p<.10, **p<.05, ***p<.1. following Hair Et al 2006, the acceptable level of correlation is 0.86 and bellow. Any variable above this acceptable level posit presence of multicollinearity.*

The study hypotheses were tested using Discriptive statistics.The results is presented in table 4.4 to 4.5

Ho1: H_o1: Value Added Tax (VAT) revenue has no significant relationship with Nigeria's economic growth.

Table 4.5 Multiple regression summary Result

Variables	Coefficient	Std. Error	t-statistic	Prob.
C	3.082	918	33.55	0.000
VAT	0.000	5.60	2.96	0.013*
PPT	05.845	6.66	0.88	0.399
CIT	0.000	3.23	5.57	0.000***

R^2 = R-squared 0.9903

Adjusted R^2 = 0.901696

Prob > F = 0.0000

Note *p<.10, **p<.05, ***p<.01

Table 4.5 presents the results of multiple regression analysis between the tax revenue variables and economic growth with the corresponding coefficient, t-value and the probability value (P-value). The model was produced to capture their relationship. The detailed diagnostic test is as follows, R^2 = 99% and probability = 0.000. The result in the model shows a robust result as there is significant positive relationship from the model. The calculated t-statistics: df at 45 at 0.05 level of significance ranges from- 2.021 to + 2.021.

From the result on table 4.5 presents that Value Added Tax revenue is indicated by a critical t-statistics value of 2.96 which is more than the calculated t-statistics value of 2.021 at 0.05 level of significance, which shows that VAT revenue has significant relationship with Nigeria economic growth. Based on the result, the null hypothesis is rejected and the alternate hypothesis is accepted to the effect that Value Added Tax (VAT) revenue has significant relationship with Nigeria's economic growth.

H_o2: Petroleum Profit Tax (PPT) revenue has no significant relationship with Nigeria's economic growth.

From the result on table 4.5 it can be seen that Petroleum Profit Tax revenue has no significant relationship with GDP in Nigeria, but somewhat positive relationship G.D.P. (Petroleum Profit Tax (PPT) coefficient = 05.845, t-value = (0.88). It is such that a unit rise in Petroleum Profit Tax causes a 0.58-unit stagnation in the Gross Domestic Product (GDP). Likewise, it can be seen that Petroleum Profit Tax is indicated by a critical t-statistics value of 0.88 which is less than the calculated value of 2.021, at 0.05 level of significance. This shows that there is no significant relationship between PPT and Nigeria's economic growth. Based on the results, the null hypothesis is accepted, while the alternate hypothesis is rejected to the effect that Petroleum Profit tax (PPT) revenue has no significant relationship with Nigeria economic growth.

H_o3: Companies Income Tax (CIT) revenue has no significant relationship with Nigeria's economic growth.

The result on table 4.5 revealed that Companies Income Tax revenue has a positive and significant impact on the GDP in Nigeria (Companies Income Tax (CIT) coefficient = 0.000, t-value = 5.57). It is such that a unit rise in Company Income Tax causes excellent performance of Gross Domestic Product (GDP). Likewise, it can be deduced that Companies Income Tax revenue is indicated by a critical t-statistics value of 5.57 which is more than the calculated value that ranges between - 2.021 to +2.021 at 0.05 level of significance. This shows that there is a significant relationship between CIT revenue and Nigeria's economic growth. Based on the results, the null hypothesis is rejected and alternate hypothesis is accepted to the effect that Companies Income Tax (CIT) revenue has significant relationship to Nigeria's economic growth.

Generally, pulling all the tax variables together, it can be observed that tax revenue has significant relationship with Nigeria's economic growth with a R^2 value of 0.99, indicating a 99% relationship with Nigeria's economic growth. This shows that tax revenue is important to Nigeria's economic growth. Table 4.5 below presents the summary of hypotheses tested:

Table 4.6 : Summary of Hypotheses Tested

Hypotheses	Expected Result	Achieved Result	Decision
Value Added Tax (VAT) revenue has no significant relationship with Nigeria's Economic growth	Positive	Positive	Supported
Petroleum Profit Tax (PPT) revenue has no significant relationship with Nigeria's Economic growth	Positive	Not Significant	Not supported
Companies Income Tax (CIT) revenue has no significant relationship with Nigeria's Economic growth	Positive	Positive	Supported

Discussion of Findings

The study shows that Value Added Tax (non-oil) tax revenue has positive significant contribution to Nigeria's economic growth. This finding is in line with the government's drive to improve economic growth and revenue generation through improved management of taxes in Nigeria. The finding is in consonant with the discovery of Izedonmi and Okunbor (2014) whose findings showed that VAT Revenue had significant relationship with Nigeria's GDP.

It was also discovered that Petroleum Profit Tax (PPT) revenue has no significant relationship with Nigeria's economic growth. The finding is in line with the findings of Madugba, Ekwe, and Kalu, (2015) that discovered a negative relationship between Petroleum Profit Tax and Nigeria's economic growth.

Finally, findings from this study revealed that Companies Income Tax (CIT) revenue has positive significant relationship with Nigeria's economic growth. The finding supports the discovery of Cornelius, Ogar and Oka (2016), whose findings revealed that there is positive significant relationship between (CIT) revenue and Nigeria's economic growth.

Conclusion and Recommendations

This study examines the relationship between Tax Revenue and Nigeria's Economic growth. The specific objectives of this study include to: assess the relationship between Value Added Tax (VAT) revenue and Nigeria's Economic growth, examine the relationship between Petroleum Profit Tax (PPT) revenue and Nigeria's Economic Growth .and ascertain the relationship between Companies Income Tax (CIT) revenue and Nigeria's Economic growth.

In order to achieve the objectives of this study, secondary data covering the period from 2003 to 2017 was obtained from the Federal Inland Revenue Service (FIRS) Abuja, as well as National Bureau of statistics, Abuja. Tax revenue is the independent variable, while Economic Growth is the dependent variable. Tax revenue (independent variable) is proxy by Petroleum Profit Tax (PPT), Value Added Tax (VAT) and Companies Income Tax (CIT). Economic growth (dependent variable) is proxy by Gross Domestic Product (GDP). Regression analysis was carried out on the data collected with the aid of Stata Econometrics computer software package.

From the data presented and analyzed, it was discovered that Petroleum Profit Tax (oil tax) revenue has no significant relationship with Nigeria's economic growth. This may be as a result of over dependence of Nigeria economy on crude oil. It was also discovered that Value Added Tax and Companies Income Tax (non-oil tax) revenue have significant relationship with Nigeria's economic growth.

Based on the findings of this study, it is hereby concluded that Petroleum Profit Tax (oil tax) revenue has no significant relationship with Nigeria's economic growth. This is as the result of over dependence of government developmental effort on the oil sector. However, PPT demonstrated positive non-significant relationship to G.D.P. This is an indication that the contribution of PPT revenue in Nigeria cannot be over ruled. On the other hand, Value Added Tax and Companies Income Tax (non-oil tax) revenue have positive significant relationship with Nigeria's economic growth. This is an indication that consumers of good and services should be encouraged to pay VAT.

From the findings, the study made the following recommendations: The Federal Government should drastically minimize, or find ways and means of totally eliminating the leakages prevalent in petroleum profit tax administration in Nigeria, and should as well as transparently and judiciously account for revenue generated from petroleum profit tax through the visible provision of more quality infrastructures and public goods and services across the country in order to substantially increase government revenue, This is because, the more the revenue from petroleum profit tax is effectively and efficiently utilized by the federal government to aid growth, employment opportunities and wealth creation, the more tax payers will be willing to discharge their tax obligations, thereby increasing tax revenue to the government. Companies involved in petroleum operations should also be closely monitored by the Federal Inland Revenue Service (FIRS) to reduce the level of tax evasion so as to increase the amount of government revenue from PPT source. The Federal Government should make effort to increase the tax base rather that to increase the rate of Companies Income Tax so as to substantially improve revenue receipts from CIT source, prevent limited liability companies from distributing dividends to their shareholders pending when all outstanding tax liabilities are settled, and government should as well as support entrepreneurial development in Nigeria by fixing the country's electricity infrastructure problems, so as to increase electricity power supply to industries and Small and Medium Enterprises (SMEs).

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