

E-ISBN: 978-81-956810-5-1



SHALOM BUSINESS AND TECHNOLOGY COLLEGE HAWASSA, ETHIOPIA

CONFERENCE PROCEEDINGS, 2021
**First International Academic Conference on
Business, Innovation and Management**

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JOURNAL PRESS INDIA
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SHALOM BUSINESS AND TECHNOLOGY COLLEGE HAWASSA, ETHIOPIA

SHALOM COLLEGE is a young college established in 2019, under the Ethiopian government Higher Education Relevance and Quality Assurance (HERQA) in Hawassa town Sidama Regional state Ethiopia.

Shalom College offers different programs in different departments.

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Marketing	Information Technology
Human Resource Management	

In Bachelor Degree Program

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Masters of Business Administration	Masters of Art in Project Planning and Management
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JOURNAL PRESS INDIA, Delhi

www.journalpressindia.com

Mobile: +91-9873434091, 8826623730, Tel: +91-11-35608512

E-mail: info@journalpressindia.com, editorial@journalpressindia.com

Book Title: Conference Proceedings, 2021: First International
Academic Conference on Business, Innovation and
Management

Editor-In-Chief: Dr. Tsegaye Mathewos

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Online e-published by: JOURNAL PRESS INDIA

Publisher's Address: A-4/17, 1st Floor,
Sector-15, Rohini,
Delhi - 110 089, India
Mobile: 8826623730;
Tel: +91-11-35608512
Website: www.journalpressindia.com
E-mail: info@journalpressindia.com

First Edition, April 2022

ISBN: 978-81-956810-5-1

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Hawassa, Ethiopia**

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Message from Dr. Tsegaye Mathewos, College Dean



The 1st International Research Conference, under the theme of “Research for the Enhancement of Management and Innovation,” was held on behalf of Shalom Business and Technology College in Hawassa. The conference was graced by paper presenters and participants that came from different countries, public and private universities, research institutions and governmental organizations. Many reputed professors, travelling all the way from India, were also present and participated in the amazing international research conference. The conference aimed at bringing together different scholars to share constructive research ideas on the issues of higher research as a better reinforcement for further scientific investigations in management and innovation. The Honorable Dr. Feteah Woldeesenbet, was the invited guest and key note speaker who forwarded his words of gratitude to all the presenters, participants, partners and universities who provided valuable support for the college in the preparation of this grand international research conference. The conference brought along various capable professionals from different corners of the country and was an event at which constructive ideas were entertained, which would ultimately contribute to the prosperity of Ethiopia and stability at large.

Dr. Tsegaye Mathewos
Dean, Shalom Business and Technology College

Message from Dr. Feteh Woldesenbet Zeberga

Shalom Business and Technology College, in furtherance of its goal to make sure that HEIs are a place to provide high quality and vibrant relevant education, organised the 1st Annual International Research Conference on “Research for Business, Innovation and Management.”



As per government intention, all associations, institutions and enterprises were expected to do research to solve their country and their institution’s big and chronic problems. Thus, the Ethiopian Hotels Owners Association had their mission to support the Education Industry through a high quality and relevant higher education system in Ethiopia. The Association assured the stakeholders that the Higher Education Institution’s (HEI’s) were of an appropriate standard and that the programs of study offered by these HEIs were of an appropriate quality and relevance to the country as well as to the world of work environment. In this regard, the Shalom Business and Technology College fully supported the HEI’s.

The outstanding 1st International conference combined all the best elements of a great future-oriented research. It brought us up to date with the newest research developments. The success of the conference was greatly owed to the honourable Dr. Tsegaye Mathewos (PhD), Dean, Owner and General Manager of the College, in addition to the expatriates who came from India to participate in the International Conference and of course, the participants. The conference was a sure-fire way to provide many new ideas and insights.

Thank you all!

Dr. Feteh Woldesenbet Zeberga
Ethiopian Hotels Association, President

Message from Mr. Gobena Beri

Shalom Business and Technology College, mandated to oversee the implementation of ensuring a high quality and relevant education and aiming to make the college a centre of excellence, held its 1st International Research conference with the main aim theme as “Research for Business, Innovation and Management.”



First and foremost, the conference began with an expression of appreciation and a welcome address to the speakers and presenters for their valuable contribution to the 1st International Research conference. This “Research for Business, Innovation and Management” conference served as a platform for excellent presentations and active discussion, its purpose being completely accomplished. All the presenters, both national and international, positively participated in the research conference and were deeply respected. Hearing and learning from the speakers, as well as the presenters, educated everyone on how research works as a development tool.

The takeaways from the conference surely deepened the participants’ thinking further and stimulated the college for the future. The conference’s success is owed to all the attendees. The conference was very effective in meeting its purpose, which will be useful for the college, perhaps to consider progressive to some of the issues in the future.

Thank you all!

Gobena Beri (PhD Candidate)
Research and Community Development Head
Shalom Business and Technology College

About Editor-In-Chief & Editors

Dr. Tsegaye Mathewos (Dean)

Dr. Tsegaye Mathewos Mena is the Assistant Professor and Dean at Shalom Business and Technology College, Hawassa, Ethiopia. With over 14 years of Audit Director Experience at Hawassa University under his wing, he is now a Member of the Higher Education Board, Vice President at Hawassa. He has authored 2 Scopus and 2 UGC Care publications and is now a guide for 46 Post-Graduate students at Infolink University College, Yardestic International College, Africa Beza College and New Global Vision College.



Dr. Nidhi Nalwaya (Ph.D.)

Dr. Nidhi Nalwaya is an Associate Professor in the Faculty of Commerce at Parul University, Vadodara. With over 12 years of academic teaching experience at the postgraduate and graduate levels in subjects such as Managerial Accounting & Financial Management, she is currently a guide to 6 international research scholars pursuing a Ph.D. A contributor to books on accountancy and financial inclusion. She has to her credit more than 30 publications and has also worked as joint editor in the Pacific Business Review.



Mr. Desalew Demissie (Ph.D. Candidate)

Mr. Desalew Demissie Teshome is a graduate with his first degree and now associated with the research environment at Hawassa University. He has participated in different regional and national research by data processing and analysis works during his university career. He has quantitative and qualitative research experience and working with external consultants as an independent researcher.



Mr. Yilma Geletu (Ph.D. Candidate)

Mr. Yilma Geletu is a Ph.D. Candidate at Department of Management, Addis Ababa University, Ethiopia and Jonkoping International Business School, Jonkoping University, Sweden. He has served as Lecturer of Marketing at Hawassa University, Ethiopia. Moreover, he is an independent consultant in the area of Business and Management.



Preface

Research is one of the three major mandates of higher institutions (along with teaching and learning and community service). Shalom Business and Technology College has rich research experiences which resulted in the production of numerous scientific publications. The Conference Proceedings derive from the presentations given at the International Research Conference which was held on 01 November 2021 on the Hawassa Campus of Shalom Business and Technology College. This was the first International Conference on the theme of Business, Innovation, and Management.

The intention of this conference was to gather in one place interested research scholars and to allow them to exchange ideas about different researches as one of the prerequisites for enhancing educational growth with their peers and the participants at large. It is heartening to note that this pressing topic, one with both professional and ethical implications in the work of higher education, is already generating significant and informative research in the country. It is the hope of the conference organizers, and of the Editorial Board of this publication, that this volume will contribute to this discussion.

The papers published here have been submitted by the presenters in expanded and elaborated form from their presentations. This allows each individual contributor, or team of contributors, to express the results of their research most fully. For the purposes of widest comprehension and distribution, English language was required of submissions. The papers have been edited for linguistic coherence. They have not been edited for content as such. They do not necessarily reflect the views of Shalom Business and Technology College, nor of the editorial board of this Proceeding. The Editorial Review Committee has published these papers in good faith, but the responsibility for proper academic usage and citation remains with the contributors.

We acknowledge with thanks the work of the Organizing and Review Committees and the contribution of staff and students, as well as participants, who helped to make the conference a grand success.

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Factors Affecting Employees' Motivation: A Case Study on Hawassa City Trade and Industry Office

*Tewodros Kassaye**

ABSTRACT

Employee motivation is seen as a crucial element of productivity in both the public and private sectors. Limited studies have been carried out to identify the factors affecting motivation in the public sector, including in the Hawassa city trade and industry. Hence, this study aims to identify the determinants of the motivation of employees in the Hawassa city trade and industry office. The researcher adopted a cross-sectional design with a mixed research approach. Both primary and secondary data were used. After data collection, it were classified as per each variable; the qualitative data was coded to be measured quantitatively. Data were then analyzed with the help of SPSS version 21.0. Based on the findings from the descriptive analysis, the researchers concluded that Hawassa city trade and industry office is generating positive employees' motivation. Based on the findings from the regression analysis of the model, the researchers concluded that the employees' motivation is best explained by the explanatory variables included in the model.

Keywords: *Employees' motivation; Employees' performance; Financial factors; Non-Financial factors; Rewards & benefits.*

1.0 Introduction

Public human resource management reform efforts, over the past few decades, have aimed to improve the efficiency of public service. In particular, these efforts have taken aim at the perception of an inefficient bureaucracy composed of public employees who are unmotivated and unproductive. In an effort to increase workplace productivity, many of the PHRM reforms discussed thus far have sought to motivate public employees to be more performance oriented.

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Jurisdictions, such as the state of Georgia, have implemented performance-based pay and employment at will as tools for improving motivation in the public service Sage (2015).

Motivation is seen as a crucial element of productivity in both the public and private sectors. Jurisdictions, such as the state of Georgia, have implemented performance-based pay and employment at will as tools for improving motivation in the public service Sage (2015).

Motivational approaches definitely satisfy the needs of the employees and in turn the employees reply on it through the hard work. Hence, Identifying the need and answering it is the most basic approach of every organization to earn the organization commitment of the employees Chugtai (2008).

According to hucznsky (2001), the practice of motivational factors required from an employer determines the performance of employees and the success and failure of the organization. He further stated that the relationship between performance and motivation clearly shows that the manager should hire individuals who have the ability to do what is required. Managers must create situations wherein an employee is stimulated to undertake activities that may motivate him to achieve higher goals. To achieve higher goals, a person should work so that the restlessness is reduced. This is possible when the worker feels to achieve something and diverts all his energies towards achievement.

Employees move from one organization to another and/or get dissatisfied due to a lack /low level of motivation. Some employers try to give high salaries or wages to their employees just to motivate them to do their best to maximize organization productivity. Others also give rent and transportation allowances to their employees so that the employees can put up their best to enhance their performance, yet the whole thing seems to be a mirage. This reveals that the notion of motivation is subjective, that is to say that what motivates someone to put up his/her best may also de-motivate others. Human needs are insatiable for this reason, they always struggle for new things in life so that they can live a comfortable livelihood. If someone receives huge salaries, allowances in terms of rent, transportation fee does not guarantee one's motivation, here to say that motivation does not rely only on extrinsic rewards but also on intrinsic rewards. Previously, there was monetary as well as an appreciation letter motivational practice based on their performance through employees participation but currently there is no planned motivational system except the provident fund for those who are recruited before the new pension law. Therefore, this study seeks to identify the factors affecting motivation of the employees in public sector with reference to Hawassa city trade and industry office.

Even if an organization has a sufficient number of personnel, it may not always be successful. This can be determined by a number of reasons; one among the most important is the absence of a motivational structure in the organization that will lead employees' unwillingness to work towards the achievement of the organizational goal. Motivating the workforce of an organization to work more effectively towards the organization's goals is perhaps the most fundamental managerial task in a given organization. Organizations motivate their workforce to perform effectively by offering them rewards for satisfactory performance and perhaps improving them for unsatisfactory performance Fisseha (2013).

However, if the employees are motivated, their work performance in terms of effectiveness and efficiency increases Sheila (2004). According to the Encyclopedia of Management, motivation refers to the degree of readiness of an organism to pursue some designated goals and implies the determination of the nature and locus of the forces, including the degree of readiness or willingness to expend energy to achieve a goal or rewards. It is a force that activates dormant energies and sets in motion the action among the human beings of an organization.

Employees need motivation to perform their job competitively as students need to study hard and score good results to get a good job opportunity. Consequently, motivation for any one is an engine to be fruitful for the job that he/she is assigned to accomplish. To be successful at work, individuals need to be productive. To be productive, environmental factors such as proper equipment and abilities must be present, but employees must also possess some level of motivation to perform the tasks correctly and efficiently.

Limited studies have been carried out to identify the factors affecting motivation in the public sector including the Hawassa city trade and industry office and attract the attention of researchers across the nation Asghar *et al.*, (2014); SAGE (2015); Ahmad *et al.*, (2010); Richard (2014); Peter *et al.* (2018); Brooks (2007). Hence, this was the reason why the researcher was motivated to carry out the study with reference to the Hawassa city trade and industry office.

As per review of journals, catalogues and internet browsing, there were a few studies conducted about the factors affecting motivation of employees in the public sector in Ethiopia elsewhere. For instance, the research findings Ahsan (2011). Factors such as salaries, fringe benefits, responsibility, promotion in the organization, appreciation for work done, nature of work, recognition of work done; opportunity for advancement, working conditions, and relationships with superiors and peers motivates employees & will determine motivation towards work in the public organization with reference to the Hawassa city trade and industry office.

Therefore, the aforementioned problem necessitates this study to be carried out and the objective of the study is to identify the determinants of the motivation of employees in the Hawassa city trade and industry office. The findings of the study addressed the performance issues related to employees' motivation in one hand, enhancing the achievement of the trade and industry office goals in other hand.

2.0 Review of Literature

2.1 Theoretical literature review

2.1.1 Definition of motivation

The word "motivation" came from the word 'to motivate,' in which case, to motivate means to move, to be active. In general sense, anything that initiates activity whether external or internal, is motivating. Today, the term means a lot more than this, motivating is the work the manager performs to inspire, encourage and impel people to take required action Rao (2000).

Motivation: Motivation is the process that accounts for an individual's intensity, direction and persistence of effort toward attaining a goal Robbins & Judge (2008). According to Richard (2014) motivation is something that moves the person to action and continues him the cause of action already initiated. Motivation has the role to develop and intensify the desire of every member of the organization to work effectively and efficiently in his position.

Motivation can be defined in a variety of ways depending on whom you ask. If you ask someone on the street, you may get a response like, it's what drives us "or" motivation is what makes us do the things we do. As far as the formal definition, motivation can be defined as forces job. An understanding of the concept of motivation is thus essential in order to comprehend more fully, the effect of variations in factors such as leadership, job redesign, and salary system as they relate to performance, satisfaction and forth (Chandan 1994).

The quality of human resource management has a critical influence on the performance of the organization. Concern for strategic integration, commitment, flexibility and quality has called attention to employees' motivation and retention. Financial motivation has become the most important concern in today's organization and tying it to Maslow's basic or physiological needs, the non-financial aspect only comes in when financial motivation has failed. According to Greenberg and Baron (2008), the definition of motivation could be divided behind individual's action. People tend to be guided by their interest in making a good impression on others, doing interesting work and being successful in what they do. The second part refers to

the choice people make and the direction their behavior takes. The last part deals with maintaining behavior, clearly defining how long people have to persist at attempting to meet their goals.

Factors of Employees' motivation and their effect on employees' performance

Work motivation strategies employed by managers in an organization are of many kinds. Employee motivation is one of the strategies of managers to enhance effective job performance among workers in organizations. For Louis (1986), motivation is a basic psychological process. Motivating is the work managers perform to inspire, encourage and impel people to take action. To motivate the employee, the employee must be reached; to reach him there must be a completed understanding of the complexity of his make-up Allen (1986). From this, it is understandable that motivation efforts directed employees towards improving company operations.

Non-financial factors of motivation that affect employees' performance

The followings are non-financial motivational factors:

Job Enrichment: Job enrichment occurs when employees are given more responsibility for scheduling, coordinating, and planning their own works. Although some writers suggest that job enrichment is any strategy that increases one or more of the core job characteristics, Herzberg gain that jobs were reached only through autonomy and the result of responsibility Steven & Ann (2000) viewed in terms of, Herzberg's motivational factors, job environment occurs when the work itself is more changing, when difficult, repetitive and boring tasks are minimized, when achievement is encouraged, where there is opportunity for growth, and when responsibility, advancement and recognition are provided. (ibid).

A safety and healthy work Environment: The work environment is comprised of the physical location, equipment, materials processed or used, and the activities of an employee while engaged in the performance of his work, whether on or off the railroads property. There are no stated exclusions of place or circumstance. Work environment is a major factor in the motivation present in a given situation. Social relationships, creative freedom, incentive programs and organizational pressures all play a role in workplace motivation.

Because motivation is an essential ingredient in the workplace, understanding the way these elements affect each individual is a great way to boost motivation and improve company morale. The work environment can either make people feel good or de motivate them if it is not satisfactory. Managers are in an aspiration to ensure safe working conditions and build up a healthy environment (ibid).

Career Development: Employee development might be described as a continual process of improving employees so that they make the fullest possible use of their abilities. This is done by encouraging self-development and training. Ivancevic (2007). Career development has strong implications for both employees and employers in any company.

According to Schultz (1960), organizations invest in skill development or human capital when they expect that the value of additional future benefits (such as, greater Productivity) will offset the extra costs incurred in the present to obtain them (like, costs of training programs and production forgone while individuals are in training). In fact, the purpose of career development is to enhance each employee's current performance, enable employees to take advantage of future job opportunities, and fulfill their employer's goals of achieving a dynamic and effective workforce.

Generally, training and development implies a high level of concern for employees, which in turn increases identification with their organization. In fact, effective career development support is important not only for individuals but also for the organizations that employ them. For both of them, it is part of a strategy of achieving flexibility to handle change more effectively.

Employee Involvement: Employee involvement (EI) is the process of developing 'a feeling of psychological ownership among organizational members' and has been implemented through the participation of employees in information processing, decision-making and/or problem solving, Kearney (1997). In fact, employee involvement means that every employee is regarded as a unique human being, not just a component in a machine and each employee is involved in helping the organization meet its goals. Each employee's input is solicited and valued in an employee-management relationship. Employees and management recognize that each employee is involved in running the business.

Participation is the mental and emotional involvement of persons in group situations that encourages them to contribute to group goals and share responsibility for them. One important benefit of participation is that it motivates. Employees are given the opportunity to release their own source's initiative and participate creatively towards the objective of the organization, specially improve motivation by helping employees understand and clarify their paths towards goals. The improved understanding of the path goals relationship produces a higher expectation of goal attainment. The result is improved motivation Ivancevic (2007).

Organizational Commitment: Higher organizational commitment of employees can enhance employees' organizational loyalty and dependence, increase their sense of ownership and thus increase the employee's subjective well-being Deng & Ma (2008).

Xiaoping (2003) found through a comparative study that the manager's and general staff's level of emotional commitment in state-owned enterprises and foreign invested enterprises are on the contrary. Organizational culture under the foreign background sees heavily on economic exchange, which is closely associated with the continued commitment. Organizational culture under the state-owned enterprises sees heavily on social exchange, which is closely associated with the emotional commitment. Xun (2006) explored the interrelation between total compensation and organizational commitment targeted groups of knowledge workers, which found that overall satisfaction with the total compensation has a significant positive correlation with organizational commitment, emotional commitment, continuous commitment and normative commitment and the overall pay satisfaction affects organizational citizenship behavior, performance, and turnover rates by influencing organizational commitment Liu (2006). Accordingly, propose Hypothesis 7: the validity level of organizational commitment significantly affects employees' mental well-being.

Financial factors of motivation that affect employees' performance

This type of motivation system can be in the form of rewards, bonuses, fringe benefits, salaries and wages.

Rewards: According to Malhotra (2007) rewards are 'all forms of financial return, tangible services and benefits an employee receives as part of an employment relationship.' It is without a doubt that every employee expects some level of reward after delivering a function or task. Employees expect employers to deliver or execute designated duties to their satisfaction whilst employees also expect their employers to assure them of adequate wages and salaries (rewards) after they dutifully deliver what is expected of them. According to the oxford dictionary; performance, which originates from the word 'perform', is to carry out, accomplish or fulfill an action, task or a function. The reward for executing a task or a function is what is termed as motivation. Reward systems are clearly related to vroom's expectancy theory of motivation. Financial rewards are a fundamental part of the employment relationship.

Fringe benefits: Such extra benefits, in addition to the normal wage or salary compensation, are referred to as fringe benefits. Ivancevic (2007). Employee fringe can be grouped into the following groups.

These are:

- i. Payment without work
- ii. Retirement benefits
- iii. Safety and health provision: and

iv. Recreation and other benefits

Bonus: Are essentially rewards for success and are paid out as lump sum. This is accomplished when the organization, individual or team has achieved something outstanding or when organizational performance has exceeded what it has planned (ibid).

Salaries: Salary is a form of periodic payment from an employer to an employee, which may be specified in an employment contract. It is contrasted with piece wages, where each job, hour or other unit is paid separately, rather than on a periodic basis. A wage is compensation, usually financial, received by workers in exchange for their labor. Compensation in terms of wages is given to workers and compensation in terms of salary is given to employees. Compensation is a monetary benefit given to employees in return for the services provided by them. They are the most determinant factor for employees work performance because it is the compensation for their effort through some period. The higher the salary, the higher employees expected performance will be (ibid).

2.1.2 The other Four Factors of Motivation

By Tracy (2019), four factors of motivation exist in every organization or business. These factors determine the levels of motivation of the staff, whether positive or negative. Fortunately, each of these ingredients can be changed in a positive way, usually when a manager or supervisor replaces a leader whose management style has not been conducive to bringing out the very best in each person. These factors are leadership style, the reward system, the organizational climate and the structure of the work.

The Impact of Leadership on Motivation: This is a key factor in determining how people feel about the company and how motivated they are. When a company undergoes leadership changes, the psychological climate of the company is altered and in turn, the whole employee performance improves.

The appropriate leadership style depends on the goals and objectives of the organization, the people within the company, and the external environment. Your leadership style should be one that focuses on the long-term success of your company. In a SWAT team or a fire department, the appropriate style would be more directed and dictatorial, with the person in charge telling people what to do quickly with little concern for personal sensitivities. This style can also be found among entrepreneurial organizations, many of which are struggling for their very survival. In most cases, however, traditional top-down leadership style is no longer acceptable in today's breed of employees, who expect to be able to speak out, be heard, and have a clear influence on how they do the work.

A second leadership style is collegial, where one person may be in charge of a department but functions at the same level and with the same knowledge and skill as his co-workers. In this type of organization, people are respected for their knowledge, skill, and ability to do the job. Be the catalyst that motivates your team to heightened productivity.

Other leadership styles that have been identified are telling, selling, persuading, and participating. Each of these styles is appropriate depending on whether the employee is new or experienced, and whether there is ample time or urgency in completing the task. Sometimes, the manager is required to use different leadership styles for different people under differing circumstances.

Motivating Through Intrinsic Rewards: Every work environment is characterized by a reward structure, often differing from employee to employee and from department to department.

As author Michael Le Boeuf says in his book, *The Greatest Management Principle in the World*, “What gets rewarded gets done.” If you want more of something in a company, simply offer greater rewards for that behavior. If you want less of an activity in the workplace, simply pull back on the rewards or increase the punishment or disapproval for that behavior. People respond to incentives.

It is quite common for companies to identify their most profitable products and services, and then increase the percentage of employee commission for selling those specific products and services, while maintaining lower commissions for less profitable items. Employees, and managers for that matter, respond very quickly to increased or decreased financial incentives for specific behaviors or for achieving specific goals.

Creating a Motivational Organizational Climate: is your company a “wonderful place to work”? The organizational climate is deliberately created and maintained by the management. It largely consists of the way that people treat each other up and down the line. It starts at the top, with leaders who inspire and set the tone for the rest of the organization. These leaders have a significant influence in the overall company culture.

When Thomas J. Watson, Sr., started IBM, he laid out the three core values of the company. These values—excellent products and services, excellent customer service, and respect for the individual—would determine the future of IBM, eventually making it the biggest and most respected computer company in the world.

The principle of “respect for the individual” was adamantly enforced at every level of the business, both nationally and internationally. You had free roam to make

mistakes at IBM, but you could not disrespect, demean, or insult another person or employee. Treating people badly, especially people under your authority, was grounds for dismissal, no matter how long you had been with the company. Because of this, people were motivated to compete just to get into IBM, but once they were in, they became some of the happiest, most productive, and creative workers in any company or industry.

The Structure Factor of Motivation: Some work is inherently motivational, requiring creativity, imagination, and elevated levels of energy. Work that involves communicating, negotiating, and interacting with other people to gain their cooperation to get the job done quickly and well, brings out the best energies of the individual. It is exciting and challenging. It is usually highly rewarding as well.

However, an enormous amount of work must be standardized, reutilized, and made relatively unexciting in order to be done efficiently and cost effectively. It is hard to motivate factory workers who work on a production line all day and whose activities are carefully monitored and regulated to ensure maximum levels of productivity.

Good organizations are always trying to structure the work so as to match the nature of the work with the nature of the employee and to make the work as interesting and enjoyable as possible.

The Leader Can Make an Immediate Difference: The reward structure, the organizational climate, and the structure of the work can be changed, but usually slowly; everything must be thought through carefully and in detail. The leadership style of an organization, however, is the one factor that can be changed quickly, and this change can make a major difference almost overnight.

There is a story of a factory whose managers were highly political and more concerned with their own rewards and privileges than they were with the morale of the workers. The factory was demoralized suffering low levels of productivity and high levels of defects, and it was on the verge of being shut down by the head office.

Instead of shutting the factory down, the head office sent in a new general manager, replacing the existing management completely. On his first day on the job, the general manager was waiting when the first shift of workers arrived that morning, parking their cars out in the unpaved parking lot and walking through the mud to the factory entrance.

When the entire shift had gathered, the new manager introduced himself, and then in front of everybody, walked over to the reserved parking spaces lined up next to the main entrance, where the executives were accustomed to parking when they arrived at work. An assistant gave him a bucket of paint, and the new manager walked along

the wall, painting out the names of the executives for whom the parking spaces had been reserved. "From now on, whoever gets here first gets the best parking space," he told the workers.

2.1.3 Motivation and performance

According to Rich (2004), motivation is essential to the operation of organizations. No matter how much machinery and equipment an organization has, these things cannot be put in use until they are released and guided by people who have been so motivated.

The general picture emerging from the studies is that the effects of motivation on employees' performance are dependent on the level of ability of the employee. Multiplicative relationship depicted in the following formula.

$$\text{Performance} = (\text{Ability} * \text{Motivation})$$

It follows from such formula that, when ability has low value, increments in motivation will result in smaller increases in performance than when ability has high value. Furthermore, when motivation has a low value, increments in ability will result in smaller increases in performance than when motivation has high value.

The value program of selection and training depends on the organization's previous success in creating conditions conducive to a high level of individual motivation. Similarly, the value of programs designed to motivate employees depends on the skill level of the employees Sheila (2004). The same author further described that performance of employees can be explained by Profitability, Quality, Innovation, Market share, Sales growth and employee satisfaction.

2.1.4 Rules for effective motivation

According to Sheila (2004), the following rules are used by the managers to effectively motivates the employees.

1. Every individual is different from the other (individual differences respected)
2. Appreciate good work in public and criticize the bad work privately.
3. Give suggestion rather than order.
4. Set good example since subordinates adopt the actions of superiors.
5. Have confidence in the employees', i.e. believing the employee can do the work.
6. Encourage participation of subordinates in decision-making.
7. Communicate in clear terms.
8. Listen to the subordinates very attentively.

9. Do not keep everything secret as it may induce frustration.
10. Try to get voluntary co-operation from employees.

2.1.5 Factors That Affect Motivation in the Work Place

According to the scholar Goessel (2001), there are five factors that affect the employees' motivation in the work place, these are:

a. Cultural factors

If an organization's cultural atmosphere is pledged with negativity, this can be disastrous as once the cultural mind set is in place, it is difficult to change the leaders. Those who invest time and effort into developing a positive working environment often find that their employees are happier and this attribute becomes a part of the company's culture.

b. Environmental condition

Environmental conditions tend to impact motivation in the work place. This includes temperature, lightening, an ergonomics and tools. The availability of moderate temperature, lighting, and good arrangement of office materials and different tools increases the motivation of employees, which in turn leads to good performance of work by employees.

c. Reward

Many organizational studies over the years have suggested that rewards play a distinct role in the level of employees' motivation.

Employees who lack motivation are more likely to be careless and sloppy with their work, but on the other hand, employees who are valued and provided some sort of initiative are more apt to take pride in their work and strive.

d. Security and Job Advancement

Job security can result in higher motivation. Employees who spend each day working, whether or not they are going to get the axe may become too distracted to be motivated or this could overtake connection abilities. Employees who are able to reasonably reassure their staff that their job will be there next week, next month or even year, are likely to see stronger motivation. People may also be more willing to work hard if they know there is room for advancement.

e. Respect

A lack of respect is going to likely result in poor motivation as no one likes to be treated poorly or with disrespect. Staff members who get respect from their bosses will be more apt to respond and go out of their way to help the organization meet its mission and goals.

2.1.6 Paying for performance

How much and how employees are compensated for their performance obviously has some influence on their motivation and effort, but the issue of how much pay motivates may cause problems for managers seeking ways to enhance motivation. Maslow and Herzberg show that pay (money) enables an employee to satisfy his/her basic needs while Herzberg sees money as a maintenance factor that does not necessarily motivate an employee to perform at a higher level, his theory indicates that low or inadequate pay may result in dissatisfied, unmotivated employees. The equity theory suggests that employees must be paid at least fairly, they need to perceive that they are earning what their efforts are worth Getewood *et al.*, (1995).

2.1.7 Motivating to accommodate individual differences

There are individual differences regarding what motivates employees. For example, some may be motivated by a good salary (money) but some other will be motivated by a challenging job. Some employees have also been willing to relocate for job security according to Stephen (2001). Different types of jobs create additional motivational concerns for employees. For instance, motivating temporary workers is different from motivating professionals. Below, we examine some of the unique problems faced in trying to motivate professional employees, contingent workers and low skilled service workers Stephen (2001).

2.2 Conceptual frame work of the study

In this conceptual framework, variables such as salary, fringe benefit, promotion, job satisfaction, recognition, work environment and organizational commitment are independent variables. However, the variable in the circle at the right side is the dependent variable.

Research Hypothesis

H1: Salary has significant relationship with Employee's motivation in public sector

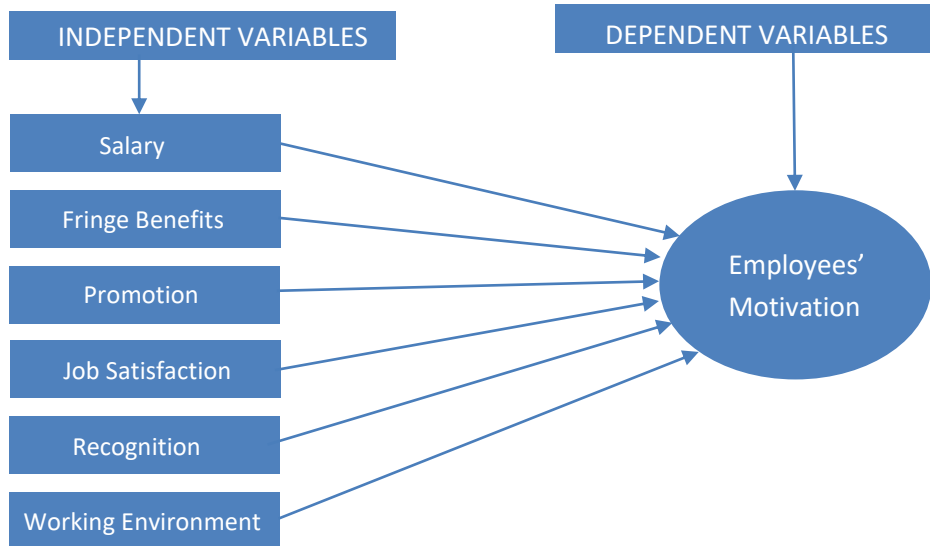
H2: Fringe Benefits have significant relationship with Employee's motivation.

H3: Promotions has significant relationship with Employee's motivation

H4: Job satisfaction has significant relationship with Employee's motivation

H5: Recognition has significant relationship with Employee's motivation

H6: working conditions in public sector has significant relationship with Employee's motivation.

Figure 1: Conceptual Framework

3.0 Research Methodology

3.1 Introduction

In this chapter, the researcher discussed the points like research design and approach, data type and source, target population and sampling, methods of data collection, methods of data analysis and ethical considerations.

3.2 Research design and approach

Once the research topic has been identified and defined clearly, the next step is to design the research method, because the research design provides guidelines for data collection and analysis. Quantitative approach is best if the researcher tests the hypothesis by specifying narrow hypothesis and makes statistical tests to support the hypothesis Creswell (2003) and the second approach (qualitative) deals with the subjective assessment of attitudes, opinions and behavior in a non-quantitative analysis Kothari (2004). In this study, the researcher adopted cross-sectional design with a mixed research approach in order to achieve the stated research objective and to answer the research questions properly.

3.3 Data type and sources

In this study, both primary and secondary data were used. The Primary data

source was employees and managers of the municipality. The secondary data was obtained from published and unpublished materials available in the library and internet websites related to factors of employees' motivation on organizational performance.

3.4 Target population of the study

The target population for this study was the total employees of the Hawassa city trade and industry office. According to December, 2021 first quarter report, there were about 115 employees in the offices, which were considered as the target population for the study to achieve the objective of the study (HRM of Hawassa city trade and industry office, 2021).

3.5 Sampling techniques sample size determination

According to Kumar (2005) sampling is defined as, the process of selecting a few (a sample) from a large group (population) to become the basis for estimating or predicating the prevalence of an unknown piece of information, situation or outcome regarding the large group. To select a sample size from 115 employees of the organization, the study used a sampling technique census to give an equal chance to all employees of the organization and to save the resources.

Hawassa city trade and industry office. The logic behind using this sample is to give an equal chance to the all the employees of the organization and to save the resources.

3.6 Method of data collection

In this research, self-administered questionnaires and direct personal interviews were used to collect primary data. The self administered questionnaires were used to get detail information from sample employees of the trade and industry and interview have been organized by human resource coordinator of the organization.

3.7 Operational definitions of variables

Motivation: Motivation is the process that accounts for an individual's intensity, direction and persistence of effort toward attaining a goal Robbins & Judge (2008).

Salary: Payment plays a significant role in determining job satisfaction; it is an instrument to fulfill many needs. Money used in obtaining food, shelter, and clothing and provides the means to enjoy valued leisure interests, outside of work. Instead of it, payment can serve as symbol and source of achievement and recognition.

Fringe benefits have no powerful impact on job satisfaction as payment do.

Job satisfaction: Work performs a very important role to explain how employees are satisfied with their jobs, employees want jobs that are challenging; they don't want to keep doing mindless jobs day after day. The two most important aspect of the work itself, that influence job satisfaction are, variety and control over work methods and work place. In general, a job with a moderate amount of variety, produce the most of job satisfaction. Jobs with too little variety cause employees to feel bored and fatigued. Jobs with too much variety and stimulation cause workers to feel psychologically stressed and "burnout".

Fringe Benefits: Benefits include both monetary and nonmonetary facilities to the employees such as pension benefits, medical benefits etc.

Recognition: Recognition explains the assigning job to the employees with new roles and responsibilities as per their experience and willingness to perform that task.

Working condition: Stresses, influences, and competitive situations, civilizing, demographic, profitable, usual, political, regulatory, and environmental factors that affect the survival, operations, and development of an organization.

Promotion: Promotion has a moderate impact on job satisfaction. A promotion to a higher level in an organization typically involves positive changes towards the job content and pay. Jobs that are at the higher level of an organization usually provide employees with more freedom, more challenging work assignments and higher salary.

3.8 Methods of data analysis

After accomplishment of the data collection procedure, it were classified as per each variable; the qualitative data was coded to be measured quantitatively. In this research, data were analyzed with the help SPSS version 21.0.

4.0 Results and Discussion

4.1 Introduction

This chapter is deals with the analysis and discussion of the data collected from one hundred (100) respondents out of one hundred fifteen (115) census respondents from Hawassa city trade and industry office. The response rate was 89.28%, which implies that almost all the respondents have participated in the process of data collection. Then, the analyses of the data were based on the questionnaires collected using SPSS version 21.0. The first section of the analysis concerns the personal information of the respondents, followed by reliability and validity test of the

questionnaire, descriptive statistics person correlation matrix, linear regression model assumptions, regression analysis, hypotheses testing and summary of chapter four. This has been done as follows:

4.2 Summary of descriptive statistics

Table 4.3: Summary of Descriptive Statistics for all Variables Incorporated in the Model

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Employees' Motivation	100	1.00	5.00	2.6700	1.20651
Salary	100	1.00	5.00	2.6000	1.11916
Fringe Benefits	100	1.00	5.00	3.1000	1.32954
Promotion	100	1.00	5.00	3.2804	0.97017
Job satisfaction	100	1.00	5.00	2.9980	0.75723
Recognition	100	1.00	5.00	2.8300	1.24766
Working Condition	100	1.00	5.00	2.8700	0.97084

Employees' Motivation (EM) was the dependent variable of this study. As indicated in the above table, the Employees' Motivation (EM) shows that the Hawassa city trade and industry office has an overall mean of the variable 2.6700, a maximum of 5 and a minimum of 1 Likert scale values. The standard deviation value is 1.0845, which indicates there were variations of actual responses from the mean. With regard to the other variables, the Salary (S) 2.6600 with (SD) 1.11916, fringe benefits (FB) of mean 3.1000, (SD) of 1.32954 promotion (P) 3.2804 with SD of 97017, Job satisfaction (JS) 2.9980 with SD 0.75765, Recognition (R) 2.8300 with SD of 1.24766, Working Condition (W) 2.8700 with 0.97084 with SD have the overall mean and standard deviation respectively.

In summary, all variables incorporated in the model have a moderate contribution to the response variable employee's motivation.

4.3 Pearson correlation matrix

Correlation analysis measures the relationship between two items. The resulting value (called the "correlation coefficient") shows if changes in one item will result in changes in the other item. Correlation is a way to index the degree to which two or more variables are associated with or related to each other Brooks (2008). The correlation matrix for this study was computed as follows:

Table 4.4: Pearson Correlation Matrix for Dependent and Independent Variables

Variables		Employees motivation	Salary	Fringe Benefits	Promotion	Job satisfaction	Recognition	Working Condition
Employees motivation	Pearson Correlation	1						
Salary	Pearson Correlation	.350***	1					
Fringe Benefits	Pearson Correlation	0.153	0.285**	1				
Promotion	Pearson Correlation	0.257**	0.132	0.060	1			
Job satisfaction	Pearson Correlation	0.067	0.064	-0.181	0.264**	1		
Recognition	Pearson Correlation	0.362**	-0.118	-0.438**	0.054	0.000	1	
Working Condition	Pearson Correlation	0.368**	-0.268**	-0.021**	0.0017	-0.187	0.399***	1

***Correlation is significant at 1 % significance level, * Correlation is significant at 5 % significance level (two tailed).*

Table 6 shows the relationship between the dependent variable which is Employees' motivation and independent variables with coefficient of correlation 1 indicating that each variable is perfectly correlated with each other. The result shows that variables such as salary, fringe benefits, and promotion, job satisfaction, recognition and working conditions have a positive relationship with employees' motivation. However, only salary, promotion, recognition and working condition have a statistically significant relationship with employees' motivation procedure.

4.4 The regression results (Inferential Statistics)

Fitted model

$$EM = -2.378 + 0.433*S + 0.197*FB + 0.175*P + 0.170*JS + 0.341*R + 0.441*W + E \quad \dots (2)$$

The OLS results were presented in the above table 4.7. R-squared measured the goodness of the fit of the explanatory variables in explaining the variations in employees motivation. R-squared and the Adjusted-R-squared statistics of the model were 47.2 percent and 43.8 percent respectively. The result indicates that 45.6 percent variations in the dependent variable were jointly explained by the explanatory variables in the model. Whereas, the remaining 56.2 percent of the variation in the employees' motivation (as measured by Likert scale) explained by other variables which are not included in the model.

Table 4.6: Regression Results (EM) through SPSS

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1 (Constant)	-2.378	0.672		-3.541	0.001	-3.712	-1.044		
Salary	0.433	0.090	0.401	4.833	0.000	0.255	0.610	0.824	1.214
Fringe Benefits	0.197	0.084	0.217	2.332	0.022	0.029	0.364	0.658	1.519
Promotion	0.175	0.099	0.141	1.767	0.081	-0.022	0.371	0.897	1.115
Job satisfaction	0.170	0.130	0.107	1.304	0.196	-0.089	0.428	0.852	1.174
Recognition	0.341	0.092	0.353	3.715	0.000	0.159	0.524	0.629	1.590
Working Condition	0.441	0.110	0.355	3.993	0.000	0.222	0.660	0.720	1.388

a. Dependent Variable: Employees' Motivation, R=.687, R²=.472, Ad R².438, Std. Error of the Estimate = .90488, Durbin-Watson (d) = 1.928, F-statistic = 13.834, P-value = 0.000, ANOVA with (p-value of 0.000)

The coefficient of explanatory variables such as salary 0.433, fringe benefit 0.197, promotion 0.175, job satisfaction 0.170, recognition 0.341, work conation 0.441 implies that 1% increase in the variables leads to 43.3% ,19.7%, 17.5%, 17 %, and 34.1% increase in dependant variable.

Besides, the, F-statistics (13.834) in model summary and ANOVA with (p-value of 0.000) which is used to test the overall significance of the model was presented and indicates the reliability and validity of the model at 1 percent level of significance. This tells us that the model as a whole is statistically significant.

4.5 Hypothesis testing and discussion

In addition, for more explanation of the model of this research, let us discuss each variable incorporated in the model one by one as follows: The result of this study shows that support from improvement salary with unstandardized coefficient of regression [$\beta = 0.433$] has a positive and statistically significant effect at 1% level of significance since (p-value of 0.000 < 0.01). Hence, hypothesis H1 is accepted. This finding is consistent with idea of study result by Ahsan (2011) *Asghar et al.*, (2014) and Jay (2019) who evidenced that there is a positive relationship between salary and employees' motivation. This implies that more salary positively contributes to the employees' motivation in public sector.

The result of this study about fringe benefit showed unstandardized coefficient of regression [$\beta = 0.197$] has a positive and statistically significant effect at 1% level of significance since (p-value of $0.022 < 0.05$). Hence, the researcher accepted hypothesis H₂. This finding is consistent the finding of other study result of Malcalm & Tamatey. (2017), and Zhou & Qiu (2013) improvement in fringe benefits has a positive effect on employees' motivation. This implies employee's motivation is positively influenced by additional benefits provided to employees.

Regarding the promotion, [$\beta=0.175$] is positive and statistically insignificant with p-value ($0.081 > 10\%$, level of significance). Therefore, hypothesis H₃ is not accepted by the researcher. Hence, the existence of a loan follow up in an organization has a positive effect on loan collection effectiveness. In opposite to the above discussion, this finding is consistent with the empirical finding of Ahsan, (2011) Asghar *et al.*, (2014) and Jay (2019) which found out that employee's motivation is positively influenced by promotion. These employees are motivated if they are promoted and more.

With regards to in job satisfaction, regression result showed [$\beta = 0.170$] is positive and statistically insignificant. Therefore, hypothesis H₄ is rejected by the researcher. This finding is inconsistent with the Malcalm & Tamatey (2017) and Fasika (2016), job satisfaction has a positive effect on motivation.

The result of this study also shows that the coefficient of regression recognition is [$\beta = 0.341$], it has a positive and statistically significant effect on employees' motivation since (p-value of $0.00 < 0.05$). Hence, hypothesis H₅ as stated is accepted. This finding is similar with findings of Qiu (2013) and Yuanjiang (2011), showed that the existence of recognition starting from a simple thank you has a positive and statistically significant effect on employees' motivation.

When it comes to the working condition, the unstandardized coefficient of regression of variable is [$\beta = 0.441$] is positive and statistically significant with p-value ($0.000 > 1\%$, and 5% level of significance). Therefore, hypothesis H₆ is accepted by the researcher. This finding is consistent with the empirical result of safe environment Krishantha (2018) and Kariuki, (2017) who found out that good work conditions positively effect employees' motivation.

5.0 Conclusions and Recommendations

5.1 Introduction

This chapter is followed by introduction; literature review and methodology part of the thesis and summarizes the findings, concludes the study, provides

recommendation and provides the future direction for further researchers based on the analysis of data and the findings of the current study.

5.2 Conclusions

Based on the findings from the descriptive analysis, the researchers had concluded that Hawassa city trade and industry office is generating positive employee's motivation. Based on the findings from the regression analysis of the model, the researchers concluded that the employees' motivation is best explained by the explanatory variables included in the model.

The conclusion that can be drawn from the findings in the first hypothesis is that hypothesis H_1 , suggested that an improvement of salary has a positive and statistically significant effect on employees' motivation at 1% level of significance since (p-value of $0.000 < 0.01$). This implies that more salary positively contributes to the employees' motivation in public sector.

The conclusion that can be drawn from the findings to fringe benefit showed that fringe benefit is positive and statistically significant at 1% level of significance since (p-value of $0.022 < 0.05$). This implies that employees' motivation is positively influenced by additional benefits provided to the employees.

Regarding the promotion, it has a positive and statistically significant effect on employees' motivation. Therefore, hypothesis H_3 is accepted by the researcher. Hence, the existence of a loan follow up in an organization has a positive effect on loan collection effectiveness. These employees are motivated if they are promoted and more.

With regards to job satisfaction, it has a positive and statistically insignificant effect on motivation. Therefore, hypothesis H_4 is rejected by the researcher.

The result of this study also showed that recognition has a positive and statistically significant effect on employees' motivation since (p-value of $0.00 < 0.05$). Hence, hypothesis H_5 as stated is accepted. This implies that existence of recognition starting from a simple thank you has a positive and statistically effect on employees' motivation.

When it comes to the working condition, the variable is positive and has a statistically significant effect on motivation. This implies that the safer the work environment, the better the employees' motivation.

5.3 Recommendations

- The first hypothesis verified that an increase in salary has a positive and

statistically significant effect on employee's motivation. This implies that more salary positively contributes to the employees' motivation in public sector. So, it is recommended to the Hawassa city trade and industry to work on salary improvement to improve the motivation of employees in achieving an organizational goal.

- The second hypothesis was proved that an increase on the value of fringe benefits leads to an increase in the employees' motivation in public sector. Hence, the Hawassa city trade and industry office should work on fringe benefits in more than current status due to fact that it has positive influence on the employees' motivation.
- The third hypothesis was proved that an increase on the value of promotion leads to an increase in the employees' motivation. Hence, the Hawassa city trade and industry office should work on promotion in more than status due to fact that it has positive influence on the employees' motivation.
- The conclusion that can be drawn from fifth hypothesis suggested that recognition has positive and statistically significant on the employees' motivation. Hence, Hawassa city trade and industry office should recognition more than current status due to fact that it has positive influence on the employees' motivation.
- Finally, on the conclusion drawn from hypothesis H₆ which shows the existence of good work condition fosters employees' motivation. Hence, it can be recommended that Hawassa city trade and industry office should work condition of employee's more than current status due to fact that it has positive influence on the employees' motivation.

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Challenging Factors to Collect Value Added Tax and Turn Over Tax using Cash Registered Machines: A Study on Wolaita Sodo Town Administration

*Ayneshet Agegneu**

ABSTRACT

This study was conducted to assess the challenging factor to collect VAT and TOT using cash register machines in the case of Wolaita Sodo Town administration. To achieve the objectives of the study, both primary and secondary sources of data were used. Using stratified random sampling methods, 210 Value added tax payers, 57 Turn over Tax payers and 18 tax experts were selected from a total functional population of 1145 with a 97% return rate of questionnaires which means that 285 respondents were returned questioners and the remaining 3% respondents were not returned questioners. The collected data through questionnaires were summarized and analyzed using both descriptive statistics and inferential statistics. The findings of this research were that VAT and TOT collection using the cash register machine has a positive effect on VAT and TOT revenue and other independent variables (knowledge and skills, audit follow up, operational cost, and tax evasion) have a significant effect on VA. The town tax administration requires audit follow up on VAT and TOT tax payers registered organizations (business owners). The town administration tax office is required to design good and fast systems that can reduce the operation and maintenance cost of the users of the machine to make corrections for their errors without wasting time and additional cost.

Keywords: *Cash register machine; Value added tax; Turn over tax; Knowledge; Tax evasion; Audit follow up and Costs.*

1.0 Introduction

One of the mechanisms by which countries raise revenue to finance government spending on the goods and service is by using taxation as their tool.

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As compared to the developing countries, the developed countries have been able to generate substantial revenue through the imposition of taxes. One of the reasons for this has been the efficient tax system operating in the developed countries, unlike the developing economies which are characterized by weak monetization and the low development of the formal sectors. In other words, these countries have employed tax systems that have one or a combination of the following desirable characteristics as economic efficiency, administrative simplicity, flexibility, political accountability and fairness Simon (2013).

Governments in low-income countries have the difficult task of making wide-ranging decisions about public spending, taxation, and borrowing with the aim of helping their countries maintain long-term debt sustainability, achieve higher economic growth, and ultimately reduce poverty. One of the challenging factors of implementing policies is raising public revenues which is difficult in the context of macroeconomic and growth instability, high debt ratios, weak tax administration, and large informal sectors. In 2018, Ethiopia collected ETB 198 billion tax revenue, which undermined by ETB 43.5 billion compared to plan. Total internal tax revenue collection was ETB 120.3 billion in the year, which shares 60.76% of total tax revenue in the country MORE (2018).

The tax system needs to be economically efficient, meaning the tax system should not have an impact on the allocation of resources. The tax system countries should adopt easy and not expensive to administer systems that should be able to respond to the changing economic circumstances. Taxpayers should also be able to determine what they are actually paying so that the political system can more accurately reflect the preferences of individuals Abraham (2003). It follows that optimality in a tax system requires the absence of distortion in any economic activity Hancock (1995).

According to Kerever study (2008), the special characteristics of African VAT and ToT are the degree to which the implementation exposes the need for broader institutional transformation and modernization of revenue administrations. So, because of modernization, value added tax collection would face some challenges and opportunities that can face African countries as per kerver finding. Currently, Ethiopia is administrating its revenue and tax collection by using technology. The Ethiopia government issued regulation No. 139/2007. These regulations are issued by the council of minister pursuant to Article 5 of the definition of powers and duties of the executive organs of the federal Democratic Republic of Ethiopia proclamation No. 471/2003, Article 64 of the value added tax proclamation No. 285/2002 and Article 117 of the Income tax proclamation No. 286/2002, part two, obligatory use of sales

Register Machine that are accredited in accordance with the provision of these regulation to generate sales receipts as provided for in Article 4. In 2009 G.C, the Ethiopian Revenues and Customs Authority adopted the digital cash register machine for collection of VAT, TOT and Business Income tax. Therefore, since cash register machine is a result of modernization (technology), the tax administrator may face different challenge as well as opportunities. Automation is not an end in itself, but a crucial component of taxation reforms, which aims at modernizing tax administrations and aligning the legal framework and procedures with international standards and best practices. Automation facilitates the clearance of legitimate trade, improves the efficiency of taxation controls and secures revenue collection.

The Ethiopian government has initiated a number of processes. These include the design and computerization of the taxpayer registration process; the operational development of taxpayer service activities, return process and debt and audit activities; publicity campaign and taxpayer training. These measures are expected to improve the government's revenue position (As Herouy cited, from Africa Development Bank, 2003). In 2009, the Ethiopian government knew that using the cash registration machine (CRM) for collection of taxes can enhance the government's revenue position as well as reduce the degree of tax evasion.

Therefore, this paper deals with the problems and opportunities of CRMs on VAT and ToT income in Wolaita Sodo town. Even though, there are many researches conducted by different researchers, they don't discuss about the challenges of technology on VAT and ToT income in Ethiopia. Therefore, the main objective of the study is to assess the challenging factors to collect value added tax and Turnover tax by using a cash register machine in case of Wolaita Sodo Town Administration.

2.0 Literature Review

2.1 Definition of VAT

VAT is, thus, inherently a sales tax with its unique features that makes it distinct from other forms of sales tax. There exists confusion to identify VAT from other sales taxes in its introduction for the first time. VAT appears to be imposed on business entities as it belongs to the sales tax family. In reality, however, business entities are simply agents to collect taxes from individuals, who bear the final burden, final consumers.

VAT is a tax on the added value on a good or service. The value added is imposed on the value that the business entity adds to the goods and services that it

buys from suppliers or other firms. This value is added partly owing to the fact that processing or handling purchased materials/items requires additional labor or capital that shall be calculated out from the final product/service and partly because buildings machinery, etc. are devoted to preserve the good or provide the service to its destination. Costs of production and preservation shall be borne/deducted from the proceeds of the sale of the good /service (value added) which is serving as tax bases for VAT. VAT is an indirect tax that is broad based (levied at multiple stages of the distribution chain) with the provision for businesses to offset the tax paid on their own purchases of goods and services against the tax charged on sales of goods and services.

The design of VAT also includes concessions to small scale business to register to collect VAT. However, an equalization of tax scheme is being worked out to ensure equity considerations for all levels of the taxpayers when a business that is registered for VAT supplies (or sales), goods or services: VAT is included on the selling price (but shown separately) and collected by the business. The VAT on these supplies is called an output tax. When a business that is registered for tax purchases, goods or services the VAT paid on these supplies received is called input tax Wondwossen (2016).

2.2 Definition of Turn over Tax

Turn over tax is applicable on supply of goods, rendition of services and persons not registered for VAT. Accordingly, there is its own mode of assessment and impositions of obligations expected to be discharged on persons subject to the same. With the definition of terms under turnover tax, unless otherwise defined in the proclamation, the meanings defined in Value Added Tax Proclamation No. 285/2002 shall be used Art 2(1).

- i. **Supply of goods:** In trying to define the supply of goods under turn over tax proc, since it is not clearly touched, as per Art 2(17) of the VAT proc it is to mean the sale of goods and or services or both. “Goods” is defined under Art 2(7) of proc 308(2002) is to mean any kind of goods or commodity that has exchange value, utility and brings about satisfaction and includes animals. From this wording, we can say that the scope of application turns over tax law is on sale of goods and animals also002E
- ii. **Rendition of services:** Services rendered to persons not registered for VAT are under the scope of turn over tax proclamation. Regarding the definition for the term service since the turn over proc fails to deal with it as per Art 2(1) of proc 308/2002 cum Art 2(7) of proc 285(2002) it is to mean “work done for others which does not result in the transfer of goods.”

iii. **Persons not registered for VAT:** The other term that needs explanation at this juncture is “persons not registered for VAT.” According to Art 2(4) of proc 308/2002” a person not registered” is a person who is not registered for VAT by reason of his annual turnover being bellow 500,000 or threshold set by the minister, by reason of not having applied for voluntary registration.

But, we also have to notice that turnover tax is not applicable to every import of goods and an import of services as provided under Art 23 of the VAT proclamation (they are subject to VAT).

Though turn over tax is applicable to supply of goods, rendition of services and to persons not registered for VAT, not all transactions are taxable. The proclamation recognizes certain exemptions: In this respect, as per Art 7, the following are exempt from turn over tax: the sale or transfer of a dwelling house used for a minimum of two years or the lease of a dwelling; the rendition of financial services; the supply of national or foreign currency and securities except for that used for numismatic purposes; the rendering by religious organizations of religious or other related services; the supply of prescription drugs specified in directives issued by the relevant government agency; and rendering of medical services; the rendition of educational services provided by educational institutions as well as child care services for child can at pre- school institutions; supply of goods and rendering of services in the form of humanitarian aid the supply of electricity, kerosene and water, license fees, etc. In addition, attention shall be rendered so as to infer that these are not the only listings of exemptions, ministry of finance and economic development by virtue of Art 7(2) of turnover tax proclamation may provide others by its directives.

2.3 Challenging factors to collect Taxes in Ethiopia

2.3.1 Tax Evasion

Tax evasion, in general, refers to illegal practices to escape from tax liability. In case of tax evasion, taxable income; profits liable to tax or other taxable activities, i.e., the amount and/or the source of income, are misrepresented, or tax reducing factors such as deductions, exemptions or credits are deliberately overstated. Tax evasion can occur in two major ways: First, in legally registered activities when businesses or individuals completely fail to report their income, understate their income, overstate their deductions/expenses or delay in paying their tax returns; and second, in the informal/underground economy where the whole activity takes place in an informal manner in which businesses are not only evading tax payments but also not fulfilling the legal requirement necessary for their operation Ketema (2013).

According to an IMF 2017 study on electrical fiscal device or cash register machine, the impact of taxpayer and compliance and administrative efficiency, that tax evasion and fraud is illegal and intentional misrepresentation of tax obligations. It can involve deliberate omission or falsification of income or revenue, as well as efforts to be invisible to tax authorities altogether. This results in the reduction of income that lawfully belongs to the government, and to the people. The following are the important causes for tax evasion:

- i. High rates of taxation:** Prevalence of high rates is the first and foremost reason for tax evasion. This is because (A) the higher rates of taxation create a psychological barrier to greater effort and undermine the capacity and will to save and invest; and (B) higher tax rates results in heavy tax burden and the greater the risk undertaken for the purpose of tax evasion, the greater is the reward Palil (2010).
- ii. Complexity of tax laws:** Complicated tax laws are another factor for tax evasion. Complex tax procedures involve lot of time, cost seeking the assistance of tax experts and their advice by taxpayers. Such complication in tax laws may lead the taxpayers for evasion.
- iii. Sharing of experienced personnel:** As sited in OECD (2013), shortage of experienced personnel is yet another cause of tax evasion. Tax Authorities should have a sufficient number of trained and experienced personnel to cope with assessment and investigation.

2.3.3 Knowledge about the importance of paying tax

Most taxpayers perceive taxation as a compulsory extraction of their property by the tax authority. Knowledge is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. "When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to avoid tax payment." Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development. Regardless of this fact, taxpayers, especially in developing countries, do not have enough knowledge about the importance of paying tax for the development of their county in general and the fulfillment of public infrastructures and basic facilities that are necessary for the peaceful running of their business and life in particular. Such a wrong perception of taxation encourages taxpayers to avoid their tax liability by employing different methods. The issue of tax payers' tax knowledge is critical in the self-assessment system. Tax payer's tax knowledge and awareness are imperative for the tax authority

to better the tax system and for voluntary compliance. Previous studies such as Palil (2010) recommended tax knowledge and awareness as the significant factors that influence taxpayers' voluntary compliance attitude. Besides, the tax payer's positive perception towards the tax system and tax authorities, enhances the voluntary compliance behavior of tax payers' work.

2.3.2 Tax audit

An activity or a set of activities performed by Tax auditors to determine a taxpayer's correct tax liabilities for a particular accounting or tax period, by examining a taxpayer's organization procedures and financial records in order to assess compliance with tax laws and verifying the true, fair, reliable, and accuracy of tax returns, and financial statements.

Conducting an audit, various types of information will be reviewed, namely, tax returns, financial statements, accounting records, customs declaration and other source documents. Generally, an audit will examine different issues identified as most significant in achieving an accurate assessment of a taxpayer's tax liability. Some of the typical issues will include any indications of unreported income, or potentially over claimed deductions, over /under valuation, smuggling and illegal activities.

Tax audits usually focus on areas where there is a high risk with regard to the amount of tax paid and/or payable. Depending on the specific factors relating to a taxpayer, the scope of tax auditing will often vary. However, it is important to remember that the primary objective of an audit is to determine the correct amount of tax that ought to be paid. The above stated objective is very important to tax payers as well as to tax authorities and it helps ensure that taxpayers have confidence in the fairness of the audit process such that an audit could result in either an increase or a decrease of a taxpayer's tax liability (ERCA).

Tax audits, frequency of audit and prior audit experience have been ambiguously discussed in relation to tax compliance. Some studies found out that audits have a positive relationship with tax evasion (Tadesse and Goitom, 2014). These findings recommended that tax audits can play an important role in tax compliance. The frequency of audits and the carefulness of tax audits could encourage taxpayers to become more careful computing and submitting their tax returns. Conversely, taxpayers who have never been audited might be trying understating their income and over stating their deductions Palil (2010). A study by Beron, Tauchen and Witte, (1988) and Tilahun and Yidersal (2014) argue that audits did not significantly relate with tax compliance. Hence, it shows that previous studies have found controversial results about the association between tax audit and tax compliance.

2.3.4 Operation cost

At first blush, it may appear to be relatively simple to identify both administrative costs and compliance costs relating to taxation. The former set of costs might be thought of as those costs borne by the public sector, and which would not have been incurred if the tax did not exist (or, alternatively stated, would disappear if the tax were to be abolished Sandford *et al.*, (1989). By way of contrast, compliance costs are private sector costs, and again, simply stated, they comprise the costs to taxpayers and third parties “in meeting the requirements laid upon them in complying with a given structure and level of tax” Sandford *et al.*, (1989).

But first impressions can be misleading, and the literature reveals that there is some degree of uncertainty about the precise definitions of these terms, and the manner in which they are expressed for comparative purposes. As Sandford *et al.*, (1989) note “complexities and inter-relationships make it difficult if not impossible to define the various costs with absolute precision or in a neat, mutually exclusive way...”

2.3.5 Administrative costs

Allers (1994) defines administrative costs as “costs incurred by the tax authority or (mainly) public sector agents in order to administer the tax-benefit system”. He then goes on to note that “it is not immediately obvious, exactly, which activities should be attributed to the operation of the...system” (p. 19). For example, should the costs of the legislation itself, or the costs of legal disputes, be included within the measure of administrative costs? And how are the costs of some very other obvious elements (such as the depreciation of buildings and other physical infrastructure) to be measured?

According to Allers (1994), administrative costs clearly include the costs of running and maintaining revenue agencies, including salaries of staff, pensions relating to those staff, together with accommodation and office expenses for revenue department staff. Less obviously, administrative costs can also include the costs of legislative enactment relating to the tax system, from initial policy formulation through to statutory or other rule enactment. They can also include the judicial costs of administration of the tax dispute system, which may involve local and national tribunals and – at the extreme – the courts themselves. Also, accounting practices may differ. For example, whether capital costs such as the installation of computers are included in a single year’s costing or spread over their expected effective life; and whether the annual value of buildings owned by the government is included at all, at a nominal figure, or at an opportunity cost for accounting purposes.

Typically, it has been common practice in the literature to restrict

administrative costs to the costs that relate to the running of the revenue departments, but there is no inherent reason (other than simplicity of measurement and availability of relevant statistics) why this should be the case. Certainly, there are strong grounds for including legislative and juridical costs in calculations of administrative costs where they are available and where they clearly relate to the governmental costs of administering the tax system. And ultimately, the decision as to what to include or exclude from administrative costs is largely dependent on the availability of data, usually from governmental sources.

2.3.6 Compliance costs

There is also uncertainty about what should be included in the measurement of taxation compliance costs. Tax compliance costs are those costs “incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given structure and level of tax” Sandford *et al.*, 1989). Whilst this is an area in which there will always be debate, it is possible to identify a “hard core” of costs that are indisputably part of the costs of complying with taxation requirements.

Typically, compliance costs will include the costs of labor/time consumed in completion of tax activities. For example, the time taken by a business person to acquire appropriate knowledge to deal with tax Obligations such as Pay As You Earn (“PAYE”) or VAT; or the time taken in compiling receipts and recording data in order to be able to complete a tax return; the costs of expertise purchased to assist with completion of tax activities (typically, the fees paid to professional tax advisers); and Incidental expenses incurred in completion of tax activities, including computer software, postage, travel etc.

2.4 Review about cash register machine

A cash register is an electronic tool used to calculate and record sales transactions with a cash drawer that will be used to store cash. This machine will automatically print a receipt after a certain amount and the money transactions compared to the manual transaction of sales. There are different types of cash register but they usually have the same key and functions.

2.4.1 The History of cash registers

James Ritty invented the cash register, “in prevent 1879 stifling in his shop from skimming cash from any sale.” Key features of this register included a display to indicate the amount of the sale, sales, and a total bell adder that summed “ring all the

cash up” values of the key presses during a day. In 1884, the basic design was improved with the addition of a paper roll to record sales transactions, thereby creating the receipt. In 1906, the addition of an electric motor resulted in the first electric cash register. Today, many cash registers are essentially computers. Often cash registers are attached to weighing scales, barcode scanners, and debit card or credit card terminals. These types of cash register are functioning as point-of-sale terminals IMF (2015).

The term “Electronic Fiscal Device “can be used to describe a wide variety of technological devices that revenue administrations can use to help monitor business transactions. These devices run the gamut from electronic intelligent seals customs uses to monitor container traffic to fiscal control devices used to control excise tax control through the automatic monitoring of production and delivery of excisable goods. The term EFDs will refer to devices normally used by tax administrations to monitor business-to-consumer and business-to-business transactions that create a fiscal obligation for consumption taxes usually for the sales tax or the value-added tax (VAT).

A key element of these devices is the presence-proof of memory, a “fiscal usually certified by a relevant government authority.” The most commonly used EFDs are Electronic Cash Registers (ECRs) and EFPs. The technology enabling the deployment of the first generation of ECRs became available commercially at reasonable prices in the late 1970s, and ECRs started to be used by large retailers in developed countries around that time. It is generally accepted that the first to use EFDs in support of its fiscal control strategy was the Italian administration, which adopted fiscal devices in 1983 (OECD 2013).

The Greek tax agency appears to be the next administration to adopt fiscal devices, implementing them in 1988, and extending their scope to include electronic signature devices (ESDs) in addition to the fiscal registers adopted in Italy. An IMF study, (2015) on electrical fiscal device or cash register machine impact of taxpayer and compliance and administrative efficiency, unlike their Kenyan counterparts, Ethiopian businesses received no subsidy for the purchase of fiscal devices. It also appears that the Ethiopian Customs and Revenue Authority (ERCA) did not fully engage with the Ethiopian businesses or their representative associations in the initial design stages, resulting in some challenges in the adopted technology, particularly the universal requirement of English as the main language in the devices. As in the case of Kenya, there was a scarcity of devices in the initial stages of implementation, and those that were available were expensive.

The Ethiopian business associations were more explicit in their views of the negative impact of the introduction of EFDs, especially on small and medium

businesses, and were of the view that a number of small businesses in some specific industries suffered a very negative financial impact. It is not clear whether this was a consequence of other legislative changes that occurred at the same time, or if it was a direct impact of the introduction of EFDs.

The associations also noted that ECRA could have done more to automate the reporting processes and help businesses reduce the overall compliance burden imposed through manual reporting. In summary, the assessment of the private sector representatives was that there has been a noticeable increase in the compliance burden through the additional costs (which were very high for small business) and the increased reporting frequency for all businesses, in addition to the manual monthly reports that are still required.

2.4.2 Opportunity of cash register machine

A) Accuracy

Among the major benefits of electronic cash registers is their high degree of accuracy. The internal computer system records each transaction, making it easy for managers to compare sales figures with the money in the drawer at the end of the day and isolate the source of discrepancies. Electronic cash registers also provide an advantage to sales staff who use the system to know exactly how much to charge customers and how much change to return after payment. Electronic registers include features for applying discounts and promotions as well as tools for voiding transactions, all of which help the user provide fast, accurate customer service Birtukan (2012).

B) Security

Electronic cash registers offer a degree of security for retailers. They are often large enough to prevent easy theft and feature locking mechanisms for cash drawers, as well as password-protected access that only allows authorized users to log in and use a register. Older mechanical registers have no such mechanism with the exception of a key lock for the cash. Electronic registers also process cash transactions locally, which mean there's no need to transmit private customer data electronically or over the Internet as there is with web-based payment methods Ben (2012).

C) Inconvenience

Though easier to use than manual cash registers, electronic registers represent

a more inconvenient option than more modern payment options. A shop can only serve as many customers at the same time as it has registers available. Newer point of sale technologies allows employees to accept payments throughout a store, not just in a checkout area. This technology uses hand-held devices, including smart phones and tablet computers with miniature credit card readers and remote printers to process payments and provide receipts. As a result, customers may find shorter lines to pay for their purchases Ben (2012).

Retail employees require adequate training prior to taking over register duties, even with the help of an electronic cash register. Those familiar with registers from another store may still require training to become familiar with a new type of register. Smart phone- and web-based payment systems have increased automation and are easy to learn for employees already familiar with the devices. This reduces the time and money a retailer needs to spend training employees to operate registers. It also allows managers to distribute work more efficiently, since there's no need to place one employee in the checkout area if associates throughout the retail space are all capable of processing transactions for customers Ben (2012).

2.5 Empirical review

Taye (2011) assessed the impact of Electronic Tax Register on Value Added Tax, the case of Addis Ababa City Ethiopia. The study sought to determine the effect of the Electronic Tax register on administration cost and compliance cost, the extent of tax evasion while using ETRs and audit follow up effects. The study established if the ETRs had increased the speed at which taxpayers processed their VAT returns and if there were any associated costs in the processing of VAT. The population under the study encompasses of 3000 VAT registered, 11 ETRs experts and ultimate tax payers with no limited number of people in Addis Ababa City. The main instrument of collecting primary data was the questionnaires while secondary data was obtained from the Ethiopia Revenue Customs Authority (ERCA). The data analysis was done using multiple regression and descriptive statistics. The findings of this research show that ETRs have a positive effect on VAT returns and other independent variables have a significant effect on VAT income except compliance cost.

According to Nyasha *et al.* (2012) in their study dealing with attitudes of employees towards the use of fiscal electronic devices in calculating value added tax (VAT), this was a case study of motor industry in Zimbabwe, the research sought to find the attitude of motor industry employees in Zimbabwe towards the use of fiscal electronic device. The findings of the study revealed that fiscal electronic devices had positively impacted on the motor industry through improvements in tax collection;

saves time in tax collection, reduces direct contact between tax collectors and hence minimizes corruption. Moreover, the study found out that employees with low educational level find it difficult to use fiscal electronic devices because they lack know how on how best to use them. Employees also negatively perceived the use of fiscal electronic devices because they are not aware of the method and some are just resistant to change that is given and will reject using the advanced method.

Pandu (2012) studied the effects of using EFD on performance of VAT collection to VAT taxpayers in Dares salaam, Tanzania. This study had the objective of establishing if the Electronic Fiscal Device had increased the speed at which taxpayers processed their VAT returns and if there were any associated costs in the process of VAT. Data were collected from registered VAT taxpayers in Dares Salaam and Tax Revenue Authority staff. The main instrument of collecting primary data was questionnaires while secondary data were obtained from the Tanzania Revenue Authority offices. This study concluded that Tax Revenue Authority should enhance the usage of EFD in order to combat tax evasion and increase VAT Collection. Pandu observed that timely filing of the monthly VAT returns is attributed to many factors and EFD is the one of the factors. Further the introduction of EFD has assisted in cutting costs that the business used to incur in processing VAT. When the researcher evaluates the effectiveness of EFDs in filling VAT returns, it was realized that the use of EFDs has assisted the business in many ways.

Salim (2014) studied the impact of electronic fiscal devices on value added tax collection process: the case of Tanzania revenue authority Tanga city. The study found that EFDs have a significant impact on VAT collections volume as the results showed that there is significant difference means to VAT collection from the two periods. This outcome was due to the proper use of EFDs by the traders, effective mechanisms of Tax Revue Authority in monitoring the implementation of EFDs and enforcement measures taken by TRA to those traders who convicted to made offences.

Zinash Degife Gela studied in (2014) the challenges of electronics tax register machine to businesses and its impact in improving tax revenue. This study was conducted to assess Problems faced by traders during using CRMs in the Case of Addis Ababa City. The paper has identified problems related to the use of ETRs from the perspective of taxpayers. The study has used both primary and secondary sources of data. Using random sampling method 363 taxpayers were selected from the total population of 6794 with 85% return rate. The major findings are: The use of ETRs improved timely filing of the monthly VAT returns. The major problems faced by the taxpayers are unallowable expenses due to the problem of ETRs suppliers and the lack

of consistency and transparency in imposing penalty for tax personnel. Maintenance cost and time, higher compliance costs are also found to be among the major problem of the tax payers. With the effectiveness of ETRs in tax collection, the use of ETRs has significantly improved the collection of value added tax and has increased government income. Problems associated with the use of CRMs, the study has identified the major problems faced by the traders: The supplier of ETRs do not maintain the machine within short time (48 hrs. since problem reported).

Empirical studies in Turn over Tax such as Utaumire, Mashiri and Mazhindu (2013) evaluate the effectiveness of the presumptive tax system. Utaumire *et al.* presents a case study of the Zimbabwean Revenue Authority (ZIMRA) Region One, in Zimbabwe. Based on a survey of 100 ZIMRA staff members, 180 informal traders and 20 local authority staff members, the main findings of the study were that many players in the informal sector are unaware of the existence and objective of the presumptive tax head (a tax that is the same for everyone and is not based on income). On the other hand, the absence of involvement of stakeholders concerned in determining tax rates has resulted in forceful resistance. ZIMRA has its own shortcomings, which include lack of follow ups and inadequate awareness campaigns. The study revealed that effective implementation and administration of the tax head has the potential to increase the revenue base. This means there is room for improvement on the implementation and administering of the presumptive tax.

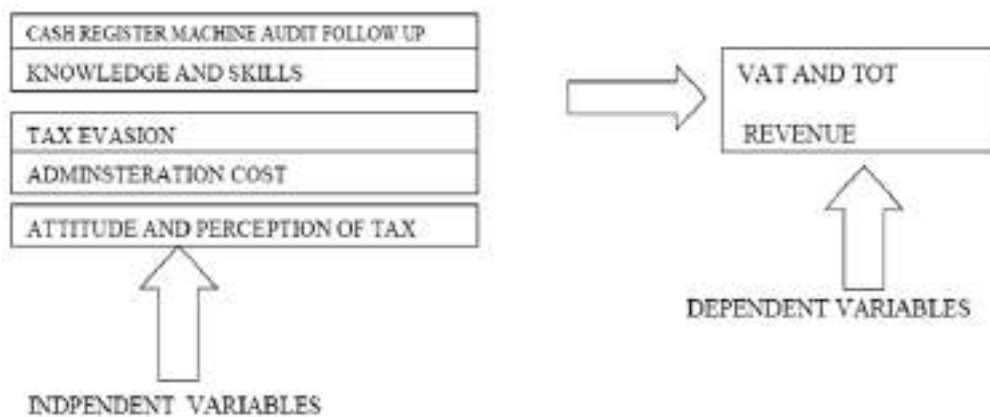
On the other hand, Eissa, Murray & Zeitlin (2017) examined the impact of the 2012 reform of micro and small enterprise tax law in Rwanda, which created a presumptive 'flat fee' regime in both personal and corporate income taxes. In this regime, taxpayers whose turnover fell within a given band, pay a fixed liability, with a zero marginal tax rate. In the years following, the number of registered taxpayers and the total taxes collected under corporate and personal income tax have increased, but these increases are not necessarily attributable to the 2012 reform. The findings also identified four channels which may have affected tax revenues, two intensive and two extensive. Intensive ones affect the revenues derived from existing taxpayers while extensive ones operate through the entry and exit of firms to and from the tax net. Impacts on intensive margins are negative, and can be estimated directly from taxpayer behavior. Impacts on extensive margins are positive, but cannot be point identified without strong assumptions. Taking these findings together, there is a reasonable policy case to reform rather than repeal the flat fee regime.

The researcher will see a different issue in this study, the issue explained by classifying and considering them as dependent and independent variables. The variables relationships are explained as follows. The dependent variable is VAT

revenue while the independent variables are knowledge of tax payers towards the use of machine and VAT registered organizations, tax evasion, tax audit and follow up, operation and administration cost. In this case the dependent variable affected by these independent variables, for example, VAT, income affected (increases or decreases) by Awareness of taxpayers, that means when the tax payers' attitude is good about value added tax, the value added tax income will increase assume others things are constant. The dependent variable also will be affected by tax evasion, that means when there is a way or no way to evade tax while using the cash register machine, the value added tax income will also decrease or increase. When we see the relationships between VAT, income and tax audit follow up, there is a high relationship affecting the VAT revenue because of this variable. For instance, when the tax authority has a usual tax auditing the organization accounting information the extent of evasion may deduct because of fear so that the VAT income will increase because of reducing the evasion through tax audit.

2.5.1. Conceptual framework of the research

From the above literature review the researcher tries to drive variables based on the title.



In general, it can be concluded that although there have been studies on VAT and TOT Administration and Indirect tax implementation and its problem in some developing countries, including Ethiopia, there are not enough studies that examine the challenging factors in collecting VAT and TOT revenue since it is a new technology

which is adopted by the Ethiopian Revenue and Customs Authority. Therefore, since it is a new system which is adopted by the tax authority, there is no clue about the exact figure of whether there are opportunities or problems of cash register machine in the VAT and TOT collection process. In this study, the objectives are to examine the impact of cash register machine of VAT and TOT collection and to identify the problems and opportunities of the machine in the process of VAT and TOT collection.

3.0 Research Methodology

3.1 Research design and approach

The study applied a mixed (both quantitative and qualitative) research approach to assess the challenging factors to collect value added tax (VAT) and turn over tax (TOT) using cash register machine in Wolaita Sodo Town Administration. The reason of using a mixed methods approach is to gather data that could not be obtained by adopting a single method Creswell (2003). The quantitative research approach was applied to identify major challenges and opportunities observed in implementing and administering cash registration machine (CRM) to collect VAT and TOT in case of Wolaita Sodo Town Administration.

3.2 Sources of data

The study used both primary data and secondary data. As part of primary data source, questionnaires were distributed to machine supplying organization staffs, from the value added tax registered organizations, turn over tax registered and from tax experts and administrators.

3.3 Data collection methods

Quantitative data were collected by using a questionnaire and qualitative data were collected by using unstructured questions and interviews. The questionnaire was designed as open ended and close ended types of questions. A questionnaire was used to collect data from tax payers concerning the opportunities, factors affecting VAT and TOT collection using the cash register machine while the interview was used to collect data from cash register machine suppliers.

3.4 Sampling design and sample size determinations

3.4.1 Target population

The total suppliers of cash register machine are 10 nationally, but in Wolaita Sodo Town Administration, the cash register machine supplying business entities staffs are 3; value added tax registered business entity owners or managers are 1,124 and tax

experts and administrators in Wolaita Sodo Town Administration are 18. The sum of population was 1,145 among them 296 was taken as a sample and those sampled population were selected from the entire target population (Wolaita Zone Revenue Authority, 2019).

3.4.2 Sample size determination

The mathematical formula used for determining the sample size, the researcher employed a simplified formula recommended by Taro Yamane (1970), assuming a 95 % confidence level

$$n = N / (1 + N(e)^2)$$

Where, n = Sample size, N = Desired population number, e = Level of precession that assume and e = 0.05

Out of 296 total sample size, 275 were selected from tax payers using stratified random sampling techniques by stratifying tax payers in to two strata (category A and category B), and the remaining 21 respondents were selected from tax experts (18) and cash register machine suppliers (3) using purposive sampling.

3.4.3 Sampling design

Since the researcher have three different populations, purposive sampling was used to select machine supplier staffs and tax experts while stratified sampling was used to select tax payers into two categories (category A tax payers and Category B tax payers).

Table 3.1: Sample size selection

Taxpayers	Total number	Sample size	Sampling method
Category A tax payers	882	216	Random
Category B tax payers	242	59	Random
Tax collectors, experts	18	18	Purposive
Cash register machine supplier experts	3	3	Purposive
Total	1,145	296	

3.5 Data presentation and analysis

The collected data through questionnaires was analyzed using both quantitative and qualitative data analysis methods. Qualitative data collected through unstructured questionnaire and interviews was analyzed by using narration and triangulation while quantitative data was analyzed by using descriptive statistics and inferential statistics.

4.0 Data presentation, Analysis and Discussion

4.1 Response rate

According to Learay (2004), the response rate is defined as the extent to which the final set of questionnaires collected from respondents is calculated against the number of questionnaires received back from respondents interviewed in the study. For this study, the sample size was 293 respondents, excluding cash register machine supplier staff, that is, 3. A total of 293 sets of questionnaires were distributed to the potential respondents and a total of 285 questionnaires were collected. 8 sets of the questionnaires were considered unusable (6 from VAT payers and 2 from TOT payers) because they were not properly filled in the study areas. Therefore, 285 usable sets of collected questionnaires were used for the data analysis. Thereby, the response rate was 97 %.

4.2 Nature of business entity

Concerning the nature of the Business entity, 51.9% of VAT payers were service providers, 38.6% were retailers and the remaining 9.5% were wholesalers. However, there were no wholesalers in the TOT payers due to the tax law which prohibits the wholesalers not to be TOT payers. Thus, 56.1% of TOT payers were retailers while 43.9% were service providers.

4.3 Experience in using cash register machine

46.7% of VAT payers had an experience of more than 5 years, 33.3% had 4 to 5 years of experience, 16.7% had 1 to 3 years of experience and 3.3% had below a year of experience. On the other hand, 66.7% TOT payers had 1 to 3 years of experience, 21.1% had 4 to 5 years of experience, 8.8% had more than 5 years of experience and 3.5% had less than a year experience.

4.4 Descriptive statistics VAT collection

The average annual VAT revenue actually collected by using a cash register machine was 44302951.19 Birr with a standard deviation of 32911901.51 Birr from potential of average 55614727.80 Birr with a standard deviation of 47510697.89 Birr. The minimum annual actual VAT revenue was 2176776.00 Birr whereas the maximum actual VAT revenue was 96369916.00 Birr.

4.4.1 Knowledge and skills

The influence of tax knowledge and skills on VAT collection among tax payers

using a cash register machine in the Sodo town administration in Wolaita Zone. The study findings outlined 117(55.7%) and 71(33.8%) strongly agree and agree respectively on the statement that Wolaita Sodo revenue branch creates awareness about collection of VAT cash register machine via TV, radio, pamphlets, newspaper, others media, 125(59.5%) and 74(35.5%) strongly agree and agree on the statement that VAT implementation can improve their business perception, 117(59.5%) and (39%) strongly agree and agree on the statement that tax payers have awareness about VAT collection using cash register machine, and 63(30%) and 84(40%) strongly agree and agree on the statement that ERM Wolaita Sodo revenue branch offered you adequate training on usage of collection of VAT cash register machine.

In addition to this, the mean and standard deviation indicate that knowledge and awareness play an important role in VAT collection using a cash register machine in Wolaita Sodo town administration. This is supported by the statement suggesting that Wolaita Sodo revenue branch creates awareness about collection of VAT cash register machine via TV, radio, pamphlets, newspaper, others media (mean=4.45 and SD=0.67), VAT implementation can improve your business perception (mean=4.54 and SD=0.59), tax payers do you have awareness about VAT collection cash register machine (mean=4.50 and SD=0.57), and ERM Wolaita Sodo revenue branch offered you adequate training on usage of collection of VAT cash register machine (mean=3.00 and SD=0.77).

These findings imply that positive improvement of taxpayers' knowledge and awareness will greatly lead to the improved VAT collection using the cash register machine. These findings are consistent with Obongo *et al.*, (2018).

4.4.2 Tax evasion

84(40%) agree that measures that taken by the Authority over the enterprises for those evading tax payments are fair, but 84(40%) remain neutral and 42(20%) disagree. The average result indicates tax payers are neutral (mean=3.20 and SD=0.75) according to Al-Sayaad *et al.* (2006) classification. The result also revealed that a higher number of respondents disagree 23(40%) that there is a clear and easy way to identify VAT evasion using the cash register machine.

However, most of the respondents revealed that the audit follow up can reduce VAT evasion 125(59.5%) with mean 3.01 and standard deviation 0.69. The finding also reveals that 127(60.5), of respondents replied that VAT implementation using CRM can improve tax evasion. These results are in line with the findings obtained by Endashaw (2019) that audit follow up will reduce tax evasion in the Addis Ababa city

and Worku (2016) that using CRM and frequent follow up will reduce tax evasion in Lideta Sub-city.

4.4.3 Audit follow up

Audit follow up on VAT collection using CRM in Wolaita Sodo town Administration. Based on this, a large number of respondents disagree with the statements that Wolaita Sodo revenue authority branch VAT Audit follows up to enhance VAT revenue as per the schedule of the Authority 126(60%), that is, both disagree and strongly disagree, with (mean=2.20 and SD=0.98). This shows that there is a poor follow up, that does not discourage fraudulent activities, let tax payers learn from their past experiences, help them to make corrections and makes tax payers to fear and to follow the tax rules in case decrease tax evasion.

4.4.4 Operational costs

105(50%) of the respondents agreed with the statement that using a cash register machine collection of VAT can reduce administration cost, 84(40%) strongly agreed, none of the respondents disagreed, and 21(10%) of the respondents were undecided with the statement. The study findings suggested that most 189(90%) of the business operators want to collect VAT with the help of cash register machines. This implies that VAT collection through the cash register machine will reduce administrative cost.

Similarly, 47(22.5%) strongly agreed that their entity experienced additional costs after they registered to collect VAT using CRM while 98(46.6%) and 65(30.93%) agreed and remain neutral respectively concerning the statement. This implies that although VAT payers agree that using CRM to collect VAT reduces administration cost it also incur other additional costs such as compliance costs and operational costs. This statement is supported by the statements 3 and 4 that 140 (70%) and 184 (87.6%) disagree that using CRM reduces compliance costs and support to improve the operational cost of the Taxpayers. The results were in line with the findings of the Ryta (2017) that revealed administrative costs, reduce tax revenue transaction in Poland and other other OECD countries. Abubakari and Christopher (2013) evaluated taxpayers' attitude and perception and its influence and obtained that most revealed that they obtained perception and attitude plays role in tax collection which is consistent with this result.

4.4.5 Attitude and perception

Most of the respondents replied that their staff has enough skills to operate

CRM collection of VAT, that is, 160(76.2%) and most of the respondents perceived that VAT collection using CRM facilitate their business and government revenue. Similarly, a large number of respondents replied that ERCA/suppliers give technical training to improve the usage of CRM to collect VAT. The mean and standard deviation support the above claim with (mean=4.14 and SD=0.47), (mean=4.10 and SD=0.43), and (mean=4.04 and SD=0.39) respectively. However, most of the respondents 184(87.6%), both disagreed & strongly disagree, ERCA/suppliers gives immediate response for the problems related to machine usage.

4.5 Descriptive statistics on TOT collection

The average annual TOT revenue actually collected by using a cash register machine was 17493261.25 Birr with a standard deviation of 11618712.80 Birr from potential of average 21696292.81 Birr with a standard deviation of 12979093.72 Birr. The minimum annual actual TOT revenue was 3991002.00 Birr whereas the maximum actual TOT revenue was 37560785.00 Birr.

4.5.1 Knowledge and skills

The influence of knowledge and awareness on TOT collection among taxpayers using a cash register machine in the Sodo town administration in Wolaita Zone. The study findings outlined 21(36.6%), 7(12.3%) and 29(50.9%) agree, remain neutral and disagree respectively on statement that the Wolaita Sodo revenue branch creates awareness about collection of TOT cash register machine via TV, radio, pamphlets, newspaper, others media, 22(36.8%), 3(5.3%) and 32(56.1%) agree, remain neutral and disagree on the statement that VAT implementation can improve your business perception, 24(42.1%), 3(5.3%) and 30(52.6%) agree, remain neutral and disagree on tax payers do you have awareness about TOT collection cash register machine, and 30(52.2%), 23(40.4%) and 4(7.40%) strongly agree, agree and remain neutral on the statement that ERM Wolaita Sodo revenue branch offered you adequate training on usage of collection of TOT cash register machine.

In addition to this, the mean and standard deviation indicate that knowledge and awareness play an average role in TOT collection using a cash register machine in Wolaita Sodo town administration. This is supported by the statement suggesting that Wolaita Sodo revenue branch creates awareness about collection of TOT cash register machine via TV, radio, pamphlets, newspaper, others media (mean=4.39 and SD=0.71), TOT implementation can improve your business perception (mean=4.51 and SD=0.60), tax payers do you have awareness about TOT collection cash register

machine (mean=4.71 and SD=0.64), and ERM Wolaita Sodo revenue branch offered you adequate training on usage of a cash register machine for collection of TOT (mean=3.02 and SD=0.79).

These findings imply that a moderate improvement of TOT payers' knowledge and awareness will greatly lead to the improved VAT collection using the cash register machine. These findings are consistent with (Obongo et al., 2018). This implies a need of awareness creation to improve the collection of TOT using a cash register machine.

4.5.2 TOT evasion

22(38.6%) agree that measures that taken by the Authority over the enterprises for these evading tax payments are fair, but 23(40.4%) remain neutral and 12(21.1%) disagree. The average result indicates tax payers are neutral (mean=2.98 and SD=0.71) according to Al-Sayaad *et al.* (2006) classification. The result also revealed that a higher number of respondents disagree 23(40%) that there is a clear and easy way to identify TOT evasion using the cash register machine.

However, most of the respondents revealed that audit follow up can reduce TOT evasion 46(80.7%) with mean 3.2 and standard deviation 0.61. The finding also reveals that 35(61.4%) of respondents replied that TOT implementation using CRM can improve tax evasion. These results are in line with the findings obtained by Endashaw (2019) that audit follow up will reduce tax evasion in the Addis Ababa city and Worku (2016) that using CRM and frequent follow up will reduce tax evasion in Lideta Sub-city.

4.5.3 Audit follow up

Audit follow up on TOT collection using CRM in Wolaita Sodo town Administration. Based on this, a large number of respondents disagree with the statements Wolaita Sodo revenue authority branch TOT Audit follows up to enhance TOT revenue as per the schedule of the Authority 35(74%) with (mean=2.18 and SD=1.01). This is due to the fact that audit follow up reduces fraudulent activities, lets tax payers learn from their past experiences, helps them to made corrections and makes tax payers fear and follow tax rules & in this case, decrease tax evasion. In addition to this, most of the respondents revealed that using a CRM collection of TOT can simplify Wolaita Sodo revenue authority branch 40(70.2%) with standard deviation. This result is also supported by large mean value 4.0 with a standard deviation of 0.98.

4.5.4 Operational costs

The operational cost is one of the important factors influencing the use of a

cash register machine for TOT revenue collection. 4(7%) and 53(93) strongly agreed and agreed on the statement that using a cash register machine collection of TOT can reduce administration cost, 10(17.5%) and 47(82.5%) strongly agreed and agreed their organization experiencing additional costs after registered for CRM, 21(36.8%) and 36(63.2) strongly agreed and agreed respectively on cash register machine collection of TOT reduces your compliance cost, and 8(14%) and 49(86%) strongly agreed and agree on ERM Wolaita Sodo revenue branch support improve your operation cost respectively.

The mean and standard deviation also supports that TOT payers agree with statements that using a cash register machine collection of TOT can reduce administration cost (mean=4.07 and SD=0.25), cash register machine collection of TOT reduces entities compliance cost (mean= 4.37and SD=0.48), and ERM Wolaita Sodo revenue branch support improve your operation cost (mean=4.14 and SD=0.35) with small variation among the responses of the respondents as supported by the small standard deviation.

This result shows that using CRM for collecting TOT reduces administration cost, compliance cost and operational costs. This finding in in line with the findings of Abinet (2016).

4.5.5 Attitude and perception

The attitude and perception on using a cash register machine to collect TOT revenue in Wolaita Sodo Town Administration. Most of the respondents replied that their staff has enough skills to operate CRM collection of TOT, that is, 44(77.2%) and most of the respondents perceived that TOT collection using CRM facilitate their business and government revenue. Similarly, a large number of respondents replied that MOR/suppliers give technical training to improve the usage of CRM to collect TOT. The mean and standard deviation support the above claim with (mean=4.16 and SD=0.44), (mean=4.09 and SD=0.39), and (mean=4.04 and SD=0.32) respectively. However, most of the respondents 28(49.1%), both disagreed & strongly disagreed that ERCA/suppliers give immediate response for the problems related to machine usage.

5.0 Conclusion and Recommendations

5.1 Conclusion

The general objective of this study was to assess challenging factors to collect value added tax and turnover tax by using acash register machine on case of Wolaita

Sodo Town Administration, Southern Ethiopia and intended to answer research questions whether cash register machine audit follow up, knowledge and skills, tax evasion, attitude and perception, and administration cost have the effect on using a cash register machine in collecting VAT and TOT.

- The application of CRMs has a remarkable change on the VAT and TOT revenue. The findings of the research indicate that ERCA VAT and TOT income significantly increases after implementation of cash register machine in order to collect VAT and TOT. So, the cash register machine has a positive relationship with VAT and TOT revenue in Woliata Sodo Town.
- Electronic tax Registers increase the operating cost of the VAT and TOT payers that were incurred to collect VAT and TOT and also business income. A CRMs while improving the efficiency and the success of VAT and TOT payers operations, provides timely and accurate VAT and TOT information to businesses and increases the availability of electronic tax filing.
- VAT and TOT evasion measurement, which is taken by the government is not enough and not fair furthermore, tax evasion decreases the revenue of government and the result shows that there is direct relationship with VAT and TOT revenue that means when evasion follow up increases the revenue of VAT and TOT increase.
- Audit follow up which taken place by the government in controlling the cash register machine user to collect VAT and TOT is not enough. Moreover, audit follow up affect tax revenue positively, while audit follow up increases tax income also increases.
- Perception and attitude about the implementation of cash register machine to collect VAT and TOT varies among the tax payers. It has positive and significant influence among the TOT payers but it has no statistically significant influence among the VAT payers. This is may be due to the long experience of using cash register machine among VAT payers whereas few experience TOT payers. This calls frequent training is needed for TOT payers about the uses and impacts through various media and ERCA experts.

5.2 Recommendations

Implementing cash register machine plays an important role in collecting both VAT and TOT revenues. So, in order to succeed in the using a cash register machine, the town administration must improve its policy according to the conditions. Based on the findings and limitations of the study, the following recommendations were forwarded:

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- Knowledge and skills of using a cash register machine play an important role in improving the revenues of VAT and TOT revenue. So, the tax administration office should look the ways to improve the skills and knowledge of the machine through various media such as TV, radio, Facebook, twitter, etc.
- The tax administration office should make subsidy and other incentives for the machine importer to decrease the cost of the machine and to increase the number of machines imported to meet the demand of the tax payers.
- Properly control accreditation of machine suppliers to minimize repetitive machine failure and makes sure whether they give proper training by using competent staff or not. Frequent training is needed to change the perception and attitude of using the machine to collect tax.
- The tax administration office is better to designed goods and fast systems that can reduce the time of users of cash register machines to make correction for their errors without wasting time and additional cost.
- Awareness of the people is very important to eliminate the tax evasion and enhance the efficiency of the authority, but the tax administration office doesn't work with regard to creating enough awareness through different mechanisms. This can be achieved if the tax administration office give training to layman people while they are at school in the form of course.

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Determinants of Potential Customers' Intention to Purchase Smart Phones in Hawassa City, Ethiopia

*Mesfin Dagne**

ABSTRACT

This study is conducted to examine the determinants of potential customers' intention to purchase smart phones in the case of Hawassa city, Ethiopia. The study employed an explanatory research design with quantitative and qualitative research approaches. The required data were collected from 384 selected respondents by adopting a convenient sampling technique. The collected data were analyzed using descriptive statistics such as frequency and mean. In addition, correlation and multiple linear regression were applied. The findings of the study showed that currently, the majority of potential customers were willing to purchase the TECNO smartphone. The regression result indicated that price was the most dominant factor that determined potential customers' intention to purchase smart phones followed by social influence and advertising.

Keywords: *Potential customers; Purchase intention; Smart phones.*

1.0 Introduction

Smartphones are becoming popular as they are getting improved from time to time by consolidating the most recent advancements. People purchase smartphones since they can use the internet easily and can connect on social media portals such as Facebook, WhatsApp, Instagram, Twitter, Viber, Telegram, YouTube, and others. These features fundamentally draw a delineating line between normal cell phones and smartphones. They also make the use of smartphones easier and user-friendly and increase their utility for the consumers. Generally, a smartphone performs many of the functions of a computer, typically having a touch screen interface, internet access, and an operating system capable of running downloaded apps Kaushal & Kumar (2016).

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The first telephone was invented by Alexander Graham Bell in 1878 and during the 1980s some of the cell phones were first introduced to the public by Motorola. These cell phones were different from the cell phones of today because they were not at all manageable and not cost-efficient by any means. The cost of some of these cell phones was around \$4,000 and the weight was over two pounds. Next, IBM and BellSouth developed the first smartphone in 1993 and presented it to the public Shailesh & Taruna (2016). In the contemporary times, touch screen smartphones were designed and they have now become the basic form of communication. Globally, the demand for smartphones steadily grew as was shown in the fact that five billion people had smartphones in 2017 and it is expected that this figure will increase by 5.9 billion in 2025 GSMA (2018).

Ethiopia is one of the least mobile users in the world. However, the number of smartphone users is increasing from time to time. According to Newzoo (2018), there were 12,014,000 smartphone mobile users available in Ethiopia. The choice of mobile users is diverse due to various factors associated with their purchasing intention. In this situation, it is significant to examine the possible factors which determine the customers' intention to purchase smartphones. Therefore, this study tried to examine the determinants of potential customers' intention to purchase smartphones by selecting the correct respondents and applying appropriate methodology.

2.0 Literature Review

This study tried to examine the determinants of potential customers' intention to purchase smart phones. Purchase intention is a significant measure of actual purchase behavior. According to Zeithaml (1988), purchase intention can be discussed as a predisposition of the customers with regard to their actual purchase action. It describes individuals' inclination in purchase of a product and how they categorize their preferences to the available options.

2.1 Purchased intention

Purchased intention refers to the process that leads a consumer to purchase the specific products. It is a significant measure of the actual purchase behavior of potential customers Nitin (2015). According to Saif *et al.*, (2012), consumers will go through the process of recognizing the product to purchase, then they will find the information about the product, evaluate, and purchase. Thus, it is important to examine the determinants of potential customers' intention to purchase smartphones. This study tried to examine the effect of product features, advertising, pricing, brand name, and social influence.

2.2 Product features

Product features refers to an attribute of a product to meet the needs of potential buyers Lay-Yee *et al.*, (2013). It includes the hardware and software part of a product. Hardware is the description for a tool which will be touched physically. The hardware of a smartphone is the body of the phone itself size and its weight. Color and style also are considered as hardware because it is the physical appearance of the Smartphone. The software on the other hand indicates the operating platform, storage memory, or apps that run the phone. Osman *et al.*, (2012) argued that software features are more important than hardware features in people's smartphone purchase decisions. Customers purchase a mobile phone due to its physical appearance, size and menu organization Ling *et al.*, (2006). Product features can be defined as the attributes of a product that can satisfy consumers' preferences through having the product, using and applying the product Kotler & Armstrong (2007).

2.3 Advertising

Advertising refers to promoting a product or service through newspapers, television, internet or others. Marketers' survival depends on consumer satisfaction and consumer satisfaction depends on their perception and brand preference of the particular brand. In brand preference, advertising plays a major role. According to Moorthy & Madevan (2014), nearly everyone in the modern world is influenced, to some degree, by advertising. Park *et al.*, (2018) found that advertisement using free sample coupons have an enduring effect that increases the purchase propensity beyond the promotion period, thereby contributing to incremental purchases over a longer period of time.

2.4 Pricing

Price refers to the quantity of money charged for a product or service Kotler & Armstrong, (2010). It is one of the most important factors which affects consumer's choice to purchase a particular product or brand. Different scholars proved that price had a significant influence on the purchase intension of the customer Qun, *et al.*, (2012), Lay-Yee *et al.*, (2013). Chew (2012) also argued that price is a significant factor in smartphone purchase intention. Similarly, Hanif *et al.*, (2010) found that the price of a product has played an important role in consumers' intention to purchase.

2.5 Brand name

Brand name refers to the name of a product that identifies the goods and

services of one seller or group of sellers and to differentiate them from those of their competition. Brands are more than just names and symbols. According to Wollenberg & Thuong (2014), the brand name is important to shape consumer's behavior towards smart phones purchasing intention.

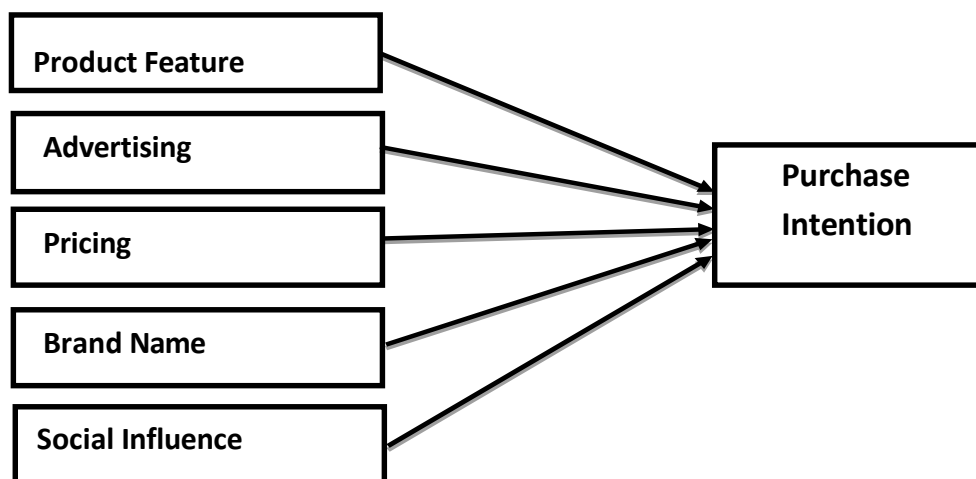
2.6 Social influence

Social influence refers to the interference of another person to make a change on his/her feelings, attitudes, thoughts and behavior, intentionally or unintentionally Rashotte (2007). Consumer's decision to purchase a particular product or brand is influenced by many people such as friends, family members, society, and retail store personnel Nelson & McLeod (2005). Social Influence has been found to be an important factors affecting consumer's purchase intention in many studies Qun *et al.*, (2012), Anam (2014), Ibrahim *et al.*, (2013).

2.7 Conceptual framework

Based on the literature review, the following conceptual framework has been proposed for the present study. There are four independent factors (Product features, Advertising, Pricing, Brand name, and Social Influence) which influence the dependent variable (Purchase Intension).

Figure 2.1: Conceptual Framework of the Study



Source: Adapted from Trivedi and Rava (2016)

Hypothesis

H₁: Product feature has significant effect on potential consumers purchase intention.

H₂: Advertising has significant effect on potential consumers purchase intention.

H₃: Pricing has significant effect on potential consumers purchase intention.

H₄: Brand name has significant effect on potential consumers purchase intention.

H₅: Social influence has significant effect on potential consumers purchase intention.

3.0 Research Methodology

The research design adopted in this study was explanatory research design. This is due to the fact that explanatory research design is the best when the research question is to identify factors associated or to understand the best predictors of the dependent variable Oleary (2004). The population of this study was potential smartphone customers in Hawassa city. The total population was unknown because the researchers could not obtain a sampling frame. Thus, this study employed the convenient sampling technique. In convenience sampling, the researcher selects participants based on their willingness and availability to be studied. Convenient sampling is appropriate when population elements are selected for inclusion in the sample based on the ease of access Kothari (2012). Since the population of the study is unknown, the formula developed by Cochran (1977) was found to be appropriate for determining the sample size.

$$n = \frac{z^2 p(1 - q)}{d^2}$$

Where n = The desired sample size

Z = The statistics for the level of confidence (1.96)

P = The proportion of potential mobile customers (50%)

d = Marginal error between the population and sample size (5%)

$$n = \frac{(1.96)^2 0.5(1 - 0.5)}{(0.05)^2}$$

$n \gg 384$

This study employed a close ended questionnaire as an instrument for data collection. The questionnaire consists of two sections. Section one was centered on the personal information of the respondents while section two was based on the constructs

of the study i.e., the factors related to consumer purchase behavior. A five-point scale, ranging from strongly disagree to strongly agree was used in designing the questions. The reliability of the research questionnaire was tested using Cronbach's alpha coefficient. The data were analyzed using descriptive statistics such as frequency and mean, Furthermore, inferential statistics such as correlation and multiple linear regression were applied.

4.0 Results and Interpretation

The determinants of potential customers' intension to purchase smart phones were identified using multiple linear regression analysis.

Table 4.1: Results of Regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.826 ^a	0.683	0.679	0.20129

Source: Model output, 2019

According to the model summary of multiple linear regression analysis, the R value of the model as per Table 4.4 was .826 which shows the highest degree of relationship between independent and dependent variables. The adjusted R² value of the regression model was 0.679, indicating that 67.9% of variance in purchased intention was accounted for by product features, advertising, pricing, brand name and social influence. The remaining 32.1% of variance in potential customers purchased intention of smart phones was not accounted for by product features, advertising, pricing, brand name and social influence.

Table 4.2: Results of ANOVA Output

Model	Sum of Squares	Df	Mean Square	F-test	Sig.
Regression	32.995	5	6.599	162.874	0.000 ^b
Residual	15.315	378	0.041		
Total	48.310	383			

The ANOVA table (Table 4.5) indicated that the multiple regression model itself is statistically significant or not significant. Thus, the model is statistically significant when product features, advertising, pricing, brand name and social influence were included (F=162.874, p< 0.001). Thus, the overall equation was found to be statistically significant.

Table 4.3: Results of Multiple Linear Regression Analysis

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	SE	Beta	t	Sig.
1	(Constant)	0.724	0.126		5.725	0.000
2	Product Features	0.208	0.021	0.304	9.890	0.000
3	Advertising	0.057	0.016	0.120	3.504	0.001
4	Pricing	0.270	0.022	0.461	12.508	0.000
5	Brand Name	0.032	0.017	0.055	1.900	0.058
6	Social Influence	0.234	0.024	0.341	9.791	0.000

Note: B = Unstandardized regression coefficient (Estimate), Std.Error = Standard Error, Dependent variable = Purchased Intention

The results of the multiple linear regression analysis indicated that among the five variables which were included in the model, four variables such as product features, advertising, pricing, and social influence were found to be a significant factor determining the purchasing intention of potential customers towards smartphones in the study area.

5.0 Conclusion and Recommendations

Smartphone usage has proliferated in recent years. Nowadays, people seem to become dependent on Smartphones due to their convenience, great camera features, and easy application installations. Furthermore, they can do most of the computer functions on the go. In this technology and competitive era, this study aims to explore the determinants of potential customers' purchased intention of smart phones.

Product features have a significant effect on potential customers' purchased intention of smart phones. Therefore, smartphone providers should study what features the users demand, for example: higher image resolution of the camera, better and faster operating system, smarter and lighter design, and any other new innovative product features for both hardware and software. By improving the product features and providing what is demanded, it might help Smartphone providers to improve sales and profit.

Advertising is the dominant factor affecting potential customers' purchased intention of smart phones. Therefore, smart phone manufacturers should provide unique features that other companies are not able to mimic. Additionally, they should design advertisement campaigns introducing new technological features and try to

place their product in the mind of the customer because giving a true and positive picture of product is best positioning. These unique features combined with the right marketing strategy will become competitive advantages and help smartphone companies win this market.

Price is the other dominant factors for purchase decision. Therefore, companies have to maintain competitiveness in order to hold their positions and sustain them through delivering high quality products at honest prices. Social influence also has a significant effect on Smartphone users purchase decision. This is because users are referring to friends, family, and other people around them, though it has less impact on affecting the purchase decision as compared to the other selected variables tested in this study. Therefore, smartphone providers could have more socializing with the targeted market to create positive word of mouth among them to spread it to others.

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Factors Affecting Private Saving: A Case Study on Anasora Woreda, Oromia Regional State, Ethiopia

*Bogale Boshe**

ABSTRACT

In developing countries like Ethiopia, where there is low foreign direct investment and low capital inflow from remittance and export, local saving has a significant effect on investment and national economic development as a source of finance. Though this is the case with the saving from some parts of the country, Ethiopia is beyond the expectation from them. Hence, this study is made by targeting an assessment of factors affecting private saving in Anasora Woreda, using a stratified sampling of 268 samples from salaried employees, traders and farmers. The researcher used exploratory type of research conducting as it needs the descriptive statistics to analyse the data. With this research result, low income and poor saving culture of the society, seasonality of business, large family size, saving awareness and inaccessibility to financial institutions have greatly impacted the private saving of the Woreda. Based on the study findings, we recommend that all the economic stakeholders which include the concerned Woreda administrators at each level, the financial institutions and the society at large have the responsibility to change the current saving situation of the Woreda people.

Keywords: *Saving; Private saving, Investment; Private investment; Economic growth and development.*

1.0 Introduction

1.1 Background of the study

The importance of saving can be seen both at the micro and macro level. For a house hold, it helps in maintaining the precautionary balances against shocks, keeps smooth consumption in the face of volatile income, and supports investment and physical capital, builds up cash collateral, and serves as a track record to allow them easier access to credit.

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At the macro level, high saving rate could increase the amount of creditable capital which will push up the investment, and then the economic development and economic growth rate (CBE, 2015). In an open economy with access to foreign capital, funds will flow to investment projects with the highest expected rates of returns and domestic saving doesn't constrain investment and growth. But, with the inefficiency of the world economy and the different constraints to foreign capital, foreign capital could not be a reliable source of finance. Hence, it is clear that the economic development of a country depends largely on its ability to mobilize the necessary savings to finance capital formation in order to raise the nation's productive capacity. Low saving rate remains a typical characteristic of developing countries, and the sub-saharan countries are the lowest of the developing countries. The Ethiopian case is worse than the sub-Saharan and between 2005 and 2011; the average gross domestic saving was 6.42% of GDP (CBE, 2012). Low domestic savings coupled with the unpredictability of aid have compounded the challenge of financing the development of the country Ethiopia (MOFED, 2013), justifying that to sustain the rapid economic growth of the country, increasing the domestic saving rate is unquestionable.

Low saving rate of the country as determined above is the summation of the low saving rate of the different regions, zones, districts and localities, even though their contribution to the total saving is different and can be relatively ranked from low to high. Hence, in this research, I try to investigate the extent of saving, and the potential available with its challenges.

1.2 Statement of the problem

According to Rogg (2006), a serious problem confronting poor countries including Ethiopia is the savings and investment gap. Because of this gap, these countries find it difficult to finance investments needed for growth from domestic saving. It is also common to see these countries finance their investment in the short run partly through domestic government borrowings and/or foreign loan and grants but this would significantly increase the country's debt burden and would not be a solution in the long run.

However, both economic variables are not emphasized as a major variable for interventions for overall development in Africa in general, and Ethiopia in particular. This is the case mainly, because of, first, most of the studies carried out in the field have focused on developed economies and are unable to show the ground reality in poor developing countries. Second, most of these studies adopted a macroeconomic approach yet the behavior of economic units on the aggregate level may not

necessarily be the same as on an individual or household level. And third, even the existing limited empirical research results in Africa related to rural household savings and investment are varied and inconclusive Zhu (2004).

The saving level in Ethiopia, particularly in the rural areas, is very low and little is known empirically about its patterns and determinants. Saving in rural Ethiopia is mainly made out of the income from agricultural activities. It is also characterized as seasonal and irregular as the cash flow through the sale of agricultural produce and availability of work is seasonal. This reduces their financial capacity to save or poorly respond to incentives that promote savings in the country Aron (2013); EEA (2009). However, rural households do indeed save in the form of tangible assets and/or in financial forms which can be potentially utilized by savings institutions and for investments which are very essential for both households and the national wellbeing Girma (2013); Karlan & Morduch (2010). Therefore, this study tries to analyze the major determinants of the saving behavior of rural households which has been less addressed in Ethiopia.

There was a marketing research done by the commercial bank of Ethiopia, Erba Muda branch in September 2015 on the assessment of the saving potential of the area using solely secondary data sources from the Woreda office. The study result shows that there is a significant potential for the peoples to save for their investment and future life. However, though the only bank in the area cited above has encouraged the society to save at the bank, there is no significant improvement in their saving habit. Besides this, the area is known for a variety of mineral resources aside from the agricultural productivity. Hence, in this research, the researcher is encouraged to find the gap between the research conducted by the bank and the actual savings seen at the bank branch. Hence, the objective of this study is to assess the factors that affect the saving conditions of the Anasora Woreda households & businesses.

2.0 Research Methodology

2.1 Description of the study area

The area where the research is conducted is Anasora Woreda, Guji zone. It has a distance of 410 km from Finfinne/Addis Ababa and 180km from Negelle (capital city of Guji zone). It has an area of 47,523 hek or 475.23 km². It is an area where mixed farming economic activities are the livelihood of the people. The life of the society largely depends on producing crops like maize, bean, barley and the like. They also breed animals like cattle, horse, goat & sheep as their main occupation. The area is also known for animal products like butter and honey. Part of the society living there

are farmers, government employees, workers under private employer, self-employed, small & medium scale traders. Most of the productions like crops & honey are seasonal, usually from February to June. The rest of the time of the year is the rainy season in which businesses culminate. There are almost no large commercial activities and big manufacturing industries in the area except one kaolin factory which produces raw material for ceramic production. The elevation of Woreda ranges from 1450-2900 meters, having an annual rainfall of nearly 122.7 mm and the annual temperature of the area ranges from 10.1-20 c (Guji zone FEDO). Regarding trade, there are no known local cash crops in Woreda.

2.2 Research design

The researcher used both exploratory and descriptive types of research designs (Qualitative) in which the researcher wants to explore the reason behind the problem on private saving & investment in the Woreda area, and describe it using simple statistical tools like percentage analysis, graphs & charts, interpret the results/findings and reach general conclusions.

2.3 Population & sampling technique

The total population of the Woreda households is estimated to be 24,278 as to the 2007 E.C data from the Woreda health office. The sampling technique employed was stratified random sampling by basing their occupation and then using the simple random sampling technique so as to get fair (average) data, and to make the sample fair and representative of the population, the sample size was determined using a formula based on the Raostat sample size calculator. At 90% confidence level, a margin of error (e) 5%, and with 50% response distribution using the above Raostat sample size calculator $n = 268$, where n is required sample size

2.4 Data collection methods

The main data source used in the research was primary data collected from respondents using a questionnaire in person, directly approaching the individual households or respondents from which the researcher hoped to get information that is reliable & valid and helps to identify the problem, and a purposive semi-structured interview for issues that require clarification from concerned individuals like the Woreda administrator, finance & economic development head, selected farmer households and community leaders (like Aba Geda) who understand the socioeconomic conditions of the society in which they live and the study purpose, and

then justify more than others. To some extent, secondary data like demographic, socio-economic, geographic and climatic data are used from the concerned Woreda office like labor and social security office for the employment and income status of households, agricultural office for the width and productivity of crops & animals in the area as the place is a rural town, a trade office for the rate of trade at the chosen research area, the commercial bank of Ethiopia (Erba muda branch) and the Oromia credit & saving share company (Anasora Branch) to get data concerning private saving at the available financial institutions in the area.

2.5 Methods of data analysis

After sorting and checking the data collected using questionnaires and interviews from the respondents for its correctness and completeness, it was prepared in the form of tables. The data analysis methods used were descriptive statistics, percentage and other related methods in the case of qualitative analysis of the respondents' data, and then presented in different charts and graphs as necessary for evaluation and comparison purpose, and then interpreting the findings.

3.0 Data Analysis and Interpretation

According to the Raostat sample size calculator, the sample size, $n=268$, at 90% confidence level, margin of error (e)=5%, and with 50% response distribution was used by the researcher. And the response rate was 230 out of the 268-questionnaires distributed, and hence, the response rate was 85.82%. From the questions provided to the respondents which include both demographic information and questions related to the research topic, the following data were obtained:

Table 3.1: Sex Ratio of Respondents

Sex	Number of Respondents	Percentage
Male	192	83.48
Female	38	16.52
Total	230	100

The researcher observed that a higher part of the Woreda people educated, able to read, understand and respond to the questionnaire is male. As Wolday & Tekie cited on CBE 2015, male headed households are expected to save more than the female households, as they have a higher income than the female households. On the other hand, it is argued that female headed households have the tendency to consume less. They also discussed that there is no general agreement on the empirical results that have been done.

Table 3.2: Age Category of the Respondents

Age (in years)	Number of Respondents	Percentage
15-20	14	6
21-40	148	64.35
41-60	65	28.26
>60	3	1.39
Total	230	100

The above table 2 clearly indicates that the majority of the respondents are between 21-40 years of age and it is the high productive life cycle for an individual in any occupation. According to the Life Cycle Hypothesis by Franco Modigliani and Richard Blumberg, the age of households affects saving behaviors. It says, as the household's age increases, their savings will decrease. On the basis of the Life Cycle Hypothesis, Agrawal (2001) also noted that individuals will have negative savings when young and have low or no income, positive savings during their productive years and again negative savings when they are old and retired. Hence, the major respondents' age is the age within the life cycle to work hard and be able to save for the future investment and personal growth.

Table 3.3: Education Qualification

Level	Number of Respondents	Percentage
Illiterate	14	6
Able to read & write	16	7
1-4	5	2.2
5-10	56	24.3
Diploma	55	24
First degree	79	34.3
Second degree and above	5	2.2
Total	230	100

The table above indicates that about 60.5% of the respondents have at least a diploma in their education. But this percentage may not represent the education level of the total population and it is from those who were able to respond to the questionnaire. As Wolday & Tekie cited on CBE 2015, as households' level of education increases, they will be better aware of financial institutions and financial products, which in turn will improve their saving behavior and use of formal sectors. In this regard, the major respondent can easily understand the benefits of saving, different forms of saving, and how to enhance saving.

Table 3.4: Occupation of Respondents

Occupation	Number of Respondents	Percentage
Government employee	47	20.4
Private org. employee	11	4.8
Farmer	98	42.6
Trader	60	26.1
Other	14	6.1
Total	230	100

The table above clearly explains that the majority of the respondents base their life on agriculture (farming), small scale trade, and government employees respectively. Occupations of the respondents categorized under other category are those respondents who are engaged in church leading, carpenter & clinic owners. Wolday & Tekie cited on CBE 2015, clearly indicating that the main livelihood activities or work status of people or households determine individual saving behaviors. As to them, households may have different saving motives based on their engagement in economic activities. The self-employed households, for instance, are expected to save more, because of the uncertain nature of their income. Conversely, salaried employees being certain on the flow of their income, are expected to save less.

Table 3.5: Response Related to the Estimated Annual Revenue of Respondents

Estimated Annual revenue of respondents (in birr)	Number of Respondents	Percentage
0-10,000	63	27.4
11,000-30,000	71	31.0
31,000-70,000	74	32.1
71,000-100,000	16	7.1
>100,000	6	2.4
Total	230	100

As indicated by the respondents, 90.5% of the respondents gain estimated annual revenue less than 70,000 birr. This may indicate that income is their main challenge to save after settling their consumption expenditure. Wolday & Tekie cited on CBE 2015, noted that Income households' disposable income is probably the most important variable determining the level of saving. As income rises, the proportion of household assets in a financial form is expected to rise which enables them to have a surplus fund to save. But it depends on more of the other variables like dependency

ratio and personal life style. People with the same income will not save equally as their consumption pattern and expenditure varies. The above literature also indicates other things being the same, the higher the proportion of household members that consume more than they produce, the lower will be the household saving. Thus, the distribution of population will affect the savings rate. However, it is argued that among rural families, even children can contribute significantly to the household’s production and income. Other researchers empirical result like Dejene (2003) indicate that at the household level, irrespective of small size, rural households in Ethiopia do save in many ways, as individuals or in a group. They usually save in kind mainly in food-grains or in livestock. This in turn shows individuals who adopted a good saving culture, do save a certain percentage of their income, whatever their income will be.

Table 3. 6: Saving Awareness level of Respondents

Saving Awareness Level	Number of Respondent	Percentage
Excellent	17	7.2
Very good	31	13.5
Good	74	32.2
Low	108	47.0
Total	230	100

As shown in the above table 6, the majority of the respondents have got less awareness on the benefits of saving.

Table 3.7: Annual Saving of Respondents

Average Annual Saving (in birr)	Number of respondents	Percentage
0-5,000	49	21.4
5,000-15,000	74	32.1
15,000-50,000	33	14.3
50,000-100,000	11	4.8
>100,000	5	2.4
No Response	58	25
Total	230	100

The table shows that more than half (53.5%) of the respondents have an average annual saving of birr less than 15,000. This confirms the research done by Girma *et al.*, (2013) stating in its findings that the saving level in Ethiopia, particularly in rural areas, is very low. According to MOFED (2012), the average gross saving rate

as a percentage of the GDP of Ethiopia is 21%. It was also supported by Dejene, 2003 that low saving has been a dominant feature of the Ethiopian economy. According to his research, the average share of gross domestic savings and investment from GDP was 12.4 and 18.5 percent which is very low even to the standard of developing countries, respectively.

Table 3.8: Forms of Saving Being Used by the Respondents

Forms of Saving Used	Number of Respondents	Percentage
Bank saving	60	26.3
Ocssco	36	15.8
Livestock	34	14.7
House building & furniture	10	4.2
Commodity purchase for future sale & consumption	15	6.3
Money kept at home 'kazina'	29	12.6
Ekub	29	12.6
Credit & saving institution	5	2.2
Other	12	5.3
Total	230	100

As from the table shown above about 26.3% of the respondents use bank saving and most of them are salaried government employees. About 15.8% of the respondents save at the Oromiya saving & credit share company (Ocssco), of which, almost all are borrowers of the institution to finance their business and the institution encourages them borrowing through depositing or saving initial which is tied with the government chain of organizing unemployment or the poor people, especially women & the young through the Woreda micro & small enterprises agency cooperation. 14.7% of the respondents save through buying livestock when they are cheap and sell when they are expensive or breed them to get higher profit. There are also many people who purchase commodities (like cereals) and other precious materials like gold & tantalum to use for the same purpose. Money kept at home like in 'kazina' and under mattress as well as used as 'Ekub,' are almost equal and each are 12.6% of the total respondent. People of the area keeping money at home and in 'Ekub' form use it immediately when required urgently (this may be linked with bank inaccessibility and Ocssco liquidity problems) and to get huge amount of money at a time without interest to run their business, respectively. Other types of savers are those who use the different saving combination of the above forms (like bank deposit, buy and keep different products and Ekub).

Table 3.9: Respondents Reason for Choice of Financial Institution

Reason for Choice of Financial Institution	Number of Respondents	Percentage
Easy to use the service	38	16.5
Accessibility	19	8.2
Helps me to grow my business	76	32.9
Loan facility	11	4.7
Liquidity (easiness to withdraw)	65	28.2
Gain huge money at once without interest	21	9.3
Total	230	100

As shown above, the large percentage of respondents' choice of their financial institution is either based on the fact that it will help their business to grow (32.9%) or the ease in liquidity (to easily use when urgently needed for a purpose) (28.2%). They are concerned with the loan facility and the accessibility of the financial institution respectively.

The decision to choose financial institution is based on the ease to transact with or the service delivery available like speed and technology usage of the financial institution (16.5%). Rural people save at their home in different places in kazina or under mattress because of their far distance from formal financial institutions to use their money when urgently needed for their business.

Table 3.10: Respondents Saving Habit

Saving Behavior of Respondent	Number of Respondents	Percentage
High	51	22
Medium	92	40
Low	87	38
Total	230	100

From the table above, the large percentage of the respondents gave their response on their saving behavior from medium to low (40% and 38% respectively). And those who confirmed that their low saving habit is justified by the next question provided to them blaming low income, lack of nearby financial institution, and their poor expenditure management among other factors.

Table 3.11: Extent of Saving Compared to their Income

Is your saving in any form enough as compared to your income?	Number	Percentage
Yes	103	44.7
No	127	55.3
Total	230	100

It shows that more than half (55.3%) of the respondents believed that they have a poor saving culture when compared to the income they gain, and the reason they gave for their poor saving was awareness, high expense as compared to income, large family size, low bank saving interest rate, daily business run for the sake of higher profit rather than saving in any form is their main reason for not saving as expected from their income.

Table 3. 12: Frequency of Bank Usage

Are you making your financial transactions regularly through bank?	Number of respondents	Percentage
Yes	148	64.3
No	82	35.7
Total	230	100

Those who have frequent contact with the bank are traders, government employees, and few rural households like farmers who have got awareness about the bank products & bank service.

Table 3.13: Respondents Challenge to use Bank Regularly as they need

What is your main reason for not using bank regularly?	Number of Respondents	Percentage
Awareness	14	17.2
Distance from bank	20	24.1
Use Ocscso	6	6.9
Fear to use bank	5	6.0
Poor bank service	14	17.2
Ekub	20	24.1
Local credit & saving	3	3.4
Total	82	100

A large number of respondents blamed distance from the bank (accessibility) and choice of the local rotated credit among groups (Ekub) for not frequently using

banks, followed by an awareness problem and poor bank service. As shown by the table above, there are also people who fear bank usage because of their perception of losing their money by not having confidence in the bank, thinking it passes information to tax authorities or court when needed. But this is not true and they misunderstand the bank business activity and the other government organization authorities with their responsibility. On the other hand, their genuine property is their own, it can't be of another and cannot be taken by government or any other body established legally.

Table 3.14: Challenges to Improve Saving Practice

What is your real challenge to improve your saving practice?	Number of Respondents	Percentage
Income	77	33.3
Awareness	42	18.4
Large family size	29	12.6
Seasonality of Business/work	37	16.1
Lack of credit facility	8	3.4
Absence of bank online Service	32	13.8
Other (inflation)	5	2.3
Total	230	100

The large part of the respondents blamed income, saving tools and benefit awareness gap, and seasonality of business/work which is followed by poor bank service and large family size of the people for not being able to improve their saving practice. The other factor that challenged them is inflation, which made prices of food and other commodity prices increase, negatively impacting their saving.

Table 3.15: Respondents' Opinion on the Reason for the Low Investment Condition of the Woreda Region

What do you think the reason for the low investment condition of the Woreda area?	Number of Respondents	Percentage
Low income of individuals	98	42.7
Low saving culture of individuals	26	11.4
Fear of investment risk	14	6.2
Lack of investment opportunities	29	12.5
Lack of investment opportunities	60	26.0
Other	3	1.3
Total	230	100

According to the response from respondents, what largely affected the private investment condition in the Woreda area is low income of individuals, and according to them those who have income, have lost investment information on the investment opportunities available to the Woreda area to invest, which is hoped to increase the saving and economic progress of the area. Though their numbers are comparatively small, there are also respondents who suggested as there is no investment opportunity in the Woreda area, and those who have fear of investment risks like security of their business in connection with political instability. The other factors which affected their investment is low or lack of investment loan facility to individuals.

Table 3.16: Relationship of Private Saving and Private Investment

Do you think that private saving and private investment have direct relationship?	Number of Respondent	Percentage
Yes	181	78.6
No	49	21.4
Total	230	100

From the result, it is indicated that the large portion of the respondents knew that private investment results from individual saving to accumulate wealth. To them, no investment is possible without prior hardworking on any interested work or business to oneself and save money. Others who are low percentage respondents believe that one makes investment only if there is credit facility, donation or high source of income, and they think that private saving and private investment have no relationship. But, according to Schmidt-Hebbel *et al.*, (1996), Bisat *et al.*, (1997) and Sinha (1999), long-term economic growth requires capital-investment in infrastructure, education and technology, business expansion, and so forth, and the main source of funds for capital investment is household savings.

3.1 Analysis of open questions presented to respondents

In these open type questions, the researcher wanted the full feelings and understanding of the respondents on what has to be done and by whom to improve the current saving and investment condition of the Woreda area.

Analysis for the questions asked, saying ‘what do you think the society must practice to improve the current saving and investment condition of the Woreda?’

For this question presented to the respondents, most of them responded saying that the society needed to improve its consumption and expenditure pattern; make

saving the basis of their future good life; practice investment as they can by watching the investment opportunities available to them rather than only waiting for the government to come and invest. For this, they recognized that the need of improving the saving culture by the general society of the Woreda dwellers is vital to enhance the economic progress of Woreda and then contribute to the economic growth of the nation as a whole.

Analysis for the question asked as ‘what do you think the concerned government body at each level must perform in order to improve the current private saving and investment in the Woreda?’

The respondents respond that the local government body like the Woreda and kebele administrators, and their different sector heads represent the society of Woreda, and hence, each concerned government body, at each level, must always consider the shortfalls of the society they lead; create a smooth working atmosphere for the people to work and get income; provide investment opportunities and information; do public investment which is the basis for private investment improvement; create awareness and motivate people to save and invest; bring and connect different saving and lending financial institutions and investors to the area.

Analysis for the questions asked as ‘what shall be done by the financial institutions for the private saving and investment on the Woreda to grow up?’

For the private saving and investment in Woreda to grow, the respondents replied that microfinance institutions like banks and ocscsco have to increase their accessibility to every corner of the Woreda region, create awareness aggressively on saving and investment benefits as well as the products and services available by them, encourage them through different mechanisms; provide loans to help them in their business; increase their service by using up-to-date technologies to speed up customer service and minimize transaction cost; improve loan/credit process and saving deposit interest rate.

Hence, from the above three questions presented to respondents and their analysis, it was determined that it is the responsibility of the concerned government body, the financial institutions working in Woreda, and the general society to improve the current saving and investment condition in the Woreda.

3.2 Analysis of the semi-structured interview conducted with the Anasora Woreda administrator

In this semi-structured interview, the researcher wanted to understand and diagnose the actual potential of the Woreda area on saving and investment, and at the

same time to stimulate them on the issue by each of their concerned sub-sectors to enhance saving and investment by the sequentially presented questions to him by the researcher personally and directly accordingly.

Analysis on the questions asked as ‘What are the main revenue sources of the Woreda?’ For this question presented from the researcher to the administrator of the Woreda, he replied as the main revenue sources of the Woreda are primarily from the sale of agricultural products of crop production and cattle breeding. The main crop products produced with in the Woreda area in order are maize, wheat, barley, bean and the others in small scales. The cattle breeding practiced there by the farmers individually are livestock as cows, goat and sheep. As the area is of high altitude and rainfall, and the area is characterized as ‘Dega’ region, horses breeding are common and they are usually used for transportation and sale for income generation. According to the administrator, there are no such locally known cash crops as coffee and ‘chatt’. But there is hope and a start to produce the above-mentioned products in the area as the climate changing in to warmer condition (‘woina dega’) as the general global climatic change trend. There are also small-scale trade and hotel business activities within the Woreda towns but there is a need to be improved with these sectors to ensure the welfare of the society.

Analysis for the questions asked as ‘what are the investment opportunities available within the Woreda region?’ The Woreda is known for so many investment opportunities but not utilized and changed the welfare of its people. As from the administrator, the main investment opportunities in the area are the fertile land that can be used for production of different crops like coffee, chatt and other cash crops as mentioned above. The second investment opportunity in the localities are the large part of the Woreda area can be used for irrigation and produce different agricultural products for consumption and sale to generate revenue, which may be exported and bring foreign currency for the country. The other and the most important investment opportunity here is the availability of valuable and precious minerals like gold, tantalum, and others which are not yet changed in to investment but have the potential to change the current economic condition of the area.

Analysis for the question asked as ‘how do you explain the benefit of private saving to an individual, a family and country?’

Saving is mandatory for a person to teach and support his/her children with their basic needs; to live a better life tomorrow or during his/her retirement age, and ensure the welfare of his family in general. And by doing so, he/she contributes to the national economic growth in one or the other. According to the word from the administrator, if one has to work hard and get a certain amount of money from his/her

income generated, then beyond supporting his/her family the person may invest on something he/she can and interested to do with the help of government policies to create employment opportunities for the citizens. Beyond this, what is then produced from the business operation may be very useful to the society or country in either form that may be exported and generate hard currency for the nation to support different development projects within the country. It may also create many business opportunities for others through backward and forward integrations.

Analysis on the question presented ‘How much of the Woreda population are aware of the benefits of saving and how much of them are practicing saving as their life principle?’

The administrator recognized that financial institutions like the commercial bank of Ethiopia and the oromiya saving and credit share company working on the Woreda region continuously give awareness to the society at different places like in public meetings, market places, school, door to door at their home and other places to teach and motivate the people to save at their own nearby branches of the respective institutions. And according to him, the local government must support the efforts of the financial institutions (CBE and OCSSCO) which has not been done to the expected level, and he added that the Woreda government doesn’t have the exact figure for how aware and also how many are practicing saving and simply estimated that about 25% of the people do save from the income they get from any source, but this figure is too far from the general sub-Saharan countries presented by other researchers and MOFED (2012) report which it says the saving culture in rural Ethiopia was less than 6.42%.

Regarding the impact of both saving and investment, he responded that if both private savings and private investment amount are very low, it greatly affects the economic growth of the Woreda by which it is left behind in many of the growth measures. Hence, he pointed out that people must work hard, save their income and invest in their localities rather than simply waiting for the government or others to come and invest.

Analysis to the question asked as ‘what means do you suggest for the savings to grow in the Woreda?’

For the above questions presented to the administrator, he replied saying that for the Woreda to grow, the saving culture of the society must be changed, to do so there are tasks to be done in the short run as well as in the long run by different stake holders as a strategy tool. One thing is that, in the short run, as they already started it, financial institutions must strengthen their awareness creation to the society from corner to corner. They also have to provide credit facilities in order to motivate their

efforts and help their business; increase their accessibility and quality of their service in general. Undeniably equivalent, in the long run, the concept of saving and investment must be given to children at school. There must also be tasks to be done by the government to decrease the dependency ratio by creating job opportunities for the young through small and micro-enterprises; teach family planning and how to minimize their expenditure to the society at large.

4.0 Conclusion and Recommendation

4.1 Conclusion

From the research conducted using sample respondents and semi-structured interview conducted with the Anasora Woreda administrator, and its analysis made with the help of the theoretical and empirical literature review, the following conclusions can be drawn:

- The actual saving potential of the Anasora Woreda is low in contrast to the Woreda sectors offices report data because of the low-income sources of the people.
- Though their income is low, the saving culture of the Woreda society is very poor
- The challenges of the households and businesses of the study area to saving are income, seasonality of business, high dependency ratio, awareness and inaccessibility of the financial institutions
- The saving deposits of the commercial bank of Ethiopia, Erba muda branch, become low because of the low-income level and poor saving culture of the society, bank inaccessibility to most of the remote areas from the bank branch, low awareness created, and low investments made in the area. Besides these, the poor bank service has also contributed to the branch ineffectiveness. Above all, the area is not known with local cash crops and high commercial works.

As they have a casual relationships from the theoretical and empirical literature, the factors mentioned above have negatively affected saving from the Woreda revenue generated; low saving in turn affected investment, and investment also slow down the economic growth of the Woreda

- Salaried and slightly higher income earner people choose bank saving, whereas the small-scale traders choose either micro-finance or 'Ekub' to finance their business. On the other hand, those who have bank inaccessibility problems make their income to purchase livestock or put it in a 'Kazina' to get higher

profit and keep safety of cash liquidity problems during emergency case, respectively.

- The poor private saving condition of the Woreda society has a negative impact on the Woreda investment and economic progress, and then on the national economic development.

4.2 Recommendations

- It is the responsibility of the concerned Woreda administrators at each level, the financial institutions and the society at large to change the current saving situation of the Woreda people. Besides these, other institutions like church leaders, community leaders ('Aba Gadas'), NGOs and others can have their own impact on the overall solving of the general socio-economic problems identified by the research and ensure the welfare of the society, and then they will be able to contribute their share in national economic development.
- Financial institutions like the commercial bank of Ethiopia and the Oromiya credit & saving institution have to increase their accessibility so people at every corner of the Woreda can easily access them with little time and low transportation cost. In addition to these they have to improve their service quality like able to deliver fast service with low transaction cost by using up-to-date financial and information technologies. They must also provide society-oriented products like credit facility and saving schemes.

Public (government) investments like road, electric power, telecommunication, big factories based on the local resource (minerals) targeting social benefit in its business package and other establishments may encourage savings, private investment and economic progress of the area. This is because it minimizes unemployment, enhance income status of individuals, and it also creates many investment opportunities for the others as a result of public investment. Specially, the telecommunication infrastructure (broad band) directly related with the financial institution and the society saving service.

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A Paradigm Shift: The Novel Orientation in Management Education

Nidhi Nalwaya and Ajay Trivedy***

ABSTRACT

A Realignment of Global Markets, Advances in technology, emerging socio-political landscape, Environmental/Climate Changes and depletion of Natural resources form the bedrock of the pertinent issues that would be of utmost concern by the year 2025 for Education and especially, Higher education. A study by IBM Global Education (IBM Global Education, 2019) identifies five interrelated "signposts" for the future of education, namely: Technological Immersion; Personalized Learning Paths; Knowledge Skills for Service-Based Economies; Global Integration of Systems, Resources, And Cultures; and Aligning E&T with Economic Needs and Demands. Although fast-changing technology in the areas of Cloud Computing, Data Analytics, Mobile Communication and Social Media will bring huge benefits to the higher education sector who have the wherewithal to take advantage of extant technological innovations. MOOCs (Massive Open Online Courses) will be another cause of rapid expansion in higher education imparting a system leading to the disruption of the existing tertiary education market (post graduate management studies). Enterprise training and continuing education, along with distance education is foretold. The present paper is to identify and understand how learning strategies and trajectories are expected to change the current trends and the changes required in higher institutions to shape the vision of management education circa 2025.

Keywords: *Management & higher education; Technology advancement; Learning paths; Educational trends.*

1.0 Introduction

Business education is directly connected to business and society as the entities have a strong influence on higher education institutions' (thereafter – HEIs) perspectives in their curricula development; hence,.

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hence, the interconnection and mutual impacts of these bodies generate new directions for the development of business education. The aim of the research is to reveal the latest trends and factors in the global external environment influencing the development and management of education.

Governmental Fiscal imbalances, the Demographic shift to an increasing older population in certain parts of the world and Vice Versa in some other parts of the world and an ever-increasing economic complexity are the issues that would cause major disruptions in the world. The major focus will be on Technological and Scientific innovation, Energy security and Higher Education. Halverson (2010) argues that, with the advent and increasing impact of technologies, a new era of education – the "lifelong learning era" – is beginning, which differs substantially from the current "schooling era" and to a certain extent, reflects a return to the pre-industrial "apprenticeship era". In the "lifelong learning era", learning takes place across a number of different "venues" and involves mixed-age groups in different constellations.

Internet will support Sextuple play: Voice, Data, Wireless, Video, Gaming and sensory capabilities. On the other hand, we're cruising towards a rather dismal future in which productivity would keep rising but employment wouldn't, creating a new class of have-nots. Despite the for profit and not for profit tertiary education market being larger, at about \$450 billion per year, the niche corporate skills development market is by no means a minnow, standing at about \$140 billion annually as per reports in 2018. Technologies in general and Information and Communication Technologies (ICT) constitute one of the main drivers for changing job structures and requirements, and thus determine which skills people need to acquire.

A study commissioned by the MacArthur Foundation envisages that, in the future, learning in Education and Training (E&T) institutions will be based on the principles of self-learning, networked learning, connectivity and interactivity and collective credibility.

2.0 Review of Literature

In report 2018, The Future of Education and Skills 2030 OECD project published a position paper in which it proposed an initial framework designed to help countries address two key questions: What knowledge, skills, attitudes and values will today's students need to thrive and shape their world. The urgency of engaging businesses in curriculum development and delivery, so collaboration of business schools, business people, alumni networking, focus on developing or improving the

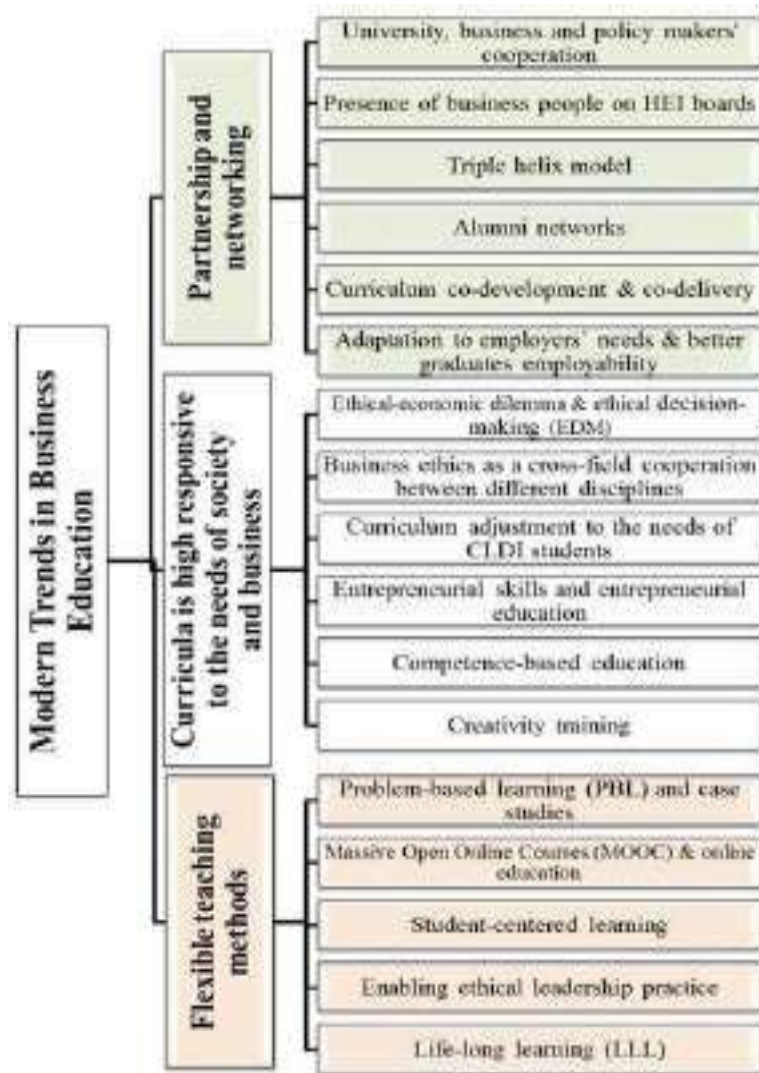
senior management relationships, as well as the presence of business people on HEI boards or participation of academics on boards of business organizations in addition to internships, practical and mentoring relationships help to build a strategic platform for cooperation and serves for external promotion of cooperation between universities, business, policy makers and the society.

An expert roundtable summarized by Fadel (2014), the consensus was that the active citizens of the future need to be versatile as we cannot predict how and what technologies will dominate our future learning and work environments. Research in educational use of digital environments delivers convincing evidence of the potentials of the emerging digital platforms to assist more effective learning. One of the main advantages of digital education identified is that digital teaching platforms offer students data-rich, online, synthetic environments, enabled with media, information, and communication tools. In order to enhance their learning capacity, students should be given opportunities for exploration and manipulation within the environment as well as opportunities for discourse between students Dickey (2017). Gül *et al.*, (2018) Enhance students' learning: (1) focusing on active learning; (2) focusing on the learner through the relevance of the content; (3) developing clear objectives to provide direction to student learning; (4) articulating knowledge and learning experiences; (5) ensuring the application of effective feedback mechanisms; (6) employing effective "scaffolding" in the organization of the learning experiences; and (7) encouraging collaborative learning.

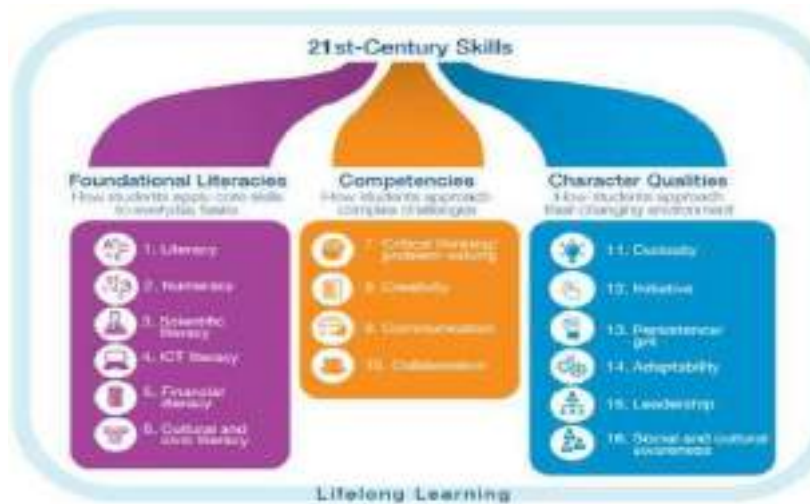
As per Hanover (2019), to address financial instability, institutions are pursuing various paths in an attempt to survive: merging institutions, acquiring smaller institutions, and providing support for non-traditional learners. Other institutions have chosen to explore new revenue streams such as alternative education models, which aim to attract and retain students who demand flexibility with online-only education, weekend workshops, and to help close the skills gap and improve the employment outcomes for graduates, many higher education institutions are providing more offerings to improve their graduates' marketability, like job-critical certifications, core academic offerings embedded with hard skills like computer programming and mathematics, and opportunities to develop soft skills, like problem solving and organization.

Researchers Plewa *et al.*, (2015) agree that collaboration between businesses, HEIs, and students improves the design of university programs and has a positive effect on human capital development as it assists in shaping entrepreneurial behaviour and students' perception of educational experience.

Some researchers Schlee & Harich (2016) also mention that modern business schools integrate into their curricula, subjects that are not related to business administration directly but indirectly, for example, ethics. The importance of developing not only academic or practical knowledge, but also skills such as the ability for creative problem solving, are crucial for business students as for potential enablers of innovations.



Source: Nikitina, T., Lapina, I. (2017). In: *Proceedings of the 21st World Multi- Conference on Systemics, Cybernetics and Informatics (WMSCI 2017), Vol.2, United States of America, Orlando, 8-11 July, 2017.*



Source: Trilling and Fadel (2009)

2.1 Objectives

The objectives of this paper are as follows:

- To identify & understand how learning strategies and trajectories are expected to change the current trends, thus creating a descriptive vision of the future.
- To identify the changes required in management and training institutions to improve education dynamics.

3.0 Research Methodology

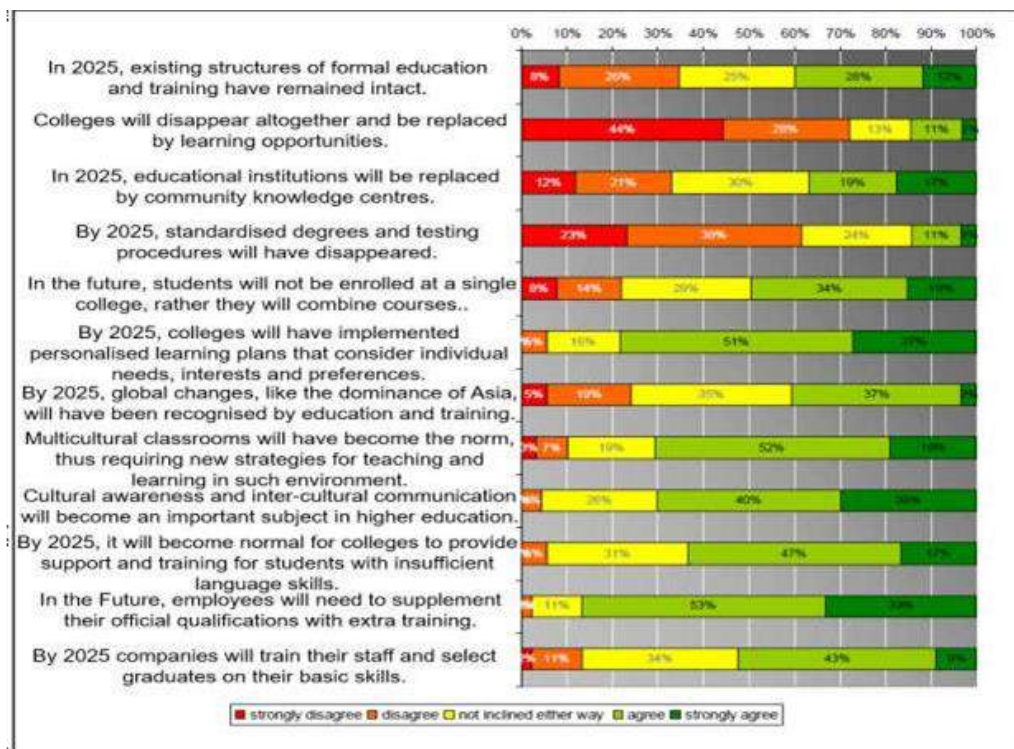
Fig 1: The Methodology Applied in the Present Study in Tabular Form

Research Design	Descriptive Design
Method of Sampling	Convenience Sampling Method
Sample Size	126 respondents: 150 questionnaires were circulated out of which 126 Respondents Submitted their responses.
Sample Unit	Academics, Researchers, Practitioners, Educational Policymakers and Advisors of South Gujarat & Rajasthan. Most of them had expertise in education and training, pedagogy, technology, foresight and/or innovation.
5.Data Collection method: a) Primary Data b) Secondary Data	a)-Questionnaire – Online Mode (Structured Questionnaire includes a number of statements to be rated on a 1 to 5 Likert scale, ranging from “strongly disagree” to “strongly agree.”) b)- Handbooks on Education & Training Program, reports on higher education, Websites, Journals and publications.
6. Data Analysis Tools & Techniques	Frequency and Valid percentage

3.0 Data Analysis and Interpretation

Future Trends: Towards more personalized learning in multicultural environments and towards stronger integration and use of external learning opportunities.

Figure 1: Personalized Learning Paths



4.1 Interpretation

The respondents who participated in the online survey think that the existing, physical and formal structures of college education will remain more or less intact. Only 14% believe that, by 2025, colleges will have disappeared altogether to be replaced by learning opportunities. 72% oppose this statement, and almost half even strongly disagree. Further, only few (14%) think that standardized degrees and testing procedures will disappear; the large majority of 62% consider this unlikely.

49% assert that in the future, students will not enroll as a single college student,

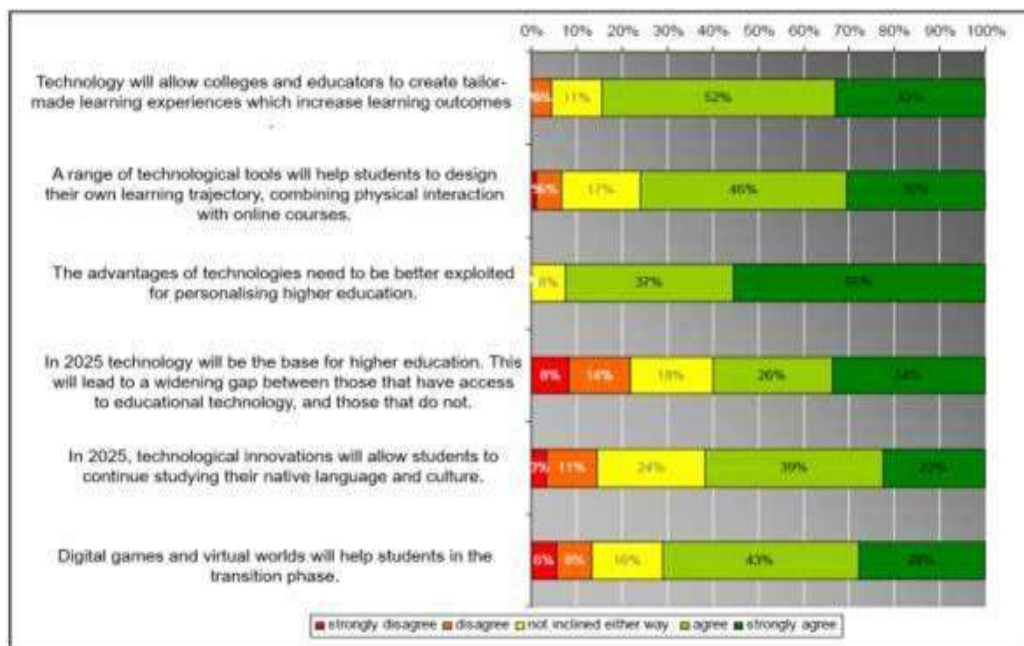
but combine courses and resources from different educational institutions to join (22% are doubtful). 37% believed that educational institutions would be replaced by community knowledge centers, while almost as many (33%) rejected this assumption.

Multicultural classroom will become more flexible in implementing teaching & learning process also in their internal processes and pedagogical strategies.

Furthermore, cultural awareness and inter-cultural communication will become an important subject in college education, as emphasized by 70% of respondents (with only 4% disagreeing), and students will substantially improve their efforts for language skills.

The vast majority of experts (87%) believe that it will become normal for university graduates to supplement their official qualifications in order to qualify for a job. More than half the respondents expect that employers will develop their own selection and training strategies in response to the skills mismatch (52%, with 13% disagreeing).

Figure 2: Tailor-Made Learning Experiences Fostering Quality and Equity is the Main Role of ICT as depicted in



85% of the respondents believe that technology can make possible the implementation of personalized learning strategies to create tailor-made learning

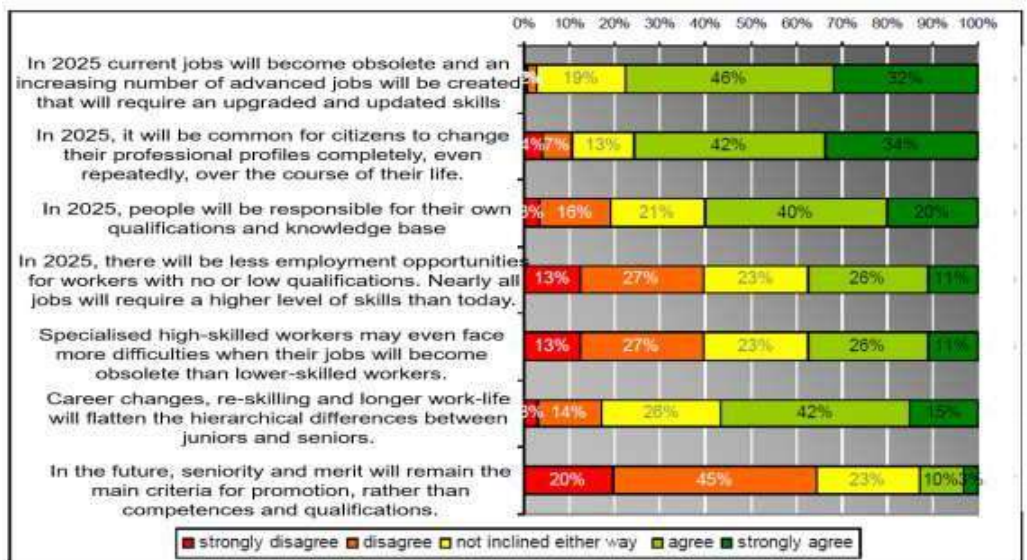
experiences, which increase learning outcomes. 76% envisage that by 2025, a range of technological tools will be available that help students to design their own learning trajectory, combining face-to-face tuition with online university courses and online learning communities.

However, there is unanimous agreement that, in the future, the advantages of technologies should be better exploited for personalizing school education.

It is impossible to separate out knowledge from skills and it is important to recognize their interdependence for social integration through technology. The majority of respondents agreed that by 2025, technological innovations will allow students to study their native language and culture in virtual classrooms and that digital games and virtual worlds will be used to train language, cultural and communication strategies.

However, the data reveals that there is a need to proceed diligently and prudently into a new educational environment where technology is used to support learners & the upgradation of technology may also exacerbate existing inequalities by widening the gap between those that have access to educational technology, and those that do not.

Figure 3: Trends in Professional Careers



Jobs prevalent in the current scenario will become obsolete and start to get replaced by advanced jobs that will require new upgraded skills. A huge quantity (nearly 75%) of respondents agree to this fact.

A high number of them (76%) believe that by 2025, it will be common to entirely change their professional profiles over the course of their lives.

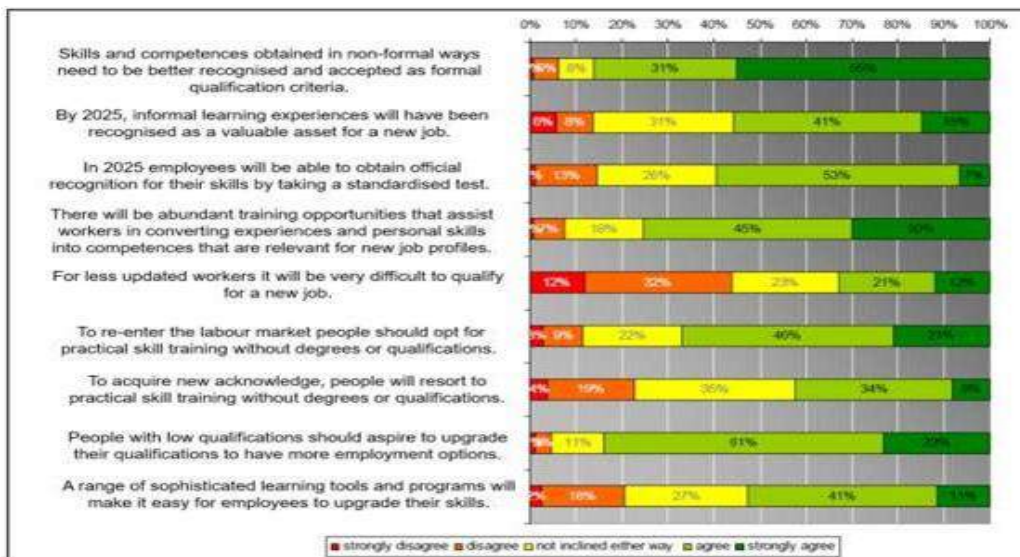
Almost 60% of the respondents admit that they themselves will be responsible for enhancement of their qualifications and knowledge base. By 2025, there will be less employment opportunities for workers with no or low qualifications. Nearly all jobs will require a higher level of skills than today. 60% of the respondents shared this opinion.

Also, 60% of the people who responded agreed to the fact that specialized high-skilled workers may face even more difficulties as compared to lower-skilled workers resulting in their jobs becoming obsolete.

A cluster of respondents amounting to over 80% agreed to the fact that Career changes, re-skilling and longer work-life will flatten the hierarchical differences between juniors and seniors.

However, when asked about whether or not in the future, seniority and merit will remain the main criteria for promotion, rather than competences and qualifications, a lot of respondents (nearly 65%) disagreed.

Figure 4: Trends in Education and Training Strategies



People with low qualifications should aspire to upgrade their qualifications in order to achieve more employment options. Skills and competences acquired in non-formal ways need to be given better recognition and accepted as formal qualification criteria.

A large number of respondents over 80% agreed to this fact. Even 56% of them opined that by 2025, informal learning experiences will have been recognized as a valuable asset for a new job.

60% assert that by the year 2025 employees will be able to obtain official recognition for their skills by taking a standardized test.

Majority amounting to 75% believed that there will be abundant training opportunities that assist workers in converting experiences and personal skills into competences that are relevant for new job profiles.

While 54% disagreed to the fact that for less updated workers it will be very difficult to qualify for a new job.

67% believed that for workers who are less updated with advanced technologies, it will be very difficult to qualify for a new job.

People were quite indifferent (35%) when it came to ascertain the fact whether to acquire new knowledge, people will resort to practical skill training without degrees or qualifications or not.

People with lower and outdated qualifications should strive for upgrading themselves if they want to get new and better employment options. Huge mass of over 84% respondents agreed to it.

A range of sophisticated learning tools and programs will make it easy for employees to upgrade their skills. People were quite indifferent with this statement as only 50% of them agreed to it.

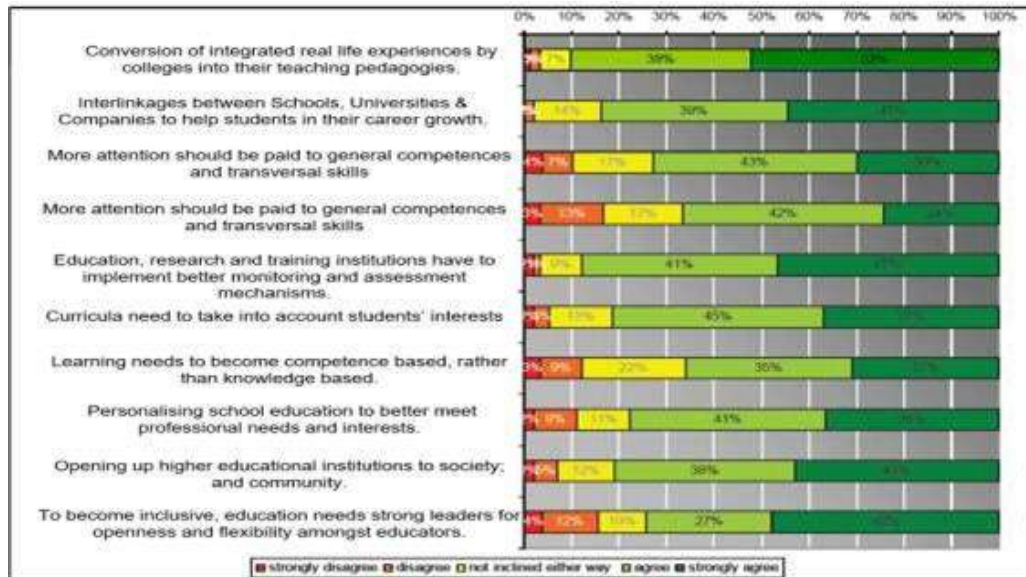
90% of respondents assert that management education should increase their efforts to open up to industry and integrate real life experiences into their teaching practices. 73% think that many different societal stakeholders need to be involved to achieve the necessary transformation in formal E&T.

84% argue that inter-linkages between Schools, universities & companies need to help students in their career choices.

As a general strategy for future competences development, two thirds assert that general competences and transversal skills deserve more attention to enable students to become lifelong learners.

At the same time, the respondents insist that formal education, research and training must support professional needs and preferences. 82% of respondents said that curricula needs to take into account students' interests; 88% think that education and training institutions have to implement better monitoring and assessment mechanisms which detect individual learning needs; and 66% maintain that learning must become competence based, rather than knowledge based.

Figure 5: Required Changes in Higher Education



The respondents are optimistic regarding respond to societal changes, they underline that greater openness and flexibility amongst educators is needed to embrace multiculturalism and accommodate the needs of students.

4.2 General trends and findings

By 2020, in Higher Education Universities, at least 50% of university age learners will receive higher education. Each university will have some special programmes suited to the genius of that locality. University Education Departments will undertake more programmes relating to extension and research in higher education. University teachers often keep only the prescribed content in focus and are unmindful of the learner’s abilities to assimilate.

The results of the online stakeholders (respondents) confirm that major changes to learning and training are expected over the course of the next 10 to 20 years. On the one hand, these changes relate to the increasing the ability of higher education and training institutions to integrate personalized learning strategies and to respond more flexibly and dynamically to changing societal & industry needs. On the other hand, increased market dynamics will force all citizens to assume responsibility for their qualifications and pro-actively develop their careers.

The existing physical and formal education structures and training are expected to remain intact. However, colleges and universities will change significantly with

respect to pedagogical strategies, by implementing personalized learning and by integrating practical learning opportunities. Greater institutional openness and collaboration with employers and tertiary/vocational education and training are strategies that can contribute to increasing the relevance and quality of higher education and training. Technological tools will be available that help students to design their own learning trajectory, combining face-to-face tuition with online university courses and online learning communities.

Moreover, students & job seekers need to continuously update their skills and to actively and flexibly develop their professional profiles over the course of their lifetimes. In reaction to increased market dynamics, there will be a variety of opportunities for re-skilling and changing professional profile.

It is clear that ICT is a key enabler in realizing the expected changes to education and training. Research on technologies for learning plays an important role in providing evidence, applications and tools that effectively support flexible, targeted and tailor-made learning opportunities.

Researchers, educators and policy-makers should collaborate on realizing the benefits of technology-enhanced learning for society.

4.3 Conclusion & probable suggestions & solutions

To achieve the goals of personalized, collaborative and informalized learning, holistic changes must be made (including- curricula, pedagogies, assessment, teacher training, leadership) and mechanisms need to be put in place to make flexible and targeted lifelong learning a reality and support the recognition of informally acquired skills.

1. Provide counselling, open forums, and campus meetings to allow students to voice their concerns.
2. Utilize informational emails to provide up-to-date information on any changes to Indian/Foreign education policy.
3. Provide networking opportunities with alumni who can help connect management students with prospective employers.
4. Merging together to help improve financial stability by becoming part of a larger organization. Shown to be a way to save at-risk colleges from a shutdown and preserve academic or recreational programs that might have otherwise been cut.
5. Study follower sentiment & Track alumni social Engagement to identify the issues driving positive interest that are likely to garner student support &

personalize outgoing communication with frequency and interest area selections.

6. To update their alumni databases and identify opportunities for personalized messaging, many institutions are leveraging their alumni surveys to better understand potential donors.
7. Business affiliations for matching gift programs
8. Previous involvement in university fundraising initiatives
9. Incorporate Virtual Experiences on Websites, Institutions that implement AI/AR technology in their recruiting provide interactive content to prospective student that engages them longer and inspires excitement.
10. Institutions are also innovating with ways to connect prospective students directly with current students, such as live online chats with student ambassadors.

4.4 Academic solutions

Enrollment management: Target the optimal pool of students and maximize application and acceptance rates.

Academic development: Strengthen your academic portfolio through market analysis of existing and potential new programs.

Student experience: Spot at-risk students early, identify the drivers of attrition and pinpoint factors driving poor post-graduate outcomes.

4.5 Administrative solutions

Finance: Increase revenue and dynamically evaluate costs to run an efficient, financially viable, and growth-oriented institution.

Advancement: Highlight your institution impact with donors and alumni.

Marketing: Reach the right audience at the right me with the right message.
Grants solutions

Grant seeking capacity: Develop your organizational capacity to pursue grant funding.

Funding research: Spot grant opportunities aligned to your funding needs.

Pre-proposal support: Facilitate the development of competitive project concepts prior to submission.

Proposal review & support: Provide review and revision to ensure robust proposal submissions.

Proposal development: Engage full proposal development support.

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Effect of Compensation on Job Performance: The Case of Hawassa Industrial Park, Hawassa, Ethiopia

*Desalew Demissie**

ABSTRACT

The purpose of this study is to assess the compensation policy and examine its effect on employees' job performance in Hawassa industrial park, Ethiopia. To achieve this goal, the researcher adopted an explanatory research design and a quantitative research approach. The primary data was collected through a questionnaire. The data were analyzed using multiple linear regression. The result indicated that the compensation system in Hawassa industrial park is not adequate, and most employees are dissatisfied with the payment system. The regression analysis results also revealed that salary, bonus, incentive, allowance, and fringe benefit could affect employees' performance. Therefore, it is recommended that the industry park improve its current compensation package to suit internal and external conditions. Similarly, top management bodies at the industry park should update the employees' compensation package to maintain and attract a competent workforce.

Keywords: *Benefits; Compensation; Employee's attitude; Industry park; Performance.*

1.0 Introduction

It is important for organizations to meet and introduce new motivational tools of employees since the change has been observed in the workplace realities in today's organizations Roberts (2003). Beer *et al.*, (1984) strongly asserts in their research of changing work environments, the reality that organizations today have totally changed. Therefore, it is more important for the top management to carry out new methodologies of developing strong and durable relationships between the organization and employees for meeting the organizational goals and fulfilling the continually changing needs of both parties.

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Employee compensations refer to all forms of pay or reward going to employees and arising from their employment. Developing an effective and appropriate compensation system is an important part of the human resource process. An effective and appropriate compensation system can help, attract and retain competent and talented individuals who can help the organization accomplish its mission and goals Dessler (2002). According to Ivencevich (1998), compensation has been recognized as a major motivator of employees. As the issue of motivation is concerned, employee compensation systems have been found to be the most commonly adopted technique among the organizations. Employee compensation offers a diversity of rewards that may be monetary or non-monetary Calista (2009).

According to Robins (2003), organization compensation can include many different types of rewards and benefits such as salaries, incentive payments and other benefits and services. If an employee believes he/she is underpaid, that employee will likely reduce expended effort by working more slowly and being absent Byars & Rue (1997). A well designed and functional compensation system is an efficient way to increase employee work performance Clalista (2009). Compensation leads to better performance and keeps workers focused on their jobs.

It is important to know that employee compensation includes all forms of pay and reward received by employees for the performance of their job Stewart *et al.*, (2001). Failure to design an appropriate compensation system will have an unfavorable impact on the productivity and job satisfaction of employees and the overall effectiveness of the organization Neo *et al.*, (2006).

2.0 Review of Related Literature

2.1 Compensation

Compensation, like any other human resource management concept, has different meanings. Of course, this is due to the diverse conceptualizations often ascribed to the concept. Understanding the meaning and usage of the concept also indicates its components. Armstrong and brown (2001), in defining compensation, conceptualized it as an adequate and equitable remuneration for employees due to their contributions to achieving organizational objectives. The definition by Naukrihub (2007) that compensation is an integral part of human resource management which helps in motivating the employees and improving organizational effectiveness, was quite similar. These arguments suggest that there is a link between compensation and job performance. Others argue that compensation must be holistic packages beneficial

to both employees and employers. Monday (2008) also argues that compensation is a total of all rewards given to employees in return for their services rendered.

Compensation implies having organizational policies and procedures in which the employees who perform better are paid more than the average performing employees Hewitt (2009), Pearce (2010). This suggests that compensation is often concerned with human resource management strategies that compensate employees fairly, equitably and consistently in accordance with their value to the organization Armstrong (1999). Parallel to the above body of knowledge, researchers have also understood employee performance quite differently. McConnell (2003) argues that job performance is an employee's task and behavioral accomplishments could be pragmatic and yet measurable. Therefore, it is expected that a job should not only consist of task and behavior requirements but definitely be quantifiable. Campbell *et al.* (1993) opine that job performance should not be the consequence of behaviors but rather the behaviors themselves. Behavior-centered approaches to performance evaluation seems to be the new norm in performance management as much empirical evidence suggests that job performance consists of the measurable and observable behaviors that employees actually engage in. Rewarding employee job performance requires organizations to take into consideration employees' perception of fair and equitable compensation.

2.2 Salary

Base- salary is the annual and monthly salary rates of an employee which are established under current personnel policy for each position. Besides, base-salary is to represent the employee's straight-time pay for a standard 40-hour work week Anonymous (2007). Base-salary is a form of periodic payment from an employer to an employee, which may be specified in an employment contract. It is contrasted with piece wages, where each job, hour or other unit is paid separately, rather than on a periodic basis. In other view of running a business, base-salary can also be viewed as the cost of acquiring human resources for running operations, and is then termed personnel expense or salary expense. Besides, Henderson (2006) and Young (1999) stated that base-salary is a base pay that is given to employees on a weekly, monthly or yearly basis based on the job structure.

2.3 Bonus

Bonus refers to a cash payment provided to employees based on their performance. For example, monetary incentives for achieving job targets Bloom & Milkovich (1998), Gupta & Shaw (1998), Lowery *et al.*, (2002). Steven and Loring

(1996) stated that bonus is a single, one-off, lump-sum payment which can be in the form of cash or other creative monetary scheme, such as stock options. Bonus is defined as all payments to employees which are not paid regularly at each pay period, for example, bonuses paid at fixed periods. Besides, bonus payments are generally linked to individual or collective performance. Bonus can be distributed randomly as the company can afford to pay a bonus, or the amount of the bonus pay can be specified by contract (Anonymous, no date).

2.4 Incentives

Incentive pay, on the other hand, relates compensation more to performance criteria, such as return on investment, volume of goods produced or sold, earning or share. While essentially one type of merit pay exists, there are a wide variety of incentive pay plans. Well & Holden (2005) have broadly categorized incentive pay systems into three: individual bonus schemes; collective bonus schemes; and collective bonus schemes based on profit generated. A bonus is a gratuitous payment by the employer that is not directly earned by the employee. The employee has no entitlement to the payment as a result of a contract of employment and cannot be assured of receiving it in return for a specific performance. The point is that the level of the benefit cannot be directly linked to the performance of the individual rather to the performance of the business Hall (2008). Bonus schemes are based on the balance score card which is a strategic planning and management system that is used extensively in business and industry, government, and non-profit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals Gomez (2007).

2.5 Fringe Benefits

Fringe benefits are provided by the employer, even if the actual provider is a third party. This is because the employer is the party that pays for the benefit that is provided to the employee. Similarly, the employee is usually the recipient of the benefit, even if its use is extended to other family members. The objectives of fringe benefit are to create and improve sound industrial relations, to boost up employee morale, to motivate the employees by identifying and satisfying their unsatisfied needs, to provide a qualitative work environment and work life, to provide security to the employees against social risk like old age benefit and maternity benefits, to protect the health of the employees and to provide safety to the employees against accidents to

promote employees' welfare by providing welfare measures like recreation facilities, to create sense of belongingness among employees, and to meet the requirements of various legislations relating to fringe benefits.

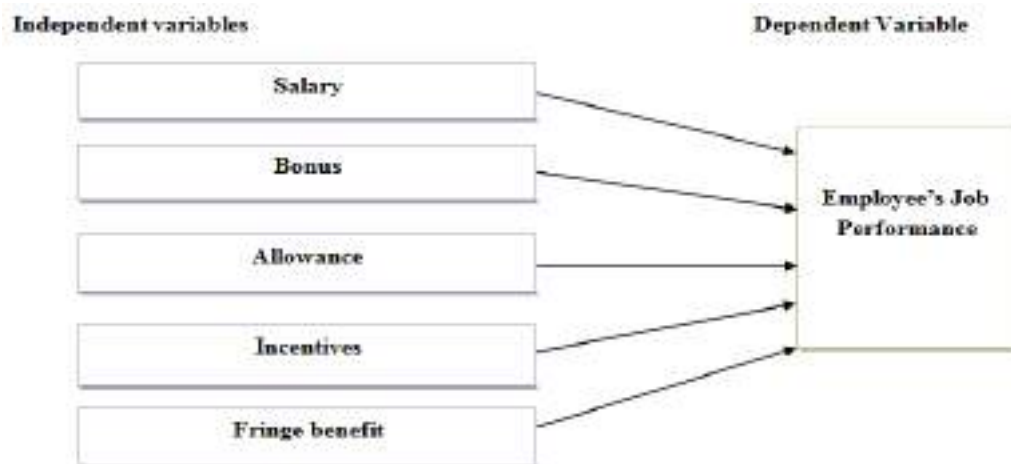
2.6 Job performance

According to Motowidlo (2003), job performance is defined as the total expected value to the organization of the discrete behavioural episodes that an individual carries out over a specified time period. Those researchers emphasize two key issues in this definition. First, performance is an aggregated property of multiple, discrete behaviours that occur over time. Second, the property of behaviour to which performance refers is its expected value to the organization.

2.7 Conceptual Framework

This conceptual framework integrates and shows the impact of the compensation on the employees' performance. Therefore, compensation is the independent variable, and employees' performance is the dependent variable, and this has been represented graphically as follows in Figure 2.1.

Figure 2.1: Conceptual Framework of the Study



Source: Adapted from Osibanjo et al. (2014)

Research Hypothesis

Ho1: Salary has a significant effect on employees' job performance.

Ho2: Bonus has a significant effect on employees' job performance.

- Ho3:** Incentive compensation has a significant effect on employees' job performance.
Ho4: Allowance compensation has a significant effect on employees' job performance.
Ho5: Fringe benefit compensation has a significant effect on employees' job performance.

3.0 Research Methodology

3.1 Research design and approach

The study employed explanatory research design. Since explanatory research design is the best if the research question is to identify factors associated or to understand the effect of the independent variable on the dependent variable Oleary (2004). Moreover, quantitative research approached is used.

3.2 Data sources

The study employed both primary sources of data. The primary data was collected from the Hawassa industrial park employees.

3.3 Target population

The target population of the study was all the employees working in Hawassa Industrial Park (HIP) whose industries had two and above years of experience. Accordingly, twelve companies were qualified for this study and all the employees working in these industries were the target population of the study.

3.4 Sample size and sampling techniques

In order to determine the sample size, the number of employees who were working in twelve companies was considered. Therefore, the total numbers of employees in selected companies were 17,623 (IPDC, 2019). Accordingly, sample size was determined by using the formula developed by Yamane (1967) as follows:

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{17623}{1 + 17623(0.07)^2}$$

$$n \approx 202$$

Where: *n* = Sample size
N = Total Population
e = Sampling Error

After determining the sample size, the researcher used proportional stratified random sampling technique to get the ultimate respondents (See Table 3.1).

Table 3.1: Total Population Size and Distribution of Sample in Sampling Units

No.	Name of Companies	Ni	ni = n .Ni/N
1	PVH Arvind	1804	21
2	Isabella manufacturing	406	5
3	TAL garments plc	1026	12
4	Everest textile S.c	2024	23
5	JP textile	632	7
6	Silver spark Apparel (RAYMOND)	2469	28
7	EPIC Apparel	1355	15
8	Hyderamani garments plc	1617	19
9	Hela Indochin Apparel plc	1959	22
10	Indochin Apparel plc	3570	41
11	Century garments plc	635	7
12	Quadrant Apparel	126	2
Total N= 17623			n=202

Source: IPDC, 2019

3.5 Data collection tools

The data was collected using a questionnaire. In order to realize the objective of the study, the researcher used a closed ended questionnaire as the best instrument for the collection of primary data.

3.6 Method of data analysis

The data that was collected through questionnaire was edited, coded and entered into the computer using Statistical Package for Social Science (SPSS) Software Version 26. The analysis techniques were performed using multiple linear regressions.

4.0 Results and Discussion

The results of the regression analysis were presented after checking the assumption such as normality, Multicollinearity, linearity, and Heteroskedasticity.

Table 4.1: Results of Regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.834	0.696	0.688	0.18666

As per Table 4.1 the R-value of the model was 0.834 which shows the highest degree of relationship between independent and dependent variables. The R² value of

the regression model was 0.696, indicating that 69.6% of variance in job performance was accounted by salary, bonus, allowance, incentives and fringe benefit.

Table 4.2: Results of ANOVA Output

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	15.311	5	3.062	87.890	.000
	Residual	6.690	192	.035		
	Total	22.001	197			

According to the ANOVA table (Table 4.2) indicated that the multiple regression model itself is statistically significant or not significant. Because R^2 only measures explained variation in dependent from the predictors), the f-ratio is used to test whether or not R^2 could have occurred by chance alone. In short, the f-ratio found in the ANOVA table measures the probability of chance departure from a straight line. On results of the output found in the ANOVA table, the model is statistically significant when salary, bonus, allowance, incentives and fringe benefit were included (F=87.890, $p < 0.001$). Therefore, the overall equation was found to be statistically significant.

Table 4.3: Results of Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	
	B	SE	Beta			
1	(Constant)	.732	.138		5.295	.000
	Salary	.162	.030	.242	5.422	.000
	Bonus	.193	.026	.314	7.383	.000
	Incentive	.161	.036	.203	4.465	.000
	Allowance	.229	.033	.319	6.851	.000
	Fringe benefit	.190	.032	.261	5.957	.000

Note: B= Regression coefficient (Estimate), SE = Standard Error, Dependent variable = Job performance

Based on Table 4.3, using “B” (unstandardized) coefficients, the regression equation of the research model becomes in the form indicated as follows.

$$JP (Y) = \beta_0 + \beta_1 (S) + \beta_2 (B) + \beta_3 (I) + \beta_4 (A) + \beta_5 (FB) + \varepsilon$$

$$JP = 0.732 + 0.162*S + 0.193*B + 0.161*I + 0.229*A + 0.19*FB + 0.138$$

The regression equation is interpreted in the following few paragraphs. Five

variables were included in the model and all the predictors were found to have a significant effect on the employee job performance. These are salary, bonus, incentives, allowance and fringe benefit.

According to the results of Table 4.3, salary has positive and significant effect on the employee job performance. Therefore, the result of the regression coefficient ($B = 0.162$, $p = 0.001$) indicates that a one unit increase in the salary brings a 0.162 unit increase in job performance. In supporting this finding, Kinicki and Kreitner (2016) found that financial money has the dominancy to magnetize, retain, and motivate individuals towards higher performance. Similarly, Stanley (2012) argued that people do not work for free; they need to be compensated for the work that they do in terms of salary to be motivated and improve their job performance.

Bonus was found to be a determinant factor for employ job performance. The result of beta coefficient for bonus was found to be positive and statistically significant at the 0.1% level of significance ($B = 0.193$, $p = 0.001$). Furthermore, the values of the beta coefficient indicated that for every unit increase in bonus, a 0.193 unit increase in employ job performance is predicted. Therefore, the result implied that bonus positively affect employ job performance. In corresponding to this finding, Ndichu (2017) found that employees who receive a large bonus will likely want to get it the following year too and keep their performance. On the other hand, employees who receive a miserly bonus and it reflects how the company assessed their performance, might consider improving the following year.

As the result of Table 4.3 presents allowance has a positive and significant effect on the employee job performance. Additionally, the result of the beta coefficient indicates that a one unit increase in the allowance, leads a 0.161 unit increase in the employee job performance ($B = 0.161$, $p = 0.001$). In connection to this finding, Stephen et al. (2018) argued that allowance improves not only the performance of employees but also their satisfaction level because, it is a means of protecting the real wages of workers during inflation.

Incentive has positive and significant effect on employee job performance. The results of the beta coefficient and p-value ($B = 0.229$, $p = 0.001$) indicates that WODA employees job performance increases by 0.229 as a result of a one unit increase in the WODA incentive. This is similar with the finding of Chepkemoi (2018) who found that incentives have a significant impact on employee performance.

As the result of Table 4.3 shows fringe benefit has positive and significant effect on the employ job performance. The results of the beta coefficient ($B = 0.19$, $p = 0.001$) indicates that a one unit increase in the fringe benefit, leads a 0.19 unit increase in employ job performance. In connection to this finding, Saleem (2011) stated that

fringe benefits are often desirable pieces of compensation packages and so increase job satisfaction and their job performance.

5.0 Conclusion and Recommendations

Employees in the Hawassa industrial park were not satisfied with their salary and it is found that salary had an effect on the performance of employees in the study area. Therefore, the associations should try to check their strategies and take appropriate corrective steps for their employees' wage and salary administration.

Bonus is another factor that influences the performance of employees. As the organization satisfies employees with a bonus, pay justifies over time payment, rewards them for their better performance of work and meet their needs, it increases their job performance. Therefore, employers in Hawassa industrial park should consider employees who are giving high contribution and have an excellent evaluation for the organization productiveness by giving bonus.

Incentive had an effect on the performance of employees in the Hawassa industrial park. The availability of the chance for promotion on job, access to reward for individuals contribution, give recognition, availability of commission, fair incentive system and employees satisfied with the incentive system of the company have a statistically significant effect on employee job performance. Thus, the Hawassa industrial park should give promotions, rewards, and recognition based on the performance of employees.

Allowance had an effect on the performance of employees. Therefore, the Hawassa industrial park should give allowance apart from their basic salary such as vacation pay, clothing/uniform payment etc.

Fringe benefit was found to be a significant factor that influences the performance of employees. Satisfying employees with the other allowances given to them apart from base salary, giving extra payment for clothing/uniform, accommodation and accommodation vacation pay also increases employee job performance. Equally, availability of lunch, transport, and medical benefit policy comparable to those offered by other such organizations also has a statistically significant effect on employee job performance. Therefore, employers in the Hawassa industrial park should encourage their employees by giving lunch, transport, and medical benefits.

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Effects of Corporate Governance Practices on Financial Performance of Manufacturing Share Companies in Adama

*Andinet Asmelash**

ABSTRACT

This study focused on the effects of corporate governance on manufacturing share companies' financial performance in Adama, Ethiopia over a period of thirteen years from 2007-2019. There was no sufficient literature on the effects of corporate governance on the financial performance of manufacturing share companies in Ethiopia and therefore, dearth of documented literature. Investigating the effects of corporate governance practices on the financial performance of manufacturing share companies in Adama was the general objective of this study. The type of research design used in the study was explanatory research design in trying to establish the causal effect relationship between corporate governance attributes and manufacturing share company's performance variable (ROE) and the control variable (age of manufacturing share companies) was added. The dependent variable that was used to measure the financial performance of manufacturing share companies is return on equity. All 5 manufacturing share companies were taken in to consideration by the researcher for the study and the total population of manufacturing share companies was obtained from ERCA Adama branch. Board related information was obtained through structured questionnaires filled by the CEOs or board secretaries as they were in a better position to comment on corporate governance issues. Financial statements were collected from each manufacturing share company. The study utilized panel data analysis methodology in drawing conclusions about the study. From the result of this study, it was found that the mean value of board size was 8 members, the mean value of boards' business management experience in terms of persons was 4, the average value for audit committee size was 4 and the average proportion of ownership concentration was 71.21%. Empirical findings stated that the board size; boards' business management experience and ownership concentration has a positive significant effect on the financial performance of manufacturing share companies. Finally, this study advised that shareholders should give priority for board size, boards' business management experience and ownership concentration.

Keywords: *Corporate governance; Financial performance; ROE; ROA; NIM; Adama; Ethiopia.*

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1.0 Introduction

Corporate governance refers to the code of conduct through which companies are directed and controlled Gupta (2014). The idea of corporate governance has been in existence for a long period of time but it became official in the United Kingdom in the early 1990's.

The issue of corporate governance has become the most crucial topic in advanced countries after some events such as frauds and company collapses. Currently, it has also attracted a great attention in emerging countries Yilmaza (2018).

The concept of corporate governance has become a burning issue starting from the time when famous organizations of the world such as Enron Corporation & MCI Inc. in U.S, HIH insurance in Australia, Parmalat in Italy and other companies have faced financial scandals. As a result of financial difficulty, corporate governance is getting more attention. Good corporate governance practice is a device of how companies are directed and organized & become a basic topic and obtain wide attention both in practice and in academic research Wondem (2019).

The first objective of any organization is to effectively, efficiently and ethically manage the company for profitable long-term growth and long-lasting existence. Thus, the development of good corporate governance is essential in order to protect corporate stakeholders, and maintain factors for control and prevention of collapse and permanent economic depression Olayiwola (2018).

Good corporate governance ensures that business organizations are fair, transparent, efficient and accountable for their doing. Good corporate governance is associated with productivity of organizations and also the achievement of corporate objectives. Conversely, weak corporate governance leads to waste, mismanagement and corruption WANJIRU (2013). The reasons for weak corporate governance are found across this globe which are mostly tied with fraudulent actions and other major malpractices. Governance is all about inspiring the corporate sector to be accountable, fair, transparent and responsible as indicated by the World Bank president Mbalwa (2014).

Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stake holders Nguyen (2017). It specifies the distribution of rights and responsibilities among company's stake holders (including share owners, directors and managers) and articulates the rules and procedures for making decisions on corporate affairs Palaniappan (2017).

Segregation of duties and rights among those parties can strongly overcome the problem of conflicts of interest between the majority and minority shareholders, managers and shareholders and stakeholders and shareholders. To ensure at all times, the interest of key stakeholders adequately without undermining the long term goals of the organization, it is pertinent that organizations evolve and adopt internal structures that will midwife a balanced relationship among the key stake holders NWIKO (2018).

Manufacturing companies' competitiveness enhancement is a crucial motorist for structural transformation and wide based growth. Manufacturing sectors open the door for potential investors to increase their capital rather than the agricultural and service sectors. Pursuant of these potential benefits of manufacturing, the government of Ethiopia has given the manufacturing sector due emphasis in its different development plans, such as the PASDEP I & II and GTP I and II Getahun, (2018).

Since the 2000s, Ethiopia has emerged as one of the fastest growing economies in Africa. Nevertheless, Ethiopia's manufacturing sector is still far from being an engine of growth and structural change Oqubay (2018). The Ethiopian manufacturing sector has had two distinct features: first, a low level of industrialization in terms of the sector's share in GDP, export earnings, industrial intensity and competitiveness. Second, the industrial structure is dominated by small firms and resource-based industries (in particular the food industry) and (is) concentrated around the capital city' Oqubay (2015).

Wondem (2019) talks about the corporate governance practices of Ethiopian share companies, as they are not going in the way it should be, however, a changing land scape of corporate business environment in the country where the activities of corporate business operations today are like those of industrialized nations but not in governance practice. Firm financial performance is affected by corporate governance attributes of firms, because their achievement or letdown depends on the extent to which they are managed efficiently. Performance measures are the backbone of economic units because no decision can be made without them. Financial performance measure is one of the vital performance measures for economic units.

According to the Ethiopian Commercial Code of 1960, there are six forms of business organizations, namely: Ordinary Partnership, Joint Venture, General Partnership, Limited Partnership, Share Company and Private Limited Company. Among those types, the study was focused on share company types, only specifically manufacturing share companies. This study will add value to the existing literature by giving new evidence about the effect of corporate governance practices on the manufacturing share companies' financial performance measured by accounting-based measures only due to the absence of an organized stock market in Ethiopia.

1.1 Statement of the problem

Corporate governance is gradually becoming vital in organizations as an approach of improving organizational performance. Weak corporate governance has led to low performance of organizations throughout this world and also suppressing sound and workable economic decisions. It is highly assumed that the leading agent for the endurance and the progress of the company is mainly its 'Corporate Governance' policies. Companies can follow the stake holder model or shareholder model. Regardless of this fact, the practice of corporate governance is increasingly becoming important. The increase in financial and managerial scams has led the investors to increasingly look for transparency and professional management in handling the company's business Gupta (2014).

For real, there is no system of governance which can totally protect companies from collapses. It is difficult to say that all companies around this visible world are governed by a common set of guidelines because of a complex business environment. However, a review of their corporate governance attributes/ arms / from time to time is the home work for them to reduce the anxiety of being financially underperformance. Companies' corporate governance practices and their financial performance relationships are exposed to many factors that limit these relationships. The legal system and financial structure of a country may have significant impacts on this relationship Yilmaza (2018).

As cited by Yilmaza (2018), Ueng (2016) investigated the relationship between the quality of corporate governance policy and the firm financial performance by using a sample of 3068 firms from a corporate library data base. Thus, the relationship between corporate governance and financial performance has caught the wide attention of researchers in the last epoch. Numerous researches have been conducted in the past to investigate this linkage, but there has been lack of conclusive evidence Aggarwal (2013).

Over the period, due to increase in various corporate frauds, corporate governance mechanisms of companies across the globe brought about the need for good corporate governance practices. Economic crisis and corporate failures have initiated the discussion on corporate governance in both industry and academia Kuntluru (2019).

There is no single model of corporate governance. Governance practices vary not only across countries but also across firms and industry sectors. Each country has through time, developed a wide variety of mechanisms to overcome the agency problems arising from the separation of ownership and control Andersson (1999).

According to Kang *et al.* (2007) there was a call for country-specific corporate governance-performance study to be conducted. In spite of this, there is still a dearth of corporate governance literature in most developing economies Darko *et al.*, (2016). The weakness of corporate governance is possibly the very decisive factor blamed for the corporate failure consequences. Wondem (2019) suggested that the literature on Africa is still very thin or infant although scholars in the advanced economies have established a large body of literature on the subject.

The corporate governance framework in Ethiopia comprises the Commercial Code of the Empire of Ethiopia (1960) and the Ethiopian Code of Corporate Governance (2011, 'the Code'). The Code was developed by the Private Sector Development hub under the Addis Ababa Chamber of Commerce and sectorial associations. For listed companies, the application of the Code is based on the 'apply or explain' approach. The Commercial Code of the Empire of Ethiopia is currently being revised by the Ministry of Justice Law (2017).

Corporate governance practices of Ethiopian share companies are not as expected in line with the varying land scape of the corporate business environment. This is due to a lack of awareness as to corporate governance, lack of up-to-date regulatory framework, absence of policy framework and unstructured governance practices because of national principles and codes Wondem (2019).

Financial performance is used to identify companies' overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Most previous studies have been undertaken in Ethiopia on impacts of corporate governance practices on financial performance of financial institutions like Wolde (2018), Ferede (2012), Harun (2017), Zegeye (2015) and Mitiku (2015)

However, these studies relate to more widely Banking industries, Insurance industries and microfinance institutions and cannot be representing manufacturing industries due to the differences in corporate governance structures and cultures. As per the knowledge of the researcher, there is no published research made on the effects of corporate governance practices on manufacturing share companies' financial performance. The research gap is in case of underdeveloped countries' literature. In addition to the area gap, there is no specific code of conduct for the corporate governance of manufacturing share companies in Ethiopia.

Manufacturing is the production of goods for use or sale using machines, tools and labor. It refers to a series of human activities, from hand craft to high tech, but is most commonly applied to industrial production, in which raw materials are transformed in to new products, finished goods on a large scale. The manufacturing

sector comprises establishments engaged in the mechanical, physical, or chemical transformation of materials, substances or components in to new products CSA (2015).

Failure of manufacturing companies would affect the entire economy of a country. Therefore, in order to ensure the improvement of the company's performance, economic efficiency and growth, and to increase investors' confidence; strong, effective and good corporate governance has to be developed and implemented. Keeping this in view and the potential contribution of the manufacturing industry to the economy of underdeveloped countries, this study was conducted to measure and analyze the effect of corporate governance practices on a firm's financial performance using manufacturing companies in Adama, Ethiopia. This study fills the gap and serves as a point of reference for further research in corporate governance. It also provides empirical evidence on the effect of corporate governance mechanisms on the financial performance of manufacturing share companies.

1.2 Objective of the study

1.2.1 General objective

The overall objective of this study was examining the effect of corporate governance practices on firms' financial performance by taking evidence from manufacturing share companies in Adama, Ethiopia.

1.2.2 Specific objectives

By taking in to account the overall objective of examining the effect of corporate governance practices on firms' financial performance, this study was developing several specific objectives. Specifically, the study was taking a look at the following objectives.

- To evaluate the effect of board size on the financial performance of manufacturing share companies in Adama.
- To investigate the effect of the Board of directors' business management experience on the financial performance of manufacturing share companies in Adama.
- To examine the effect of audit committee size on the financial performance of manufacturing share companies in Adama.
- To explore the effect of ownership concentrations on the financial performance of manufacturing share companies in Adama.

1.3 Research hypotheses

In this study, the following testable hypotheses were developed.

H₁: Size of the board has a positive and statistically significant effect on the financial performance of manufacturing share companies in Adama.

H₂: Board of directors' business management experience has a positive and statistically significant effect on the financial performance of manufacturing share companies in Adama.

H₃: Size of the audit committee has a negative and statistically significant effect on the financial performance of manufacturing share companies in Adama.

H₄: Ownership concentration has a positive and statistically significant effect on the financial performance of manufacturing share companies in Adama.

1.5 Scope of the study

The study was confined only to those manufacturing share companies operating in Adama city administration. Even if financial performance can be determined by different factors from different perspectives, the study aims to examine the effect of corporate governance on the financial performance of manufacturing share companies in Adama, Ethiopia. Methodologically, the study used explanatory and descriptive research design with mixed research approach. Besides, the secondary data that was used for the study includes thirteen years' (i.e., 2007-2019) audited financial statement. Dependent variable is delimited to only accounting based measure due to the absence of an organized stock market in Ethiopia.

1.6 Significance of the study

This study will add some value to the decision of policy makers by giving clues on how the problem can be tackled. It may also provide basic knowledge concerning corporate governance attributes for the beneficiary. On the other hand, it may help external users of companies' information like suppliers, governmental agencies, creditors, potential investors and customers by identifying both negative and positive effects of corporate governance variables on the financial performance. Additionally, it may be used as a cornerstone for other researchers who intend to conduct a study in the same area. Eventually, it is highly supposed that the outcome of this study will play its lion share for manufacturing companies by identifying relevant corporate governance practices and their effect on their financial performance.

2.0 Review of Related Literature

2.1 Characteristics of good corporate governance

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Shalom Business and Technology College, Hawassa, Ethiopia*

Different literatures of finance and law have documented that good corporate governance has played its part for firms, markets and countries' success. Good corporate governance is an important pillar of the market economy and it enhances investor confidence Tura (2012). Good corporate governance needs a qualified board of directors as a directing body for the executive management of a company. It also has an association with a profit of organizations and achievements of corporate objectives.

According to Khan (2011), good corporate governance is fundamental to the economies with an extensive business background and also facilitates the success for entrepreneurship. Good Corporate Governance results in higher companies' profit and more efficiently using firms' resource. Investors are always taking a look at good corporate governance and demanding stronger property rights protection. Good corporate governance also helps ensure that corporations take into account the interests of a wide range of constituencies, as well as of the communities within which they operate. Further, it ensures that their boards are accountable to the shareholders. This, in turn, helps assure that corporations operate for the benefit of the society as a whole Mishra & Rani (2011).

As noted by Wondem (2019), good corporate governance practice to gauge how companies are directed and controlled became a key topic and received wide attention both in practice and in academic research. Development of good corporate governance is vital to protect corporate stakeholders. It is also used to maintain factors for the purpose of controlling and preventing company's collapses and perpetual economic depression. In line of this, "The 2009 global economic recession called for an increased need to promote good corporate governance across the globe" Dzingai & Fakoya (2017).

Heenetigala (2011) discussed that good corporate governance practices are regarded as important in reducing risk for investors, attracting investment capital and improving the performance of companies. The exercise of good corporate governance has therefore, become an essential condition for any corporation to be managed effectively in the globalize market. Failure of giant companies of this world increases the need for good corporate governance.

Good corporate governance enables companies to access financing from a much larger pool of investors and if countries are to reap the full benefits of the global capital market, and if they are to attract long-term "patient" capital, corporate governance arrangements must be credible and well understood across borders. Even if corporations do not rely primarily on foreign sources of capital, adherence to good

corporate governance practices will help improve the confidence of domestic investors, may reduce the cost of capital, and ultimately induce more stable sources of financing (OECD, 1999).

A good corporate governance framework will decrease the agency problem and invite many investors to invest in to the company. A good system of corporate governance is of great importance for an efficient control of the companies, for the improvement of their performances, as well as for a better approach and accessibility of the external financing. The level of alignment of the interests of the interested parties within the company shows how good the corporate governance is. The basic need of good corporate governance is to maintain: good board practices, control environment, board commitment, transparency in disclosure and well-defined shareholders. For efficiency and profitability of the industry, the reform process should be geared towards developing and implementing policies that will ensure that the principles of good corporate governance are instilled and maintained. A good corporate governance mechanism advances the health of the corporate sector, thus enhancing national competitiveness. It was also believed that good corporate governance helped to generate investor good will and confidence Mbalwa *et al.*, (2014).

2.2 History of corporate governance in Ethiopia

The definition of corporate governance is not given under the Ethiopian company law. This law doesn't have fully sufficient legislative provisions on governance issues related to the separation of supervision and management responsibilities, and on the composition, independence, and remuneration of the board of directors in share companies. The commercial code of Ethiopia includes provisions essential to the share companies' governance.

Nevertheless, issues in corporate governance related to a board of directors, such as keeping alone the roles of independent directors from CEOs, directors' remuneration and composition and the independence of the board are inadequate due to a lack of clear explanation in the code Hussein (2012).

Most share companies in Ethiopia were formed among founders in the past. Recently, there are a number of companies that are being formed by sale of shares to the broader public. The appearance of publicly held share companies in Ethiopia provides evidence to a number of issues concerning corporate governance. Most principles and codes of corporate governance across the globe such as OECD, SEBI, BIS, etc. clearly provide for the supervisory and controlling role of the board. Unlike these principles of corporate governance, provisions of the commercial code and other

related laws of Ethiopia are far from being adequate Hussein (2012).

As per Article 304 of the commercial code, a share company is a company whose capital is fixed in advance and divided in to shares and whose liabilities are met only by the assets of the company. The non-financial share companies including the manufacturing sector operating in Ethiopia, have to comply with the provisions of the commercial code. In general, corporate governance practices of Ethiopian share companies are not as expected, in line with the varying land scape of the corporate business environment Wondem (2019).

2.3 Manufacturing share companies in Ethiopia

A share company is a kind of business organization where, in most examples, a large group of people invest their cash or in-kind contributions in a company in return for units of ownership representing a proportion of the company's capital in the form of shares. The share company, including manufacturing sector, is one of the forms of business organization documented under the commercial code of Empire of Ethiopia Batra & Wondem (2016)

Manufacturing industry in Ethiopia started in 1920's with a simple processing technology that produces agriculture-based products; but still the sector is an infant even by African standards, dominantly focusing on semi-processing AACCSA & DAB DRT (2014).

The Ethiopian manufacturing sector contributes to export, employment and national output. Manufacturing is critical and is probably the most important device of long-term growth and development. Manufacturing is the wealth creating sector of an economy, and closely connected with engineering and industrial design and provides important material support for national infrastructure. The sector accounts for 70% of the industrial sector AACCSA & DAB DRT (2014).

There are two basic questions regarding the performance of the manufacturing sector. Firstly, why the private sector tends to invest more in the service sector shying away from the manufacturing sector? Second, why are the much-anticipated public investment projects in the manufacturing sector delayed unbearably with increasing costs? The answers to these questions do not lead to easy answers. However, the explanation could be found in the overall institutional capacity, technological readiness, infrastructure, and weak agriculture- industry linkages UNDP (2011).

Development of the manufacturing sector within an industry is essential to build national technological capacity, industrial capability and create wide based job opportunity and improve income. Although, the manufacturing sector is a way out for

sustainable economic development, its growth is not without challenges. These challenges may include Unskilled labor forces with limited experiences, Limited infrastructure, External pressure from the global market, shallow industrial research and development activities, Underdeveloped market information system, problems related to trade logistics and limited promotion made on the resources and other opportunities Eshetie (2018).

2.4 Basic theories of corporate governance

Corporate governance is the relationship between shareholders, board of directors and the top management in determining the direction and performance of the corporation. There are a number of theoretical outlooks which are used in explaining the effect of corporate governance mechanisms on firm's financial performance. The normative empirical research paradigm suggests that "good research" must be grounded in and built on extant theory Batra & Wondem (2016). So that, in this research work, different theories of corporate governance were taken in to consideration namely the agency theory, stewardship theory, resource dependency theory and signaling theory have been used in developing the best practices of corporate governance.

2.3.1 Agency theory

Berle and Means (1932) suggests that while the ownership of the capital is distributed, control is concentrated in the hands of managers. Jensen and Meckling (1976) formalized the issue by identifying the "agency costs" of such separation of ownership and control. While owners would choose to maximize their profits, executives may invest the free cash flow at a return below the cost of capital, or use it inefficiently, in order to raise their control and power. Agency theory emphasizes the distribution of profits, rather than the generation of profits.

Agency theory suggests that managers (the agents), particularly those of large, publicly owned firms may have different objectives from those of the shareholders (the principals). The shareholders can assure themselves that the managers will make shareholder wealth-maximizing decisions only if the management receives appropriate incentives and only if the management is monitored Horne & Wicz (2008).

According to Dzimiri *et al* (2017) in agency theory, owners are principals and managers are agents. In a company, investors are the shareholders and managers are the agents. The managers are expected to take care of the interest of owners disregarding their own benefit. This may not always happen on account of differences in interest. The agents tend to focus on their interest as against the shareholders'

interest of profit maximization. This could be a problem as this may lead to conflict between the principal and agent. Efforts should, therefore, be made to address such conflicts, by changing the rules under which the directors in a company are expected to operate. The shareholders can make use of corporate governance to come up with rules for operations and incentives that motivate the directors to take shareholders' interest on board and reduce agency cost.

Agency theory suggests that as firms increase in size, owners lose effective control and look for professional managers who have better managing ability than principals. Some times this transfer of the firm's control from owners to agent leads to moral hazards which results in a situation where, to maximize their own wealth, agents may face the dilemma of acting against the interests of their principals. When the interests and utility functions of the self-serving agents coincide with those of the principals, the agency problem will not exist. However, where there is divergence, agency costs are incurred by the principals because the agents will want to maximize their own utility at the expense of the principals Abiahu *et al.*, (2017).

As noted by Wanjiru, (2013) Agency theory is defined as the relationship between the principals, such as shareholders and agents such as the company executives and managers. In this theory, shareholders who are the owners or principals of the company, hire the agents to do work. The agency theory is based on the principal agent relationships. In modern corporations, the shareholders (principals) are widely dispersed and they are not normally involved in the day-to-day operations and management of their companies, rather, they hire managers (agent) to manage the corporation on behalf of them Habbash (2010). The agents are appointed to manage the day-to-day operations of the corporation. The separation of ownership and controlling rights results in conflicts of interest between the agent and principal. To solve this problem or to align the conflicting interests of managers and owners, the company incurs controlling costs including incentives given for managers.

2.3.2 Resource dependency theory

The resource dependence model advocates that the board of directors could be used as a mechanism to form relations with the external environment in order to support the management in the attainment of organizational goals Wang (2009). Both agency and resource dependency theories advocate that boards should have a diversity of competent members who are able to effectively monitor top managers and provide organizations with the resources they need.

By performing these roles, board members are able to positively influence the

performance of organizations. The resource-dependence view of corporate governance stems from the fundamental logic that various elements of corporate governance can act as critical resources for a firm Udayasankar (2008). Resource-dependence allows for stakeholder interests to be captured, by treating various stakeholder groups as sources of legitimacy, and other resources, including capital.

Resource Dependency Theory asserts that boards enable firms to minimize dependence or gain resources. Thus, although RDT is less commonly used to study boards than agency theory, empirical evidence to date suggests that it is a more successful lens for understanding boards. The resource dependence theory (RDT) started to stand out from the literature as a refreshing viewpoint to study boards of directors. RDT views the concept of board of directors as a supplier of resources to the CEO, high executives and the organization as a whole Pfeffer & Salancik (1978).

According to Werner (2008), a particular resource may only constitute a very small part of the total resource needs or costs, but it is critical if the missing part of that resource endangers the ability of the organization to function. However, RDT does not argue that the environment and dependency on critical resources directly influence organizational behavior behind the backs of the actors involved.

2.3.3 Stewardship theory

Stewardship theory is about the employment relationship between two parties, the principal (owner) and the steward (manager) Davis *et al.*, (1997), Donaldson & Davis (1991). This theory suggests that stewards will behave in a pro-social manner, behavior which is aimed at the interest of the principal and thus the organization. However, this theory argues that performance variation may rise from structural situations which the executives located or effective actions by the executives.

According to Donaldson & Davis (1991), structures are facilitative of superior performance by providing precise, consistent role of expectations, authorized and empowered senior management. This creates situations which help chief executive officers to achieve the higher performance objectives. This will occur if the CEO is also the chair of the board. Stewardship theory is focused on facilitative empowering structure, and holds that aggregation of the official position period, the role of CEO increases effectiveness, and maximizing the highest return of shareholders, then separation of chair and chief executive officers.

According to the stewardship theory, the stewards or CEO and Management are quenched and motivated when an organization attains its objectives. Stewardship theory recommends CEO duality and the chairman to reduce agency costs and have a better role of safe guarding the firm's assets Donaldson & Davis (1991). It pointed out

that there will be an improvement on stewardship of shareholders' interest, and returns will be improved by combining CEO and chairman. Maximum firm performance, such as sales growth or profitability, is the desired outcome of a stewardship perspective Davis *et al.*, (1997), Tosi *et al.*, (2003).

2.4 Financial performance

The term 'performance' comes from the old French word 'parfournir', which means 'to do', 'to carry out' or 'to render.' It refers to the act of performing; execution, accomplishment, fulfillment, etc. With a wider meaning, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished (Shodhgan.inflibnet.ac.).

According to Frich Kohlar, performance is general term applied to a part or to all the conducts of activities of an organization over a period of time, often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Therefore, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate a firm's success, conditions and compliance. Financial performance refers to the act of performing a financial activity. In a wider sense, financial performance talks about the degree to which financial objectives are being or have been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure a firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Shodhgan.inflibnet.ac.).

On the other hand, there are three approaches of performance measurement; namely, accounting based approach, goal- centered approach and behavioral approach. In the first approach, performance is assessed with accounting information such as profitability, liquidity and solvency ratios derived from financial statements. In the second approach, it is typically the performance of an organization, or an organizational subunit such as a work group or a project that is assessed relative to goals. The third and last approach is rooted in accounting literature and depends on financial measurements. As per the accounting point of view, financial statements are prepared by a business enterprise at the end of every financial year. Financial Statements are end products of financial accounting. They are capsulated periodical reports of financial and operating data accumulated by a firm in its books of accounts- the General Ledger.

2.5 Determinant factors

2.5.1 Firms' financial performance and the size of the board

Board size is the number of directors making up the corporate board. Several studies concentrating on the influence of board size on corporate performance have mixed results. The mechanism in which companies can control their internal governance structure is their board of directors Wondem & Batra (2019). There are two schools of thoughts regarding size of board of directors. One recommends a larger board size whilst the other recommends a smaller board size. The first school of thought argues that larger board size improves corporate performance whose members are from different professional backgrounds that bring more ideas that add value to the company.

The larger board of directors, the more experienced and knowledgeable people will be available which will lead to more careful learning, decision making process and ultimately better firm performance Yameen *et al.* (2019). Some studies empirically find that board sizes have a positive significant impact on company performance such as Wondem & Batra (2019), Yameen *et al.*, (2019), Belete (2015). In contrast, other studies found that there is a negative relationship between board size and corporate performance Enilolobo, *et al.*, (2019), Olayiwola, (2018), Vu & Nguyen (2017). Still unsettled result is revealed. In this research, the ability of the board of directors to control and promote value-creating activities is more likely to increase with the increase of directors on the board. With more directors, the collective experience and expertise of the board will increase, and therefore, the financial performance of companies would be higher. Therefore, the study hypothesized that: the board of directors' size is positively and significantly related with the manufacturing share companies' financial performance.

2.5.2 Firms' financial performance and boards' Business management experience

According to Mitiku (2015), the board's business management experience has a positive effect on corporate financial performance. Nurhussen (2018) in the study of the relationship between corporate governance and company performance with a sample of 8 firms from year 2013 to 2017 and adopting multiple panel linear regression model, discovered a positive and significant association between board's business management experience and the firms' performance. Melkamu, (2016) on the other hand found that board's business management experience on the firms' financial performance was inconclusive.

However, there was another result which reveals an insignificant effect of the board's business management experience on the firm's performance. Ferede (2012)

stated that the nature of banking industry is different from other industries and banks are generally more opaque than non-financial firms. As per this study, there is no significant relationship between the boards' business management experience and the firms' financial performance due to the complex and special nature of banks' corporate governance. Standing up on the above discussions, this study hypothesized that: boards' business management experience has a positive and significant effect on manufacturing share companies' financial performance.

2.5.3 Firms' financial performance and audit committee size

The Audit Committee is a body of auditors that have been elected by the board of directors and approved by the shareholders and they report back to the board. Audit committee is one of the key factors that play a vital role in improving the firms' performance, it offers a sufficient protection against fraud and makes sure that these protections are in accordance with the best practices Yamen *et al*, (2019). Empirical findings on the impact of audit committee size on corporate performance revealed mixed results. Danoshana & Ravivathani (2013) found that increasing the Audit Committee Size will result in high financial performance, because detailed discussion on the financial statement of the companies will lead to get more ideas regarding the reports and it will guide to increase the firm's performance.

Inversely, Yamen *et al*, (2019) investigated the impact of corporate governance on firms' performance of 39 hotels listed on Bombay Stock Exchange (BSE) for the period from 2013/2014 to 2015/2016 in India and found that there is a negative association between the audit committee size and the firms' performance. The result of this study was consistent with Ferede (2012), Arora (2012) who argue that there is a negative relationship between the audit committee size and the firms' performance. Based on the discussion above, the study anticipates a negative and significant effect of the audit committee size on the manufacturing share companies' financial performance.

2.5.4 Firms' financial performance and ownership concentration

Concentrated ownership indicates a few owners hold a large portion of the shares. It is measured as the ratio of share held by the top ten shareholders to the total shares outstanding. The ownership concentration may also call block holdings and has some relationship with corporate performance and a company with higher concentrated ownership structure or block holdings has the tendency to have a better corporate performance Wu (2009). A high concentration of shares tends to create more pressure on managers to behave in ways that are value-maximizing. As per the proponents of

agency theory like Jensen & Meckling (1976), the existence of key shareholders is beneficial, because they tend to actively involve themselves in more tighter monitoring activities, which would result in a more efficient governance structure leading to an important value for shareholders. In other words, if the shareholding is diffused (each person's shareholding is so small), it becomes too costly for such a shareholder to monitor the company's activities closely and opens the door for managers to do this for their own setup.

Kibrysfaw (2013) has investigated that ownership concentration had a positive and significant effect on corporate performance. In the opposite of the above result, Fauzi (2012) concluded that a higher proportion of block holders have a significant negative impact on firms' performance, in which the higher the block holder ownership level, the more potential for an agency problem to arise as a consequence of more power to interfere with any decision made by the board. Another result of this mechanism also concludes that there is no significant impact of top ten shareholders' concentration and corporate performance because in case just one or two members hold a very large portion of shares, they have the tendency to act according to their own objectives rather than minority shareholders. In companies with high ownership concentration, the most persistent agency conflict in the firm is between controlling shareholders and minority shareholders, the so-called horizontal agency problem Thi (2011). By taking a look at the arguments above, this study hypothesized that: Ownership concentration has a positive and significant effect on the manufacturing share companies' financial performance.

2.6 Empirical studies

The effect of corporate governance attributes on the firm's financial performance in different sectors has been assessed by academicians and researchers at different periods. There were mixed results concluded by previous studies pertaining to the relationship between corporate governance mechanisms and firms' financial performance. Reviews of those studies are presented below.

Dzingai & Fakoya (2017) carried out research on the effect of corporate governance structures on the selected listed mining firms in Johannesburg stock exchange for period 2010-2015 and the results indicated that a weak negative correlation existed between return on equity and board size, a weak but positive relationship between ROE and board independence, a weak but positive correlation between ROE and sales growth and negative and weak relationship between ROE and firm size.

Vu & Nguyen (2017) studied the data of 137 listed Singaporean companies for

the period 2013 to 2016 to measure the impact of corporate governance on financial performance and found an inverse relation between the board size and firm performance. The study, however did not find any significant relationship between board independence, CEO duality and company financial performance.

Palaniappan (2017) empirically searched for determinants of corporate financial performance relating to board characteristics of corporate governance in the Indian manufacturing industry. The study draws on data from 275 firms listed in NSE from 2011 to 2015, using a multiple regression model. The findings of the study support an inverse association between the extent of board characteristics and the firm's performance indicators. As per this study, there is a statistically significant negative relationship between board size and Tobin's Q, ROA and ROE.

Yilmaza (2018) examined the relationship of corporate governance and firm performance for a sample of 61 Oman companies traded at Muscat Securities market for the period of 2013- 2016. The study found that there are significant results between financial ratios and corporate governance characteristics, but the overall relationship is weak in case of Oman.

Olayiwola (2018) in the study of the relationship between corporate governance and company performance listed at Nigerian Stock Exchange, with a sample of 10 companies, from the year 2010 to 2016. This study adopted panel data regression to analyze the data and employed exploratory research design. Corporate governance proxies include board size, board composition and audit committee size while performance was measured with net profit margin. Findings disclosed that board size had a significant negative correlation with NPM, board composition had a significant positive correlation with NPM, audit committee size had an insignificant correlation with NPM and jointly, they had a significant joint effect on NPM.

Wondem (2019) evaluated the impact of corporate governance practices on the corporate financial performance in Ethiopia. Panel regression approach was employed to investigate the effect of corporate governance practices on share companies' performance. The study used data of 24 share companies for five years. Findings of the study revealed that corporate governance practices of Ethiopian share companies are not going in the way which should be in line with the changing land scape of the corporate business environment.

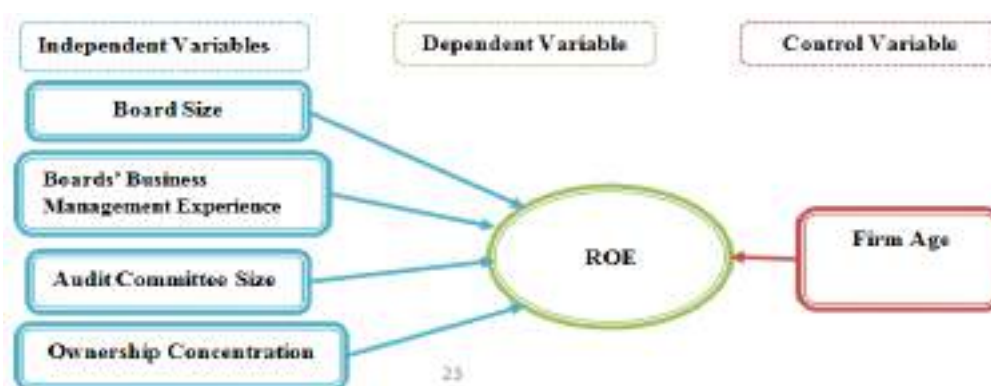
Kibrysfaw (2013) provided evidence on the effect of different corporate governance mechanisms on the performance of nine commercial banks of Ethiopia, covering the period of 2005-2012. He has employed panel data regression analysis to test whether the selected corporate governance variables have an impact on firms'

financial performance. The results of the study showed that the board ownership and liquidity ratio have a negative but insignificant effect on the firm performance; similarly, board size has a negative but insignificant impact on ROA. In case of composition, there is a negative and significant effect of proportion of the non-executive board on bank performance. The regression result also shows a positive and significant effect of concentrated ownership on the performance of banks. Finally, the result shows a positive and significant impact of deposit to total asset ratio on the performance of banks by using market mechanism. The study also recommends that further research could be possible to come up with a better insight and several extensions to this study are possible.

2.7 Conceptual framework of the study

Based on the theoretical and empirical literature review, the following diagrammatic framework was developed.

Figure 3: Conceptual Framework



3.0 Research Methodology

In this section, the researcher discussed the methods that were used in the research. It includes: description of the study area, research design, data sources, population and sampling, methods of data collection, description of variables and measurements, model specification and methods of data analysis.

3.1 Research design and approach

3.1.1 Research design

A research design is the arrangement of conditions for the collection and analysis of data in a manner that aims to combine relevance to the research purpose with the economy in procedure. In fact, the research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. As such, the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data Kothari (2014).

The main objective of this study was examining the effect of corporate governance on the financial performance of manufacturing share companies. In order to attain this purpose, explanatory and descriptive research design was used. Explanatory researches establish or create causal relationships between variables whereas descriptive survey researches describe the state of affairs as it is.

3.1.2 Research approach

According to Creswell (2003), in terms of investigative study, there are three common approaches to business and social research namely, quantitative, qualitative and mixed methods approach. Quantitative research is a means for testing objective theories by examining the relationship among variables Creswell (2009). On the other hand, qualitative research approach is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem with the intent of developing a theory or pattern inductively Creswell (2009). Finally, mixed methods approach is an approach in which the researchers emphasize the research problem and use all approaches available to understand the problem Creswell (2003). In general, in light of the discussions above on qualitative, quantitative and mixed research methods, in this study, the quantitative method was predominantly used. However, to have a better insight and gain a richer understanding about the research problem, the quantitative method was supplemented by the qualitative method of inquiry. That is, to get the benefits of a mixed methods approach, as presented earlier, and to alleviate the bias in adopting only either quantitative or qualitative approach, this study was combining both quantitative and qualitative research approaches.

3.2 Source of data and data collection methods

There are two types of data sources namely: primary and secondary data sources. Primary data can be obtained through observation or through directly communicating with respondents or through personal interviews while secondary data can be extracted from magazines, reports, publications, etc. The researcher used both

secondary and primary data sources. The secondary data was collected from the audited financial statement of each manufacturing share company between the years 2007-2019, since this time period can provide the recent financial position of those manufacturing share companies and also it enhances the easiness of data collection. Board related information was collected through questionnaires.

3.3 Population of the study and sampling design

The general objective of this study was examining the effect of corporate governance on the financial performance of manufacturing share companies doing their business in Adama city administration. The target populations of the study are those manufacturing share companies which operate in Adama city administration. As per the data obtained from ERCA Adama branch, currently in 2020, there are 5 manufacturing share companies providing production activities for their users. For this study, the researcher used census survey. A complete enumeration of all the items in the 'population' is known as a census inquiry. It can be presumed that in such an inquiry, when all items are covered, no element of chance is left and the highest accuracy is obtained Kothari (2004).

3.4 Variables of the study and their measurement

Variables that were used in this study are classified into three categories. Namely: independent variables, dependent variable and control variable. Independent variable is that variable which is the predecessor to the dependent variables. Dependent variable is the effect variable that is expected to be influenced by cause (independent) variables. Independent variables that are not related to the purpose of the study, but may affect the dependent variable are known as extraneous variables (Kothari, 2004). Thus, the researchers need to lessen the impact of these variables. Accordingly, in this study, the control variable was selected based on previous empirical studies and fundamental corporate governance theories. The brief definition and their measurement were discussed below.

3.4.1 Corporate governance variables (Independent variables)

Board size: Board size is the number of board members for the manufacturing share companies during the period under study.

Boards' business management experience: The boards' business management experience is measured by the number of board of directors having the managerial experience in each study year.

Audit committee size: Measured by the total number of audit committee members in each manufacturing share company.

Ownership concentration: is the concentration of shares by few shareholders. This can be measured as the percentage of shares held by the top ten shareholders out of the total shares outstanding.

3.4.2 Firms' performance variable (Dependent variable)

According to Haniffa & Hudaib (2006), there is no single agreed upon proxy on which financial performance can be measured. They argued that there is no agreement in the literature on which measure is the best indicator of financial performance. Additionally, they state that every measure has its own strengths and weaknesses; thus, there is no specific measure to be the best proxy for financial performance. Financial performance of firms can be observed from two measurement basis. These are market based and accounting based measures. Accounting based measures consider the current company's financial performance while market-based measures deal with long term financial performance.

The two mostly known proxies of firms' financial performance under accounting-based measure are ROA & ROE. From the perspective of shareholders, ROE is considered to be the most crucial ratio to measure corporate performance because it focuses on the returns of the shareholders. Due to the absence of a secondary market in Ethiopia, the researcher has selected the accounting-based measure as proxies for corporate performance and ignores the market based measurement. Market based measures like Tobin's Q needs current market price of stock and other market-based information. Since there is no secondary market in Ethiopia, it is impossible to use Tobin's Q as well as other market-based measures. ROE tends to tell us how effectively an organization is taking advantage of its base of equity, or capital Hannagan (2008). The researcher has preferred ROE for the following reasons.

ROE has gained popularity for several reasons and has become the preferred measure at huge (giant) companies. One larger reason for the growing popularity of ROE is simply, that it is not asset-dependent. ROE can be applied to any line of business or any product. ROE, on the other hand, looks at how effectively any business is using shareholders' equity. Many observers prefer ROE, since equity represents the owners' interest in the business. ROE is also Warren Buffet's favorite measure of performance (www.experian.com). On the other hand, one of the most crucial profitability metrics is Return on Equity. ROE compares one firm against its peers. With ROE, it measures performance and generally the higher the better. For this reason, ROE is best used to compare companies in the same industry. This

performance ratio concentrates on past firms' performance to gauge the future expectations. The formula for Return on Equity is: Net profit/Average shareholder equity (Total owners' equity) for period = Return on Equity

3.4.3 Control variable

Firm age: It is the number of years the firm has been in existence or in operation since its origination as a firm. Performance can also be influenced by the age of the firms. Older firms are likely to achieve greater efficiency by reducing costs than younger firms. The variable of age is defined here as the natural logarithm of years the firm is on the market.

3.4.4 Lists of variables and measurement basis

Table 2: Lists of Variables and Measurement Basis

Description of Variables	Measurement basis	Representation
Firm Performance Variable		
Return on Equity (ROE)	Net profit/Total owner's equity	ROE
Independent Variables		
Board Size	Total number of board members during each period under study.	BS
Boards' Business management Experience	Measured by the total number of boards having business management experience in each study year.	BBME
Audit Committee size	Measured by the total number of Audit committee members in each period under study.	ACZ
Ownership Concentration	Measured as the percentage of shares held by the top ten shareholders out of the total shares outstanding.	OWSHCON
Control Variable		
Age of manufacturing share companies	Total number of years the firm being in existence.	AMSHC

Source: researcher's own calculation

3.5 Model specification

The empirical model for the study to find out the effect of corporate governance practices on the financial performance of manufacturing share companies was as follows:

$$ROE_{it} = \beta_0 + \beta_1a (BS_{it}) + \beta_1b (BBME_{it}) + \beta_1c (ACZ_{it}) + \beta_1d (OWSHCON_{it}) + \beta_1e (AMSHC_{it}) + \mu_{it}$$

Where: i = cross sectional dimension t = time- series dimension β_0 = intercept BS = Board size

BBME = Boards Business Management Experience ACZ = Audit Committee Size

OWSHCON = Ownership Concentration

AMSHC = Age of Manufacturing Share companies. μ = Error Term

3.6 Methods of data analysis

The data collected through the aforementioned tools were analyzed with correlation and multiple panel linear regression methods. A multiple panel linear regression analysis was used to test the hypothesis and to explain the relationship between corporate governance variables and financial performance measure by controlling the influence of manufacturing share companies' age. Qualitative analysis was used for the qualitative data collected through the questionnaire. The variables were selected based on alternative theories, agency, resource dependency and stewardship and previous empirical studies related to corporate governance and firm performance.

4.0 Result and Discussion

The main objective of this study was to investigate the impact of corporate governance practices on firms' financial performance. Therefore, this section presents descriptive statistics, correlation among variables and regression results.

4.1 Correlation analysis

This part of the study is concerned with the correlation analysis of the study variables. The purpose of undertaking correlation analysis is to confirm whether there is a multicollinearity problem in the model and to indicate whether the variables move together or not in the same direction and the correlation coefficient indicates the strength of a linear relationship between two variables. The correlation coefficient varies from -1 to +1, -1 shows a perfect negative correlation, and +1 indicates perfect positive correlation. If the correlation is zero, the movements of the variables are said to have no correlation.

Table 3 below has the correlation matrix showing the association of the dependent variable, ROE with independent variables of board size, boards' business management experience, audit committee size, ownership concentration and age of the manufacturing share companies doing their business in Adama, Ethiopia.

Table 3: Correlation Analysis of ROE and Corporate Governance Attributes

	ROE	BS	BBME	ACZ	OWSHCON	AMSHC
ROE	1.0000					
BS	0.3328	1.0000				
BBME	0.4023	0.2245	1.0000			
ACZ	-0.0393	0.3009	0.1797	1.0000		
OWSHCON	0.2520	0.0602	-0.0179	0.1099	1.0000	
AMSHC	0.0481	-0.1596	0.2339	0.1594	0.0300	1.0000

In this study, Return on Equity is the dependent variable. Change in the number of the board of directors has a moderate positive significant association with the dependent variable (ROE). This implies that an increase in the number of directors may result in a high profitability ratio as measured by ROE. ROE also has a moderate positive significant correlation with BBME. This means that the higher the number of boards having business management experience, the higher will be the ROE. On the other hand, audit committee size has a negative, very weak significant correlation with return on equity. This means that although there is weak correlation, it has a significant effect on the dependent variable (ROE).

Ownership concentration also has a reasonable positive significant correlation with return on equity. The other correlation explanation is related with the correlation of explanatory variables. As per the above table 3, boards' business management experience and audit committee size has a moderate positive correlation with the number of board of directors. Ownership concentration has a very weak positive correlation with the number of board of directors. Company age also has a weak negative correlation with the number of board of directors. Audit committee size has a moderate positive association with the boards' business management experience. Ownership concentration has a very weak negative correlation with the boards' business management experience. Age of manufacturing share companies have a moderate positive association with the boards' business management experience. Ownership concentration has a very weak positive association with audit committee size and also the age of manufacturing share companies has a weak positive relationship with the audit committee size. Lastly, the age of manufacturing share companies has a very weak positive relationship with ownership concentration. Eventually, as noted in Gujarati (2004), the association between explanatory variables can be tolerated up to 0.80. If it exceeds this limit, multicollinearity is a potential problem. Generally, the researcher has concluded that the associations among explanatory variables are not sufficiently high to bias the results.

4.2 Estimation method

This study employs a longitudinal data that combines observation on a cross-section of units over time. Longitudinal data approach has several benefits over time series and cross-sectional data separately. For instance, panel data permits control for individual heterogeneity. We can also analyze the change over time by using longitudinal data. Panel data gives: more informative data, less collinearity among the variables, more degree of freedom and more efficiency. The general form of the model can be stated as follows:

$$Y_{it} = \beta_0 + \beta X_{it} + \mu_{it}$$

Here μ_{it} is a random term expressed as $\mu_{it} = \alpha_i + \epsilon_{it}$, where α_i is individual-specific effect or cross-section error component and ϵ_{it} is the combined cross-section and time series error component. Besides this general model, the selection of estimation methods whether fixed effect or random effect model, is based on the underlying assumption. In a fixed effect model, the company specific effect (α_i) is a fixed and correlated with X_{it} while ϵ_{it} is uncorrelated with X_{it} . Each cross-sectional unit has its own intercept (α_i). In contrast, in a random effect model, α_i and ϵ_{it} are random and uncorrelated with X_{it} . The firms have a common intercept mean value and α_i stands for the random deviation of individual intercept from its mean value. Moreover, α_i represents any unobservable firm-specific effect that is not included in the regression model and ϵ_{it} accounts for the remaining disturbance in the regression, which varies within individual firm and time Cameron & Trivedi (2009). Taking this into consideration, in selecting between the fixed and random model, Hausman test under the null hypothesis that individual effects are random at 5% significant level was used.

4.3 Diagnostic Test

In classical Linear Regression model, multiple regressions are subject to the following major assumptions, namely mean value disturbance, multicollinearity, heteroscedasticity, normal distribution of residuals, autocorrelation and model misspecification. As a result, the researcher tests these six assumptions whether they are met or not in the model.

4.3.1 Assumption one: The errors have zero mean ($E(\epsilon) = 0$)

As per Classical Linear Regression Model, the mean value of disturbance term is zero. This means that the assumed value of the random disturbance term is 0. If a constant term is included in the regression equation, the above assumption will never be violated Brooks (2008). Conversely, if the regression model did not include an intercept and the mean value is different from zero so that severe bias in the slope

coefficient estimates. In this study, since the regression model included a constant term, there is no problem concerning this assumption.

4.3.2 Assumption two: Multicollinearity

HO: multicollinearity is not a serious problem for the model

H1: multicollinearity is a serious problem for the model

Multicollinearity in the regression model suggests substantial correlations among independent variables. This phenomenon introduces a problem because the estimates of the sample parameters become inefficient and entail large standard errors, which make the coefficient values and signs unreliable. The degree of multicollinearity among variables is measured based on variance inflation factors (VIF) suggested in the rule of –thumb. As per this usual threshold, if the variance inflation factor on each variable is less than ten (10) and $1/VIF$ exceeds 0.1, multicollinearity is not a serious problem. As is shown in the table 4 below, the VIF for all variables is significantly less than 10 and the $1/VIF$ is significantly exceeds 0.1. Thus, the null hypothesis is not rejected, which is multicollinearity is not a serious problem in the model.

Table 4: Degree of Multicollinearity for ROE

Variable	VIF	1/VIF
BS	1.14	0.878289
ACZ	1.13	0.887099
BBME	1.07	0.933916
OWSHCON	1.02	0.985167
Mean VIF	1.09	

4.3.3 Assumption three: Heteroskedasticity Test-white

HO: heteroskedasticity is not a serious problem for the model

Ha: heteroskedasticity is a serious problem for the model.

The assumption of homoscedasticity states that the variance of error terms should be constant. Homoscedasticity means that the Y populations corresponding to various X values have the same variance Gujarati (2004). There are various testing methods for heteroskedasticity problem. But white's test was used for this study to detect the problem of heteroscedasticity. The method was used to test the developed hypothesis concerning heteroskedasticity test. The null hypothesis is constant variance and the alternative hypothesis is the variance of the error term is not constant. The null hypothesis can be accepted if the p- value is greater than 5% otherwise the alternative hypothesis that describes the occurrence of heteroskedasticity problem.

White’s test for HO: homoscedasticity Against Ha: unrestricted heteroskedasticity

Chi2 (14)	=	19.60
Prob > chi 2	=	0.1432

Source: output of STATA version 15, 2020

Here the p- value of Chi- square of the model is greater than 5% which indicates there is no serious heteroskedasticity problem in the model and therefore the null hypothesis was accepted.

4.3.4 Assumption Four: Normality Test

Ho: Disturbance terms are normally distributed

Ha: Disturbance terms are not normally distributed

Normality test is required to conduct hypothesis tests about the model parameters. The study applied tests for normality Shapiro-Wilk W test for normal data that uses the property of a normally distributed random variable. There were two basic hypotheses developed regarding the normality test; null hypothesis and alternative hypothesis tests. Null hypothesis states that disturbance terms are not normally distributed and the alternative hypothesis states that disturbance terms are normally distributed. To test this hypothesis, Shapiro –Wilk W test for normal data was applied. In order to accept the null hypothesis, that disturbance terms are normally distributed, the p-value should be greater than 5% otherwise alternative hypothesis should be accepted.

Table 5: Shapiro-Wilk W test for Normal Data

Variable	Obs	W	V	Z	Prob>z
Error	65				

4.3.5 Assumption five: Autocorrelation test

Ho: autocorrelation is not a serious problem for the model

Ha: autocorrelation is a serious problem for the model

Under the autocorrelation test, the assumption of no autocorrelation between the disturbance terms was tested. The assumption states that the covariance between the error terms over time is zero. Durbin-Watson was used as a test for the model to identify whether the problem exists in the model. According to this test, the value of Durbin-Watson for the model is

4.3.6 Assumption six: Model misspecification test

Ho: there is no model misspecification problem Ha: there is a model misspecification problem

An omnibus or information matrix (IM) test is used to diagnose the regression models in response to the specification problem. This method is called a joint test of misspecification. It tests three assumptions of homoscedasticity, skewness and kurtosis jointly. Therefore, if the overall joint IM test is satisfied, the model has no misspecification problem.

White's test for HO: homoscedasticity Against Ha: unrestricted heteroskedasticity

Chi2 (14)	=	19.60
Prob > chi 2	=	0.1432

Source: output of STATA version 15, 2020

Here the p- value of Chi- square of the model is greater than 5% which indicates there is no serious heteroskedasticity problem in the model and therefore the null hypothesis was accepted.

Table 6: Cameron and Trivedi's Decomposition of IM-test

Source	Ch2	Df	p-value
Heteroskedasticity	19.60	14	0.1432
Skewness	10.06	4	0.0395
Kurtosis	0.08	1	0.7744
Total	29.74	19	0.0552

Here, P- values in the all rows above in the model is insignificant, p (-value is 0.55 or 5.5%). As a result, the research accepted the null hypothesis that there is no model misspecification problem. Generally, the assumption is satisfied and the researcher then concluded that models have no specification problem (Cameron & Trivedi's).

4.4 Regression results for the manufacturing share companies performance (ROE)

Depending upon the regression result indicated in table 7 below, the study found out that the estimated result of multiple regression analysis is at a fairly satisfactory level. This can be confirmed by the fact that the R- squared is 33.01% for dependent variable (ROE) see appendix "C".

The value of the Adjusted R-squared for the model showed that the occurrence of good associations between dependent and explanatory variables, where all the explanatory variables can explain collectively about 28.4% of the performance of the manufacturing share companies as measured by ROE. Both the R-squared and the Adjusted R-squared values of the model in this study are found to be good suggesting that it has more explanatory power. Furthermore, for longitudinal data, R-Squared greater than 20% (see appendix “C”) is still large enough for unfailing conclusions Cameron & Trivedi (2009).

In general, the R² results indicate the overall Goodness-of-fit of the models used in this study. The overall reliability and validity of the model was also further enhanced by the fact that the probability values begin by 0.0000 for the model, which shows strong statistical significance. Table 4.6 below, reports the Random- Effect Generalized Least Square (GLS) results for the model obtained by regressing return on equity (ROE) on four independent variables and one controlling variable: board size, boards’ business management experience, audit committee size, ownership concentration and age of manufacturing share companies. The model is significant at *Wald chi2 = 29.08, DF = 4 p- value <0.0*. The interpretation of each explanatory variable is presented below the table.

Table 7: Random-effects GLS regression

Random-effects GLS regression	Number of obs = 65
Group Variable: id	Number of groups = 5
R-sq:	Obs per group:
Within= 0.2428	min = 13
Between= 0.8044	avg = 13.0
Overall= 0.3301	max = 13
Corr (u_i, x) = 0 (assumed)	Wald chi2 (5) = 29.08
	Prob > chi2 = 0.0000

ROE	Coef.	Std. Err	Z	P> z	[95% conf. Interval]	
BS	.1129505	.0428916	2.63	0.008***	.028844	.1970166
BBME	.0762498	.0235618	3.24	0.001***	.0300695	.12243
ACZ	-.0633747	.0311034	-2.04	0.042**	-.1243362	-.0024131
OWSHCON	.4522541	.1836449	2.46	0.014***	.0923167	.8121915
AMSHC	.0009141	.0025764	0.35	0.723	-.0041354	.0059637
Constant	-1.210353	.3659495	-3.31	0.001	-1.927601	-.4931053

*Note: *** represents significant at 1% and ** represents significant at 5%*

a) Board size and performance of manufacturing share companies

From the regression table above, the coefficient of board size is positive (.1129505) for the dependent variable (ROE) and this study revealed that there is a positive and statistically significant effect between boards size (BS) and the manufacturing share companies' financial performance as measured by ROE, at less than 1% level of significance. Thus, this indicates that the number of board of directors positively affects the manufacturing share companies' financial performance. In other words, the larger the number of board members for these manufacturing share companies, the higher will be their financial performance as measured by ROE.

This result can be expressed in the direction that an increase in the number of board members by one person is anticipated to increase performance by 11.29% which is an astonishing outcome. The result supports the school of thought that large numbers of boards are more effective in monitoring and controlling manufacturing share companies' management and it also helps to reduce agency costs. The result is also consistent with previous studies which argues that a large board size enhances or improves the board independence. Wondem & Batra (2019); Yameen *et al.*, (2019); Belete (2015) pointed out that a large number of board of directors advance the corporate's performance. Hence, the alternative hypothesis was accepted which is that the board size has a positive and statistically significant effect on firms' performance.

b) Boards' business management experience and performance of manufacturing share companies

Boards' business management experience has a positive coefficient (0.0762498) and it is statistically significant at (0.001) at 1% level of significance in terms of explaining the variation on performance as measured by return on equity, inferring that having number of boards with a proper level of business management experience would have a positive influence for the manufacturing share company's financial performance as measured by ROE. On the other hand, the results of this study also revealed that an increase in the number of boards having business management experience can lift up the financial performance of manufacturing share companies operating in Adama. This result can also be stated in the way that an increase in the number of boards having business management experience by one person is anticipated to increase performance by 7.62% which is also an interesting output. This result supports the resource dependency theory which argues on the contribution of directors that the board of directors could be used as a mechanism to form relations with the external environment in order to support the management in the attainment of organizational goals. According to this theory, directors bring resources to the firm,

such as information, skills, access to key constituents such as suppliers, buyers, public policy makers, social groups as well as legitimacy.

As a result, the researcher failed to reject the alternative hypothesis. According to Melkamu (2016), Mitiku (2015) and Nurhussen (2018), manufacturing share companies are operating in an industry characterized by severe competition, dealing with the needs and requirements of the customer, requires in-depth knowledge in terms of production cost, market creation for the output, financial feasibility, business proposals and other relevant and necessary business management skills. These researchers have suggested that unless a board of directors of these manufacturing share companies have the appropriate level of business management experience, it might be problematic for them to run a well performing manufacturing share company and discharge their fiduciary, strategic, supervisory and management responsibilities Clarkson, *et al*, (1997) as cited by Melkamu (2016). This result was also similar with the above studies.

c) Audit committee size and performance of manufacturing share companies

Audit committee size has a negative coefficient (-0.0633747) and it is statistically significant (0.042) at 5% level of significance in terms of explaining the variation on financial performance as measured by ROE. Therefore, this indicates that the size of the audit committee negatively affects the manufacturing share companies' financial performance. In other words, the larger the number of audit committee for these manufacturing share companies, the lower will be their financial performance as measured by ROE. This result also revealed that the increment of audit committee members by one individual will push down the financial performance of manufacturing share companies performing in Adama, Ethiopia by 6.34%.

The result was consistent with studies conducted previously Yamen *et al.*, (2019), Ferede (2012) and Arora (2012). They pointed out that the size of the audit committee negatively influences firms' performance. This study result supports the notion that a certain minimum number of audit committees can enhance the financial performance of firms. As a result, the outcome of this variable is in line with the alternate hypothesis, when financial performance is measured by return on equity.

d) Ownership concentration and performance of manufacturing share companies

Ownership concentration has a positive coefficient (0.4522541) and it is statistically significant (0.014) at 1% level of significance, in terms of explaining the

variation on performance as measured by ROE, indicating that having ownership concentration would have a positive contribution for the performance of manufacturing share companies as measured by ROE. This result also reveals that the existence of ownership concentration will improve the financial performance of Adama manufacturing share companies by 45.23%. This result supports the agency theory; that occurrence of key shareholders is crucial, because they tend to actively participate themselves in tighter activities, which would result in a more efficient governance structure, leading to an essential value for shareholders. In other words, if the shareholding is diffused, it becomes too costly for such a shareholder to monitor the firm's activities closely and creates the chance for managers to maximize their needs. That means, the more the ownership structure is dispersed, the more the agency costs are higher. This supports the assumption that concentration brings motivation to control the opportunistic behavior of managers and it rejects the assumption of expropriation of minority shareholders by influential shareholders. This result was consistent with Nurhussen (2018); Kibrysfaw (2013) and Wu (2009). Thus, the alternative hypothesis was accepted which is that the ownership concentration has a positive significant effect on the manufacturing share company's financial performance.

e) Control variable (Manufacturing Share companies Age)

This control variable was measured by the number of years of being in existence. The age of the firm has a positive coefficient of (0.0009141) and a statistically insignificant relationship with the financial performance of manufacturing share companies operating in Adama city. This means that as the age of the company increases, the return on equity of the company increases by 0.091%.

5.0 Conclusions

According to this study, all the corporate governance attributes affect the financial performance of manufacturing share companies. Depending on the results of the descriptive statistics, correlation and regression analysis, the researcher made the following conclusions. The manufacturing share companies' board is characterized by the existence of a mean of 8 board members and has a moderate positive significant correlation with the dependent variable (ROE). As per regression result of this study, size of the board has a significant positive effect on firms' financial performance as measured by ROE. This is because large numbers of boards give greater monitoring, increase boards' independence and effectiveness in monitoring and controlling the manufacturing share companies' management and it helps to reduce agency costs,

henceforth, the corporate performance increases. Therefore, manufacturing companies have to raise their board size.

Depending upon descriptive statistics, the number of boards' having business experience was 4 and the effects of boards' business management experience on firms' financial performance as measured by ROE was positive and significant. This is acceptable by the fact that manufacturing share companies are doing their business in an industry characterized by severe competition, dealing with the needs and requirements of the customer, requires in-depth knowledge in terms of production cost, market creation for the output, financial feasibility, business proposals and other relevant and necessary business management skills. Therefore, boards of directors of manufacturing share companies should be enriched with a required level of business management skill in order to run well performing manufacturing share companies. As a result, it is essential for a board of directors to have business management experience.

The study revealed that the audit committee size had a significant and negative effect on the manufacturing share companies' financial performance operating in Adama, Ethiopia. Thus, a small size audit committee is effective in improving the financial performance of manufacturing share companies. Regarding ownership concentration, 71.21% of the companies are owned by the top ten and below shareholders and it has a moderate positive significant correlation with the dependent variable (ROE). Ownership concentration has a positive and statistically significant effect on the financial performance of the manufacturing share companies as measured by ROE. The existence of key shareholders is useful, because they tend to keenly include themselves in more tighter monitoring activities, which would result in a more efficient governance structure leading to an important value for shareholders. Therefore, it is better for these manufacturing share companies to have a higher ownership concentration.

The mean value of manufacturing share companies' age in Adama was 31.6 with a very weak positive insignificant correlation with return on equity. Hence, as the companies' age increases, companies become more experienced in reducing some costs like production costs, improving product's quality, increasing knowhow of reducing risks, etc. So, it is better to say that companies are better in the market to appreciate the benefits created as the age of companies' increases. In general, the outcome recommends that manufacturing share companies operating in Adama city with effective corporate governance arms improve financial performance which is measured by return on equity.

6.0 Managerial Implications

The main purpose of this study was examining the effects of corporate governance on firms' financial performance in Adama. Depending upon the findings and conclusions reached, the researcher has the following fruitful recommendations.

- As per the findings of this study, in Adama, the manufacturing share companies' board of directors play a critical role in increasing the firms' financial performance. So if shareholders give due considerations to the director's experience during their nomination for approval, they further allow their company to perform better.
- Manufacturing share companies are better to nominate a board of directors with better managerial skill. A board of directors who have business management experience should be assigned in a committee based on their industry experience that makes them contribute more in encouraging good governance.
- Manufacturing share companies are better to minimize the size of the audit committee to boost up the firms' financial performance as measured by ROE.
- Manufacturing share companies are better to have ownership concentration for the attractive involvement of shareholders on management activities by pre-determining the number and percentage of ownership of shareholders on memorandum of association by the founders of the company.

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Innovation: A Continuous Phenomenon

Kiran Anchalia and Dharmesh Motwani***

ABSTRACT

This article is an effort to present a new approach to increase the returns of the entrepreneur. In the present environment, where the world has become a global village and every individual entrepreneur has to face cut throat competition, an important aspect for success is 'innovation'. Many organizations follow the rules very rigidly, so the possibility of doing things in a different manner are very limited. If we do what everyone else is doing, we will get the same results, but if we want to excel in the market, we have to become innovators, continuously trying new methods of doing business. This methodology is the key behind major marketing success, whether it is Apple, McDonalds, Facebook or Instagram. Under the hood, we will find a system for innovation- ways of testing, measuring, implementing and documenting in a seemingly effortless fashion. If we are trying to enhance our marketing program or create one from scratch, we must keep innovative ideas in mind. This innovative process will ensure constant improvement in our marketing results. A good starting point for innovation is to focus on challenges, opportunities, problems, gaining a clear understanding of the issues and planning out of the box strategies. After trying something new and measuring the results, we find what is beneficial for our company and what is not. The key is to continuously innovate, test and evaluate the results. The only thing now needed for success is to roll out the findings in a systematic fashion.

Keywords: *Innovation; Success; Ideas.*

1.0 Introduction

There are a number of basic marketing fundamentals that everyone needs to know in order to generate attention, interest, desire and action among prospects.

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But to be successful in today's competitive environment you need more than the four p's (product, place, price, promotion). Yes, I am talking about innovation.

Innovation is the creation of better or more effective products, processes, services, technologies or ideas that are accepted by markets, governments and the society. Innovation differs from invention. Innovation refers to the use of a new idea or method where in invention refers more directly to the creation of the idea or the method itself.

One beautiful example of innovation can be found on the streets of Mumbai where vendors will offer to sell you "time pass". Time pass, as it happens, is a paper cone of roasted and salted peanuts. The branding as time pass, tells you what you buy, a way to pass the time, as you stroll along on the beach or wait for your train to arrive. The customer, created by the innovation, is the pattern of modification of waiting and relaxation behavior. You used to stroll, now you stroll munching peanuts. You used to fret looking at your watch, cursing railway delays, now you peacefully munch peanuts instead. This explains why customers need to be created and what innovations really are.

Innovation is the key behind major marketing successes like McDonald's, the four seasons and many other well-known brands. If we look at most major brands or category leaders under the hood, we will find systems for innovation, ways of testing, measuring, implementing and documenting in a seemingly effortless fashion.

If you do what everyone else is doing, you will get the same results. Most often, those who excel in any market are the innovators, those who are continuously trying new things, creating new methods of doing business or standing for something unique.

Innovation covers

- 1) Introduction of a new good or a new quality of good
- 2) Introduction of a new method of production
- 3) Opening of a new market
- 4) Conquest of a new source of supply
- 5) Carrying out of the new organization of an industry

The innovation process encompasses several systematic steps, beginning from problem analysis, to idea generation, idea evaluation, project planning, product development and testing to finally product marketing.

It is the perfect time to narrate here, the story of Kellogg's cornflakes. Leaving some boiled wheat unattended, it went stale. Attempting to salvage it, by rolling it into dough, Kellogg found that it tore into pieces and refused to hold a shape. Undaunted,

they toasted the flakes and were pleasantly surprised by the result. After a bit of trial and error, the brothers decided to use corn, instead of wheat, as the main ingredient. The result was deemed tasty enough by patients. Overwhelmed by it, Will founded a company bearing the Kellogg's name, to sell their cornflakes, revolutionizing how the world eats breakfast.

Kodak was a dominating photographic film company of the 20th century but it denied the prospects of digital photography. They could not identify the revolution and to everybody's surprise, Kodak filed for bankruptcy in 2012.

Nokia was a forerunner in the creation of cellular network. It turned out to be a global leader but it could not identify that data, not the voice, was the future of communication and a company with the tagline of "connecting people" could not connect itself to the world.

IBM stepped into the market in the 1960s with a complete range of computer applications but its glare began to subside in the 1990s due to a lack of innovation. The company soon realized and rectified its mistake and now IBM is a world leader again.

Here, I would like to quote the example of the two sons of Dhirubhai Ambani. After the death of Dhirubhai Ambani, the elder son Mukesh Ambani inherited the less remunerative companies of the Reliance empire while the younger son Anil Ambani acquired a hold of the more rewarding companies. But soon Anil Ambani reached the verge of bankruptcy while Mukesh Ambani continued to innovate through the Reliance Jio 4G network, Reliance Retail, Jiomart etc., and has become the richest person in India.

Large Hi-Tech firms under oligopolistic competition use innovation as a prime competitive weapon, ensuring continued innovative activities and very plausibly, their growth. The computer and cellular phone industry are the most obvious examples, whose new and improved models appear constantly in the market to keep them ahead of their rivals.

Under capitalism, innovative activity, which in other types of economy may be optional, becomes mandatory, a life and death matter for the firm.

To conclude, if we are trying to enhance our marketing program or create one from scrap, we must keep this methodology in mind. This process will ensure constant growth and improvement in our marketing results. The key to success is to keep innovating in small ways, continuously testing and evaluating results and modifying our strategy accordingly.

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[https:// startuptalki.com](https://startuptalki.com)

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SHALOM BUSINESS AND TECHNOLOGY COLLEGE HAWASSA, ETHIOPIA



First International Academic Conference on Business, Innovation and Management, 1st November, 2021

Publication and Editorial services
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E-mail: info@journalpressindia.com, editorial@journalpressindia.com

E-ISBN: 978-81-956810-5-1



9 788195 681051

US\$ 90