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## FOREWORD

*In the middle of 2017, global activity is firming broadly as expected. Manufacturing and trade are picking up, confidence is improving and international financing conditions remain benign. Global growth is projected to strengthen to 2.7 percent in 2017 and 2.9 percent in 2018-19, in line with OECD January forecasts.*

*In emerging market and developing economies (EMDEs), growth is predicted to recover to 4.1 percent in 2017 and reach an average of 4.6 percent in 2018-19, as obstacles to growth in commodity exporters diminish, while activity in commodity importers continues to be robust.*

*Risks to the global outlook remain tilted to the downside. These include increased trade protectionism, elevated economic policy uncertainty, the possibility of financial market disruptions, and, over the longer term, weaker potential growth.*

*A policy priority for EMDEs is to rebuild monetary and fiscal space that could be drawn on were such risks to materialize. Over the longer term, structural policies that support investment and trade are critical to boost productivity and potential growth.*

*Global growth is firming, contributing to an improvement in confidence. A recovery in industrial activity has coincided with a pickup in global trade, after two years of marked weakness. In emerging market and developing economies (EMDEs), obstacles to growth among commodity exporters are gradually diminishing, while activity in commodity importers remains generally robust.*

*Activity in advanced economies is expected to gain momentum in 2017, supported by an upturn in the United States, as previously anticipated. In the Euro Area and Japan, growth forecasts have been upgraded, reflecting strengthening domestic demand and exports.*

*Investment across advanced economies has firmed, while private consumption growth has moderated. As actual growth continues to exceed potential growth, increasing inflation and narrowing output gaps have raised the prospects of less accommodative monetary policy.*

*Advanced economy growth is expected to accelerate to 1.9 percent in 2017, before moderating gradually in 2018-19. As usual, the outlook is predicated only*

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on legislated fiscal and trade policies. The recovery in global trade coincides with strengthening investment, which is more import intensive than other components of aggregate demand. Nevertheless, structural headwinds, including slower trade liberalization and value chain integration, as well as elevated policy uncertainty, continue to weigh on the outlook for trade.

Global financing conditions have been benign and benefited from improving market expectations about growth prospects. Financial market volatility has been low despite elevated policy uncertainty, reflecting investor risk appetite and, perhaps, some level of market complacency. Renewed risk appetite has supported EMDE financial markets and led to a narrowing of corporate bond spreads globally. Capital inflows to EMDEs were robust in the first half of 2017, partly in a rebound from late-2016 weakness. Over time, however, a gradual tightening of international financing conditions may weigh on capital flows to EMDEs.

Commodity prices have continued to rise moderately, although prospects for increased U.S. shale oil production are weighing on the outlook for oil prices. Against an improving international backdrop, growth in EMDEs has strengthened from a post-crisis low of 3.5 percent in 2016. It is projected to reach 4.1 percent in 2017 and 4.5 percent in 2018.

Growth in major advanced economies has strengthened, and their short-term outlook has improved, despite elevated policy uncertainty. A modest recovery should continue, with output gaps narrowing and inflation gradually converging toward central bank targets. U.S. monetary policy normalization is expected to proceed at a measured pace. China's policy guided gradual transition to slower but more sustainable growth continues as expected. Advanced economies started the year on a solid note, with investment and exports regaining momentum after subdued growth in 2016. Private consumption decelerated somewhat in early 2017, but has been supported by labour market improvements. Import demand has strengthened, further contributing to a recovery in global trade. In 2017, growth is expected to pick up in the United States and Japan, and to remain broadly stable in the Euro Area. Forecasts for several major economies have been upgraded. Economic slack continues to diminish, and inflation expectations are rising, albeit at different rates.

In light of these changes taking place worldwide, the themes of the journal's articles are also subscribed.

According to Nicola Terracciano, in his article entitled **Performance Management at the Organizational Level**, performance management is seen like a strategic and integrated approach to delivering sustained success to organizations,

*by improving the performance of the people who are working for them, and by developing the capabilities of teams and individual contributions. At the same time, it is a systematic approach of the human resource management, in general, and of the performance assessment, in particular, using goals, performance, appreciation and feedback as means of motivating the employees to understand and to fully exploit their creative potential to achieve the organizational goals.*

*The paper entitled **Moral and Professional Values from Acquisition to Application** aims at presenting the actual situation as concerns the values the pre-university students are taught about during their high school courses, on one hand, and the necessity of the labour market, on the other hand. At first, the authors referred to the values within the European dimension of education, as they were established by the European Commission for every state. Here the authors made special reference to the plan of the educational contents, as it has to contain elements of proximity and coincidence. Secondly, they talked about the new paradigms met with the educational policies. The authors also mentioned the series of activities which help the learning of the common language for a European citizenship and the defining of the new educations, adapted to the dimension of education, the European Commission and the Council of Europe propose. The next treated aspect was to establish the definition of the problem mentioned at the beginning. In order to get real information, they used the following methods: questionnaires (were disseminated to two different categories of respondents: students who want to get a job, on one hand, and employers, on the other hand) and observations. The activities supposed data collecting, processing, analyzing and interpretation. In the end, the authors draw the conclusions, stressing the role of the university in training and educating the youth, preparing them for the challenges of the labour market.*

*In their article entitled **Cultural Due Diligence in Mergers and Acquisitions. Importance of Soft Risks Factors**, the Warters talked about an important aspect in mergers and acquisitions. During the last decades, the corporate world has witnessed a significant rise in the number of cross border mergers and acquisitions (M&A). In cross border M&A, not only different corporate cultures collide, but also different professional and national cultures. The purpose of Cultural Due Diligence (CDD) is to get a coherent image of the intercultural challenges of the M&A in order to be aware of the intercultural risks and opportunities.*

*The Warters' article named **Cultural Due Diligence In M&A. Importance Of Soft Risks Factors** aims to reveal the perception of managers involved in the pre-M&A stage on the soft risks factors that need to be investigated during CDD. This*

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*study proposes an appraisal of the most important intercultural issues that need to be considered in M&A. The authors' contribution to the intercultural aspects of M&A literature consists in improving the current understanding of Cultural Due Diligence content.*

*The article called **How to Design a Web Survey Using Spring Boot with MySql: a Romanian Network Case Study** presents a survey applied on a representative sample of Romanian SMEs. The article represents a case study and focus on technical elements that allow collecting data from Romanian SMEs managers and save it in a MySql database. The Back-End component is developed with the newest Spring Boot MVC. The article presents the technical implementation on collecting data during a survey for Romanian SMEs. The scope of the survey is to find out the level of awareness and the knowledge of SMEs on ICT facilities. The survey analysis and interpretations will be published publicly and send to each SME, in order to help surpass the current technological challenges and to help them be more adapted to market requirements.*

*The paper of Sanghamitra Kanjilal-Bhaduri entitled **Emergent Gender Relations in Female Employment within the Social Stratification in Rural India** has presented an empirical picture of inequalities, both within and outside the labour market for women, from gender relations emerging within the framework of overlapping social stratification in rural India. Analysis is based on secondary data, where the emphasis is not only on measurement of quantitative variables, but also on the interactions between various qualitative, socio-economic and socio-cultural variables. The main finding of the present study is that the participation of women in labour force varies across economic classes, social groups, religions, regions and the rural urban divide. Factors determining labour supply decisions of women are different from those of men. Interconnectedness of female employment with other social parameters which are outside the realm of the standard labour market analysis gets highlighted in the study.*

*The paper called **Effect of Investor Sentiment on Future Returns in the Nigerian Stock Market** by Udoka Bernard Alajekwu, Michael Chukwumee Obialor and Cyprian Okey Okoro examined the effect of investor sentiment on future returns in the Nigerian stock market. The OLS regression and granger causality techniques were employed for data analyses. The results showed that (1) investor sentiment has a significant positive effect on stock market returns even after control for fundamentals such as Industrial production index, consumer price index and Treasury bill rate; (2) there is a unidirectional causality that runs from change in investor sentiment to stock market returns. Derived finding showed that the*

*inclusion of fundamentals increased the explanatory power of investor sentiment from 3.96% to 33.05%, though at both level, investor sentiment has low explanatory power on stock market returns. The study posits existence of a dynamic relationship between investor sentiment and the behaviour of stock future returns in Nigeria such that higher sentiment concurrently leads to higher stock prices.*

*Tourism is an important economic activity in most countries around the world, as Bogdan Sofronov argued in his paper called **The Economic Impact on Global Tourism**. As well as its direct economic impact, the industry has significant indirect and induced impacts. The outlook for the tourism sector in 2017 remains robust and will continue to be at the forefront of wealth and employment creation in the global economy, despite the emergence of a number of challenging headwinds.*

*In tourism, GDP growth is expected to accelerate to 3.8%, up from 3.1% in 2016. As nations seem to be looking increasingly inward, putting in place barriers to trade and movement of people, the role of tourism becomes even more significant, as an engine of economic development and as a vehicle for sharing cultures, creating peace, and building mutual understanding.*

*From the above-mentioned studies, there is a contribution to ideas and solutions brought by teachers, researchers or Ph.D. students to improve the economic situation in certain areas, on certain levels and in certain directions.*

*If you liked our articles, please visit our website. If you want to write an article in our journal, we are waiting you to expose your ideas in new studies published by us.*

*Finally, hoping that you found interesting the Issue2/2017, I strongly invite you to address your comments and suggestions at [office\\_analeserieconomie@spiruharet.ro](mailto:office_analeserieconomie@spiruharet.ro) and, of course, to submit your own paper via online submission system.*

*Let's join in attitude and feelings to build together an economy to resist current attempts!*

**Associate Professor Elena GURGU, Ph.D.**  
**Deputy Chief Editor**





# **ACADEMIA PAPERS**



## PERFORMANCE MANAGEMENT AT THE ORGANIZATIONAL LEVEL

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### Abstract

*Performance management is „a strategic and integrated approach to delivering sustained success to organizations, by improving the performance of the people who are working in them, and by developing the capabilities of teams and individual contributions” [Armstrong M. and Baron D, 1998]. At the same time, it is a systematic approach of the human resource management, in general, and of the performance assessment, in particular, using goals, performance, appreciation and feedback as a means of motivating the employees to understand and to fully exploit their creative potential to achieve the organizational goals.*

**Keywords:** *performance; appraisal; skills; assessors; evaluated.*

**JEL Classification:** D<sub>23</sub>, M<sub>51</sub>, M<sub>54</sub>

### Introduction

In an organization, the concept of “Performance” has become one of the most commonly used. Employers look for the top performers, and employees want to be stimulated to be better at the place where they work. To achieve the performance, some companies believe that it is enough to fix and then communicate to employees a set of goals, while others use specific tools to manage this indicator. Nowadays, more and more companies are seeking to institutionalize as much as possible and appeal to what specialists call performance management.

“The traditional level in which the performance management is used in organizations is the individual level, with a focus on monitoring the performance of employees in an organizational context. Internationally, the trend is for an integrated approach to the performance management at all organizational levels.” [Adrian Brudan, 2011]

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Performance management in Romania is in an early stage of development, although the principles that underlie the performance management are simple and logical in the organizational culture of any company. In recent years, interest in the performance management in Romania increased.

The performance management is top-down and involves all the layers that make up the organization – from management to departments and employees taken separately. Thus, in order to achieve the proposed goal, the entire management process involves constant evaluation, realignment and continuous improvement activities. The organization practices a certain performance management, but what makes the difference is how accurately the performance management practices are implemented and applied. Among the most common dangers to a company that does not make performance management is the emergence of a semi-chaos state, due to the inability to align strategies to objectives and then to performance indicators. It can also easily install employee dissatisfaction that affects the same indicators.

### **Organizational strategic options**

Performance management is strategic in the sense that it concerns more general issues faced by an organization in order to be able to function effectively in the environment where there is the general direction which it wishes to adopt in order to achieve its longer-term objectives. Performance management needs to be integrated into the complex management process of the organization and to be correlated with other key processes such as organization strategy and employee development.

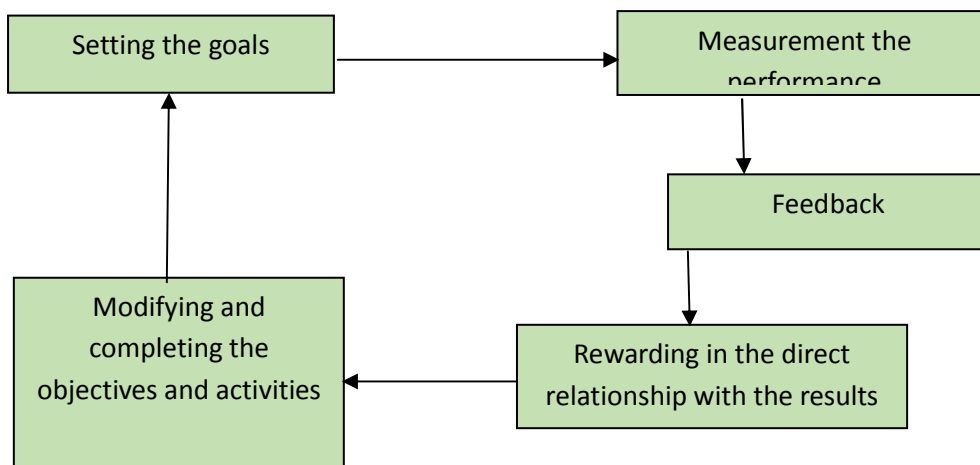
Integrated character implies:

- *Vertical integration* – is done with the organization's economic strategy. At team and individual levels there are goals that support the achievement of the organizational goals. They take the form of coordinated goals in a downward direction, from the organizational level, at the function level to the level of the team and individual employee. Strict alignment of these objectives is essential and, above all, agreeing on objectives that must be reached through open dialogue between managers and employees.

- *Horizontal integration* – involves aligning strategy of the performance management with other human resources strategies, particularly on the organizational development, evaluation, remuneration, to achieve a consistent approach of the management and development of the organization's staff.

• *Integration with organizational and individual needs.* A model of unanimously accepted performance management does not currently exist, but many authors talk about the existence of a performance management cycle. One such model is presented below and contains five elements [Panaite N. and collaborators, 2011]:

- 1) *setting the goals;*
- 2) *measurement the performance;*
- 3) *obtaining the feedback on the measurement;*
- 4) *rewarding in the direct relationship with the results;*
- 5) *modifying and completing the objectives and activities.*



**Figure no. 1. The performance management cycle**

Source: Panaite N. and collaborators, work cited 2011, pp. 81

This cycle presents a way in which the process should be conducted by the organizations wishing to adopt a strategic perspective of human resource management. The level at which such a system can operate depends on how the organization wishes to apply this model. The model does not specify the level at which these elements are applied: at the individual level, at the team level, in the departments or strategic units or at the level of the whole organization, but leaves it to the management of the organization to choose it.

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**Performance management** must be seen as an integral part of the ongoing process of managing the organization's activity, targeting:

- *achieving a sustained improvement of the performance;*
- *continuous development of skills and overall competence;*
- *importance of organizational learning.*

The performance continuous assessment process should be conducted by reference to the agreed objectives and performance standards and according to the developed and improved work plans.

The five key elements of the performance management are [Armstrong M., 2003]:

1) *measuring* – evaluating the results in relation to agreed the objectives and standards;

2) *feedback* – providing employees with information about how to perform tasks;

3) *positive reinforcement* – emphasizing what has been done well, constructively criticizing of the negative aspects, that is, in a manner that indicates how to improve;

4) *exchange of opinions* – total, free and sincere about what has been achieved and what needs to be done to achieve more (reaching agreement on what needs to be done for the future);

5) *agreeing the action plans* to be implemented by the employees, autonomously or with the support of their managers.

Performance management is a continuous and flexible process that focuses primarily on planning and improving the future performance rather than retrospectively assessing of the past performance, providing the basis for systematic and frequent dialogue between managers and employees, their performance and development needs.

In Romania, there are various assessment systems of the staff [Pitariu H., 2006] in organizations as it is aware of the beneficial effect of this activity on the employees' productivity, recognizing its necessity for increasing the competitiveness level of the organizations. In practice, the specialists are confronted with various requirements, imposed by law, criteria of the predetermined performance. Objectivity is another issue faced by organizations in the assessment process, many times evaluators misunderstanding the content of performance standards and compelling to evaluate superficially.

### Measuring the human resource performance

This process refers to the measurement of the quantifiable job results: number of pieces, labour productivity, number of clients, number of customer complaints, etc.

For dimensions that cannot be measured, it is necessary to achieve some estimates, by means of which it becomes possible to quantify them. These estimates are generally performed by the performance appraisal method. The tool used for this purpose is the employee performance appraisal sheet, which can take many forms.

Some job results will be measurable while others are unquantifiable. Only measuring the results (produced products, number of sold products, etc.) does not provide sufficient data and may even lead to less motivation and satisfaction of employees. Both the work results and employee behaviours should be evaluated.

The chosen **criteria** must take into account:

– *Organizational objectives*: performance appraisal should be organized in accordance with available information and its use. If the productivity data is of interest to a section or a team, and the evaluation should be done at the same level. Along with the actual work tasks, it will include elements promoted by the organization in human resources policies: creativity, professional development, managerial qualities, poly-qualification, flexibility, etc.

– *Position*: in choosing the job tasks to be assessed, account will be taken of those on which the employee has control. In addition to work tasks, the performance appraisal will take into account the responsibilities and authority of employees.

– *Employee needs*: facilitating the communication between management and employees. Employees are generally interested in promoting the opportunities. They may sometimes want to talk about their post or their team, and the inability to address these problems can lead to frustration, dissatisfaction, absenteeism, and even resignation.

The most important thing is using of multiple criteria to capture as many facets of performance as possible on a particular position. These criteria will be assigned weightings according to the importance and contribution to success on the job. These weights will help to aggregate the obtained score by each criterion in part in a global score.

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**Criteria for performance appraisal** must be of high degree of objectivity, which gives equity to evaluation and increases the employee confidence in the process, especially as they play a decisive role in tiebreaker in the event of dismissal.

Criteria for performance appraisal appreciate the following:

1. **Soft skills:** are more difficult to assess because they are not attested by diplomas but result from the employee's behaviour. The assessment starts from the premise that there are effective and ineffective behaviours and that they have been identified for each job or type of job. Behaviours are considered effective or ineffective depending on the results they produce them (desirable or indescribable). Examples: *teamwork, quality of work, communication skills, involvement, initiative, ethics, client orientation, flexibility, adaptability, innovation, efficiency, empathy, etc.*

2. **Technical skills:** are specific to a particular business sector and can be acquired through learning; they are easier to evaluate than soft skills and their possession is confirmed through the diplomas/qualifications obtained. Examples: *knowledge of a foreign language, project management, grammar, writing, computer skills, etc.*

3. **Personality traits:** The first graphical scales evaluated the employees based on the personality traits that were supposed to be related to the work being done. One inconvenient of the exclusive using of this type of criteria is that personality traits are rather difficult to define and can be interpreted differently. Examples: *conscientiousness, extraversion, emotional stability, opening to new, agreeableness, etc.*

4. The **personal development plan** aims at developing the employee by improving the specific skills to his/her current position and his/her preparing for new responsibilities and positions. It may constitute an assessment criterion when pursuing the original objectives set out therein. On the basis of the assessment, the development plan can be established for the next period.

5. Individual performance **goals** determine the level of performance which the employee must achieve. Their correct setting is very important in achieving the expected results. It is recommended to reflect the objectives of the departments. In order for the departmental objectives to reflect the company's objectives, their formulation is based on the mission, vision and strategic objectives of the company. Only after identifying the departmental objectives can be set the individual performance targets, depending on the job description. In order to allow an effective evaluation, it is recommended that the objectives to be **SMART**: **S**pecific, **M**easurable, **A**ffordable (achievable), **R**elevant, framed over **T**ime. Example: Sales



growth by 5% over the last quarter of the previous year, within 6 months of signing the evaluation sheet.

Companies can set different weights for the evaluation criteria, depending on what they are tracking through this process.

### Assessors

People who perform the performance appraisal [UMCS Group, 2012] play a very important role in the entire evaluation process because they can significantly influence the obtained results. In order to obtain the most accurate results, the assessor must have information on: the valuation procedure, the company's objectives, the responsibilities of each employee's position, the performance of the employees as well as the clear standards on which performance will be noted.

In choosing the assessor, *three factors* must be taken into account:

- the opportunity to observe the activity of the evaluated person;
- the ability to translate observations into scores;
- motivation to provide performance information: motivation may be influenced by the assessors' confidence in the evaluation process, by the request to justify their assessments, and the evaluator's knowledge of how to resolve conflicts generated by less satisfactory evaluations. Increased motivation can be achieved by providing training for assessors addressing important issues in evaluating and communicating the results, and including the performance appraisal in the job duties as an important part of the assessors' work.

Assessors differ greatly from each other as a result of individual differences of a psychological and professional demographic nature.

The characteristics of the evaluated will influence, consciously or unconsciously, his assessment, having an impact on the assessor's perceptions and impressions. The characteristics of the evaluated person can also be grouped into three categories: demographic factors, psychological factors and professional factors.

The choice of the assessor may vary depending on the position occupied by the evaluated person and the type of the company. Assessors can be:

- hierarchical superiors of each employee;
- the employee himself (when the evaluation process also contains a self-assessment component);
- subordinates (when managers are evaluated);
- colleagues or external assessors.

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Depending on the particularities of each evaluation process, several assessors may be involved.

### **The objectives of the assessors**

The assessor, which aims to estimate the resource status of an organization, including the human resource, will start by analyzing the organizational and human structures, because the staff and the enterprise market are the most important elements that determine the value of a business.

The organizational structure analysis starts from the organizational chart. Based on this, hierarchical and functional relationships, hierarchical levels and weights are determined. It is analyzed the current status of the functions in relation to age. It is determined whether the successions are well prepared and whether there is a risk of „gaps” in the coming years.

Starting from the organizational chart, we can see the rational way in which the management functions in the enterprise are distributed and the way in which the information circulates from one echelon to another, both vertically and horizontally. The assessor needs to know if the instructions and information easily move from top to bottom (hierarchically) and if there is communication between services.

The long-term action plan should show how administrative organization and decision-making are taken, as well as the existence of a control mechanism.

The evaluator has to verify whether the decisions are substantiated, budgeting, and are transmitted, implemented, controlled and quantified for deviations beside the budget provisions.

Business management needs to be evaluated from a performance point of view. If the company has a performance appraisal system, it can do so based on it. The assessor should observe the links of the leadership towards a group or a majority shareholder, the style of management (collegially, authoritatively, centrally, decentralized), the age of the management members, their formation, seniority in society, decision areas and the limits of commitment and hierarchical control, their relations with certain economic and social environments (clients, suppliers, employees, banks), their image inside and outside the firm.

The assessor will then pursue the provisions of the collective labour agreement, the extent to which it is respected the laws and the decisions in force, and whether it is actually respected.

The stability index determines the loyalty of the staff and looks at the possibilities for replacement in the event of departure, and in case of retirement if there is a succession. The assessor checks the policy of recycling of all existing

staff in all echelons, allowing not only good performance on the busy position but also the possibility of promoting in other positions.

It also seeks to ensure that recruitment and employment are followed by a period of prior orientation/training, the existence of a staff surplus or inadequate staff, labour productivity, normalization of the work (safety margins, flexibility offered by different types of contracts, coverage the positions), employee reputation, employee skills (specific: technical and general knowledge: customer relations, employees, managerial spirit, leadership). The assessor will observe the local, national and international reputation of the human resources managers and the management, in general.

In general, they can be considered *strengths*: the high weight of young staff, rational organizational structure, collegial leadership, good training of the company's staff, open atmosphere and lack of conflicts and litigation between leadership and trade union.

The *weaknesses* in human resources area and their management can generally be considered: insufficient staff training, opposition to the new and innovation, the unbalanced organizational chart, dictatorial leadership style, lack of interest in the company assets, numerous and unresolved litigations, inability for solving the problems. The human resources management assessment will cover the two components: evaluation of its efficiency and equity.

### Conclusions

“Every human activity aims at a specific purpose, and way to achieve that goal or misses it shows us how well or how badly that activity is taken place” [Laurenția Avram, 2010].

Performance appraisal is an important component of the performance management within the organization and it is considered an integral part of human resource management in the current context of its development.

The evaluation is carried out by the direct heads, as the team coordinators, who evaluate their subordinates on the basis of general and specific criteria for each position. Most of the time, the evaluation takes place under the coordination of the human resources manager.

The organization applies a well-structured system for evaluating the performance based on its own methodology, designed to meet the needs of the organization.

It is realised an evaluation of both managers and executives, both categories being evaluated on the basis of well-defined competence criteria; the process is carried out within the assessment centres (Assessment Centres).

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An essential part of the evaluation process is the *interview* that allows for more effective communication between the assessor and the evaluated, while ensuring a rapid feedback.

Another important aspect is the communication of the objectives to be achieved at the beginning of the year, especially of the individual objectives, and the establishment of a continuous evaluation of their achievement.

The communication of the performance appraisal results is essential considering that these bonuses are received according to these results and the change of salaries is determined in the following year. Employees benefit from feedback on their activity, telling themselves what they do well and how well they can, and how they can improve and are encouraged to reach their goals.

As a result of the evaluation process, there are established the development programs of the professional skills through specific trainings (training courses by category of staff, applying mentoring and coaching programs).

Review the performance has the role of adapting the objectives and the performance criteria over the time after formulating some possibilities for improvement.

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## MORAL AND PROFESSIONAL VALUES FROM ACQUISITION TO APPLICATION

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### **Abstract**

*The present paper aims at presenting the actual situation as concerns the values the pre-university students are taught about during their high school courses, on one hand, and the necessity of the labour market, on the other hand. At first, we referred to the values within the European dimension of education, as they were established by the European Commission for every state. Here we made special reference to the plan of the educational contents, as it has to contain elements of proximity and coincidence. Secondly, we talked about the new paradigms met with the educational policies. Here we also mentioned the series of activities which help the learning of the common language for a European citizenship and the defining of the new educations, adapted to the dimension of education, the European Commission and the Council of Europe propose. The next treated aspect was to establish the definition of the problem mentioned at the beginning. In order to get real information, we used the following methods: questionnaires (were disseminated to two different categories of respondents: students who want to get a job, on one hand, and employers, on the other hand) and observations. The activities supposed data collecting, processing, analyzing and interpretation. In the end, we draw the conclusions, stressing the role of the university in training and educating the youth, preparing them for the challenges of the labour market.*

**Keywords:** *education; labour market; educational policies; values, employers.*

**JEL Classification:** A<sub>20</sub>

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### **Introduction – Values within the European Dimension of Education**

Beginning with 2000, the European Commission made recommendations to each and every European member state as concerns the promotion of a new type of education comprising elements of approach and coincidence in both its structural and educational content plans. The first common goals were education for democracy, long life learning education, as well as multicultural education. Actually, the modern society fights against violence, racism, religious and ethnic intolerance, xenophobia or lose of the traditional values [1].

As a result of the numerous problems rising due to the force of the events – demography, health, environment – education is pushed up to find out optimal present and future solutions.

The first stage is that of cleaning, purifying education; in order not to represent a source of difficulties, inequities, social, ethnical or religious fractures [1]. Education is one of the state tools that assure social cohesion, offers openness and flexibility for the international community and for other people, so its strength has to be reconsidered.

### **New Paradigms in the Educational Policies**

The strategy “Learning Reorganization” targets a radical change of the educative systems, focusing more and more on the learning results, mainly on knowledge, competences and aptitudes the students gain. To be only but a participant at the educational process is no longer enough. Besides, the basic knowledge in reading, writing and counting has to be considerably improved; the entrepreneurial competences and the initiative have to be also consolidated.

In order to assure a greater compatibility of learning with the necessities of the students and of the labour market, the assessing methods have to be adapted and up-to-date. One also should intensify the use of the TIC and of the open educational resources within all educational contexts. The teachers have to improve their own competences through periodical training. The strategy requires the member states to consolidate the connections between school and employers, to close the companies by the classroom and to allow the youth discover the work universe by intensifying the learning activities in a professional environment [2].

The European Commission and the Europe Council initiated a series of activities which propose the learning of the common language for a European citizenship. Thus, they wanted to familiarize the European inhabitants with the usage of the foreign languages; to introduce the concept of linguistic portfolio for a

mutual understanding and the free access to a series of information in a multilingual and multicultural Europe.

The new educations adapted to the education dimensions were defined as follows: education for human rights, education for democracy and civics, education for peace and disarmament, education for tolerance, education for development, education for environment, intercultural education [3].

In accordance with the European desideratum, the Learning Law in Romania mentions in article no. 2, point no 1: The educational ideal of the pre-university system of learning consists in free, integral and harmonious development of the human individuality and in assuming a real value scale necessary for constructing economics and knowledge society [4].

### **Literature review**

Referring to the issue under discussion, specialists analyze different aspects of it: some talk about self-actualization of employees and supportive employer-employee relationship, which is ever more important, that maximizing productivity [5].

On the other hand, speaking about the values the organizations promote, the specialists note the willing to make efforts, knowledge sharing or using it. Leaders and teams make efforts in order to implement principles that govern the organization life; they reflect the vision and the values to be promoted [6].

Some specialists refer to the effects of adapting national policies to globalization, considering them complex and inter-related. Thus, experts consider that the people develop a dual cultural identity that combines their cultural identity with the identity of a global culture [7].

One of the most comprising definitions of the concept of professional values could be the following: values are often seen as aspirations or driving forces, often not openly articulated, which effectively shape people's lives and determine where they will direct their energies and what they will hold to be of importance [8].

### **Defining the Problem**

The problem defining is in a tight connection to the next stage, the data gathering, as the problem defining is done on the base of the collected and analyzed data [9]. The problem is, in fact, the expression of a need seen as the difference between the actuality and desire.

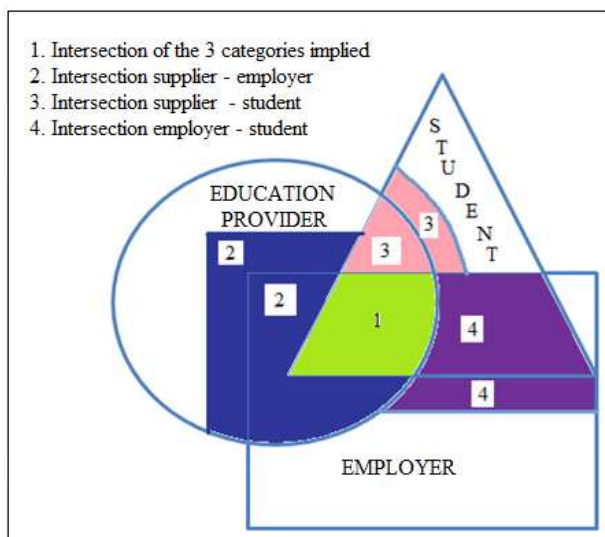
As concern our analysis, we started from empirical observations that the values disseminated by the pre-university and university institutions to their

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students are not assimilated sufficiently, so other milieus put a stronger and negative influence on them. Thus, a distinguishable difference is noticed between the values appreciated by the students in their future professional activity and the values required by the employers.

The research stages consist in: data collecting, processing, analyzing and interpretation.

The figure below (figure no. 1) presents the interaction between the stakeholders: education providers, employers and students (beneficiary). Area no. 1 represents the intersection of the three implied categories; it is necessary this above-mentioned area should overlap on an as much as possible surface and the particular intersections and the uncovered areas be smaller.



**Figure no. 1. Necessities as difference between actuality and desire**

**Data Collecting**

Data collecting is made having two purposes in mind: for a clearer definition of the problem and for a better elaboration and analysis of the options or directions.

The data was gathered from direct sources, using two instruments: questionnaires and observations. The questionnaires are our creations. They have been applied to two categories: employers (12 respondents) and future employees –



students in their last year of high school (109 respondents). The formers run small and medium companies. The latter category attends real and human studies. The employers and the students are from Campulung area, Arges County. Both questionnaires have simple structures; they are not overloaded, containing short and long answers (multiple choice and fill in).

The other instrument for collecting data is our observation that took place continuously, but in an unorganized way, during several school years and also by noticing the current reality.

The first question for students was: *The option for choosing the high school*. 46.8% said they made this choice personally. We have to notice that this process took place when they were about 14-15 years old; 43.1% chose together with their parents/tutors; 3.7% made the choice at random.

The second question referred to the brochures the Ministry distributed in schools, for helping students and parents made a choice for the high school and profile to be attended. The first three categories of answers (not at all, very little, little), summing up 80.7%, utter that the brochure did not count in making their choice; the rest of 19.3% say that the information was important and counted in high grade. We understand that the students and their parents (43.1%, as said above) were determined in their choice; they did not take into account the Ministry offer or the previous results.

In accordance with the previous question, the next one asked the students if they wanted to change the high school profile they attended. 75.2% would not change it, so they remain consistent in their initial choice.

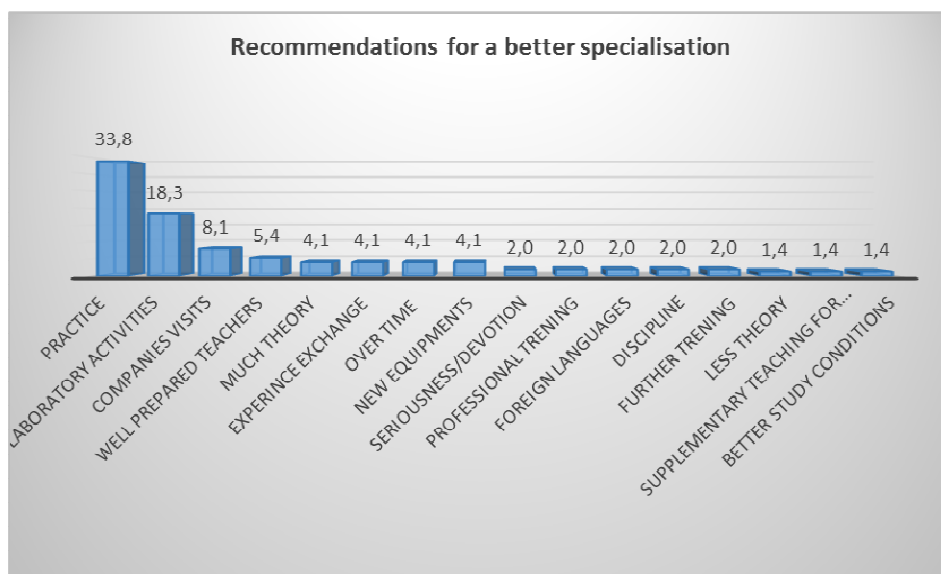
The percent diminishes its value (64.2 are content) when students refer to the level of knowledge and competences gained during the high school years of study as compared to their expectances. Only 24.8% of the students would change the profile attended, but 35.8% are not pleased with it.

The question number 5 asked them if they consider of use the increase of the applicative subjects in school curricula; here we have almost one third for every type of answer: 32.2% do not consider as being necessary the increase of the applicative subjects; another third (33%) would increase the number with a quarter and the last third (34.8%) would increase with half or more the number of the applicative subjects.

After graduating the high school classes, the students receive a competence certificate. The next question asked them if they consider themselves prepared for applying for a job according to the obtained certificate. 52.2% do not consider themselves prepared, while 47.8% on the contrary.

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The seventh question received a wide area of answers. Students enumerated their opinions referring to practices for a better specialization. The figure below presents them, in a descending way (figure no. 3):



**Figure no. 2. Students' opinions for a better specialization**

As we see, the great number of choice is represented by item *practice* (33.8%).

As concern the legal age for work, only 19.2% of the students know it (16 years old).

The last question referred to discussions and panels with success business people. Here a great percentage of 87.1% answered affirmatively.

The questionnaire for the employers begins with the level of training of their employees; 33% consider it being not satisfactory. We remember that almost half of the students declare themselves unprepared for a job after graduating the high school. The difference might be covered by further studies (college).

75% of the answers to the second question utter that the employers are satisfied with their employees' quality of work, as compared to their position in company.

The level of knowledge accumulated during the school years helps the employees fulfil their job tasks is the next question; here 58.3% of the employers said that this level help employees at a low scale and 41.7% at a high scale.

The fourth question refers to the main drawbacks of the employees, which might have been corrected by the system of learning; these are: lack of practice, lack of professional training, lack of education, lack of specialization, lack of interest.

The fifth question is linked to the previous one: it refers to the main drawbacks of the employees on the whole. Here are the employers' first options: lack of seriousness (12), lack of training (4), supra specialization (2).

33.3% of the employers affirm that the percent between the theoretical and practical training is the optimal one; the other 66.7% consider it as being unjust. We noticed above that 64.2% of the students required the increase of the number of practical subjects in school, so the lack of practice is noticed by both categories.

The next question is: at what rank the abilities and the practical competences were developed by the (pre)university curricula in order to increase your employees work productivity? 67% of the employers are unsatisfied with their employees work productivity. The answer is in accordance with the previous ones, where both students and employers required the increase of the number of practical subjects in the system of learning.

As a consequence, 91.7% of the employers utter they are eager to accept practical training for students in their companies.

The first three qualities of an employee are to be – from the point of view of the employers: seriousness (18), qualification (4) and intelligence (4).

The main drawbacks the employers cannot accept are the following: vices as alcohol, (8), theft (3), lie (3). As we see, these drawbacks are connected to education, to the employees system of values. So, we see the need of investment in people.

91.7% of the employers affirm they trust the qualification courses sustained by EU, but only 41.6% trust the same type of courses, but organized by profile companies.

### **Conclusions**

The need for intervention is imposed only watching the answer variations of the two categories implied: employees and employers. The education suppliers are somewhere between them. The universities have the difficult mission to bring to accordance requires with expectations. This can be done by following a series of ample activities, such as: to eliminate the perturbation factors which lack the target

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realization; to correlate the education output with the employers input, based on the vocational students qualities; to throw a communication bridge between the institutions during the period of specialization; to develop a virtual platform for practicing simulations of the real situations met on the labour market; to realize models for modern applications which point out the creativity in solving present problems; to presents the limitations of every categories implied in the process of learning in exact concepts; to detect the key elements of every participant categories.

We noticed that generally, employers' answers matched with students' answers. Thus, both categories stress the lack or weakness of practice in students training and the great number of theoretical subjects in school curricula.

Referring to the university roles in improving this situation, we propose the following actions:

- developing the transversal competences in students education; thus, the students can find easily a job according to his qualifications;
- developing students competences of communication in foreign languages;
- developing students computer competences;
- developing students personal marketing competences;
- developing students team relation competences.

As university curricula cannot comprise all the above-mentioned activities, students have alternatives: participation to Centre for Counselling and Career Orientation activities; attending the Didactic Training program, Erasmus programs, Centre of Professional Advancement, Language Centre and others.

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## CULTURAL DUE DILIGENCE IN M&A. IMPORTANCE OF SOFT RISKS FACTORS

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### Abstract

*During the last decades, the corporate world has witnessed a significant rise in the number of cross border mergers and acquisitions (M&As).*

*In cross border M&As, not only different corporate cultures collide, but also different professional and national cultures.*

*The purpose of Cultural Due Diligence (CDD) is to get a coherent image of the intercultural challenges of the M&A in order to be aware of the intercultural risks and opportunities.*

*This article aims to reveal the perception of managers involved in the pre-M&A stage on the soft risks factors that need to be investigated during CDD.*

*This study proposes an appraisal of the most important intercultural issues that need to be considered in M&A.*

*Our contribution to the intercultural aspects of M&A literature consists in improving the current understanding of Cultural Due Diligence content.*

**Keywords:** *mergers and acquisitions (M&As); cultural due diligence; national culture; organizational culture; professional culture.*

**JEL Classification:** F<sub>23</sub>, G<sub>34</sub>, M<sub>14</sub>, Z<sub>19</sub>.

### 1. Introduction

M&A is one of the most important ways for corporate development. Cross border M&A is also maybe the most important vehicle for foreign direct investment (FDI). M&A is very suitable to today's rapidly developing global business environment. Moreover, despite the past years of crisis, M&A's have not declined. On the contrary, it can be noticed an increase in M&A activity.

Although in the last twenty years, there has been a growing body of research on the success factors of mergers and acquisitions, the key determinants for success remain poorly understood.

The core of this paper is the pre-M&A stage. A better understanding of the impact of national, organizational and professional cultures in M&A is the primary purpose of the research process.

The almost general opinion is that M&A is one of the most important business phenomena in the past decades and it will be in the future too. But this does not prevent scholars and practitioners to warn about the M&A dangers.

The common underlying belief is that intercultural aspects have a strong influence on M&A performance. Ergo researchers have to bridge the gap between theory and practice and to be more realistic and less reductionist in an interdisciplinary approach.

Cultural diversity might be both an asset and a liability in organizations. Whether the losses associated with cultural diversity can be minimized and the gains be realized will depend likewise on the managers' ability to manage the M&A processes.

Due diligence is a comprehensive appraisal of a business undertaken by a prospective buyer, especially to establish its assets and liabilities and evaluate its commercial potential.

Cultural Due Diligence (CDD) is a diagnostic process conducted to ascertain the degree of cultural alignment or compatibility between companies that are party to a merger or acquisition. It is used to develop an effective integration/alignment plan to deal with the impact of culture on the merger or acquisition.

Notwithstanding most of the researchers highlight the importance of due diligence in M&A, in many cases there is not an appropriate practical approach. Cultural Due Diligence (CDD) intends to offer data enough detailed to determine potential areas of culture clash. The impact of cultural diversity rest on the managers' ability to manage the negotiations and due diligence processes in an effective manner.

The present research is part of a study involving a consideration of national, organizational and professional cultures as a factor to maximize the efficiency of negotiations, decision-making and due diligence.

The study explores the problematic cultural aspects of the pre-M&A stage in order to achieve a better understanding of the cultural issues related to negotiation, decision-making, and due diligence. A more profound clarification of the influence



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of national, organizational and professional cultures in mergers and acquisitions is the main purpose of the research process.

The cultural specificity of the managers involved in M&As is not considered exclusively given by their national culture. They are identified culturally by the following categories: nationality, ethnicity, native language, foreign languages, profession, gender, job level, level of education. Their perception is considered also to be influenced by their position (role) in negotiation/decision/due diligence.

The attributes of the participants in the pre-M&A stage are considered to be a result of a mix between national, organizational and professional culture.

Although most of the researchers point to the importance of due diligence in M&A, in many cases there is not an appropriate practical approach. It can be stated that M&A research has underestimated the roles of individual managers and employees. Individuals' mind-sets and interests influence the due diligence, negotiation, decision processes and the integration of the companies. It has to be emphasised that due diligence's importance lies in determining the acceptable level of change within a company.

This study uses Factor Analysis to extract a dimension and the component factors starting from the following basic items: Communication, Organizational culture, National culture, and Professional culture.

## 2. Literature review

### 2.1. *Mergers and acquisitions*

Trompenaars and Asser (2010) consider that global business expansion and development through mergers, acquisitions and strategic alliances is big business. Another interesting remark on this topic is offered by Sahoo, Nataraj and Dash (2014). They argue that FDI, defined in accordance with International Monetary Fund (IMF) guidelines, can take the form of greenfield investment in a new establishment or merger and acquisition of an existing local enterprise. One can emphasise that business is increasingly pursuing mergers and acquisitions, also as a consequence of other factors such as political, monetary etc.

International business scholars and practitioners have postulated that, for firms that conduct business abroad, costs arise from the unfamiliarity of the environment – that is, the cultural, geographic, and institutional distance involved – and sometimes even from a perceived lack of legitimacy; thus foreignness is a liability for the investing firm [Bertrand & Capron, 2015; Angwin & Meadows, 2014].

Others posit that cross-border mergers and acquisitions have become an important strategy employed by firms in the global competitive landscape [Hitt &

Pisano, 2003]. As such, managers must be better informed as to the potential opportunities and challenges presented by this significant strategic action. Furthermore, they must understand how to increase the probability of successful cross-border M&A actions. Finally, there is evidence that the gainers of tomorrow are presumably to be anti-cyclical acquirers of today, as the M&A wave in the 90's proved [Warter & Warter, 2015].

Others [Weber, Rachman-Moore & Tarba, 2012; Gomes *et al.*, 2013] indicate that much has been written about the financial, strategic, and integration aspects of M&A, but the findings are contradictory and the reasons for variations in M&A performance have remained unclear, probably because of the focus on pre-merger variables, thereby neglecting cross-cultural conflicts between people in the post-merger period.

One of the enduring paradoxes in M&A activity has been the propensity of corporations and executives to engage in M&As despite consistent evidence that post-merger performance of acquiring firms is disappointing [Zhang *et al.*, 2014]. A possible explanation to this paradox is that existing knowledge on M&As provides a limited and insufficient understanding of different parts of this important phenomenon, although the high emphasis on surveys clearly indicates a preference in gaining more pragmatic knowledge of strategic alliance activity by studying firms in realistic as opposed to simulated contexts [for a review, see Gomes, Barnes & Mahmood, 2016].

One of the major shortcomings in the research of M&A performance is revealed by Weber, Tarba and Reichel (2011). The authors point out that the combined effects of corporate culture, national culture, and synergy potential on various integration approaches, as well as their influence on M&A performance, have never been simultaneously investigated.

The emerging picture shows a lack of consensus about the M&A particularities. On the same time, the common underlying belief is that intercultural aspects have a strong influence on M&A performance. Researchers have to bridge the gap between theory and practice. Practitioners must focus on action-oriented thinking and encourage theoreticians to be more realistic and less reductionist in an interdisciplinary approach.

In addition to the previous ascertainment, maybe the most important problem is the misunderstanding of the M&A performance concept itself. Do these findings point to a need for M&A scholars to deepen the research? The answer is a clear yes. There are many gaps and unsolved problems in the field that require more theoretical and empirical study.

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Trompenaars and Asser (2010) point out that although success rates of mergers and acquisitions are difficult to compare, as surveys in the area use a variety of assessment metrics, most point to a success rate of about one third, while some have found that only 20% of mergers and acquisitions are ultimately successful. Analysis of the success rate of mergers and acquisitions are available [ed. Rosenbloom, 2002] and show that value creation, the ultimate aim of a merger, acquisition, joint venture, or related type deal, is anything but certain. One in five such deals falls through after it's announced.

It can be concluded that the central issue in M&A remains the high rate of failure. Even the "biggest proponents" of M&A admit that this activity has uncertain outcomes. Reasons for failure remain poorly understood by scholars and practitioners. There is a need to learn more about this issue and this research is directed toward this aim.

The findings show that mergers conducted within a merger wave show less quality and more uncertainty as compared to mergers realized outside a wave. Since the bias reduction is related to the pre-acquisition period it could be possible that the treated firms increase their export orientation with ownership change, but this is also not the case since estimates for the impact on export intensity show no change [Proft, 2014; Geluebcke, 2014].

Other papers focused on cultural issues [Shenkar, 2012; Zait, Warter & Warter, 2014] show that in the FDI literature, based on many determinants, cultural distance (CD) has had three primary thrusts. The first thrust has been to explain the foreign market investment location, the second to predict the choice of mode of entry into foreign markets, and the third application has been to account for the variable success, failure and performance of multinational enterprise (MNE) affiliates in international markets. An integrated system of determinants of FDI (especially on M&A) is composed of seven categories of determinants: Economic, Social, Cultural, Institutional, Technological, Organizational and Commercial.

A slightly different view [Vaara *et al.*, 2013; Hitt & Pisano, 2003] considers that managers may use cultural differences as convenient attribution targets. The authors found that prior experience strengthens the association of failure with cultural differences. Their findings suggest that managers can 'learn' to explain failure with cultural differences, which carries with it a risk of using cultural differences as easy explanations. A similar opinion is presented by Gertsen, Soederberg and Vaara (2004). They argue that not only researchers but also the managers and employees involved in mergers have pointed to national and organizational cultural differences as major causes of integration problems. In fact,

culture has become an integral part of the general discussion on M&As, and thus a core element of the social construction of the phenomenon.

An interesting opinion and a different approach [Teerikangas, Very & Pisano, 2011; Vaara *et al.*, 2013] reveal the roles that integration managers undertake in the post-acquisition phase with regard to capturing acquired firm value in the acquiring firm. Special attention should be focused on how managers may overemphasize the role of cultural differences and even deliberately blame cultural differences for failure. At the same time, other causes of integration problems might pass unnoticed and be left unaddressed.

Scholars explain these inconsistencies in different ways. Some claim that institutional theory can offer a comprehensive framework for understanding variations in national M&A activity [Very *et al.*, 2012]. Others posit that the failure to find a consistent relationship between the indicators of synergy based on relatedness and the M&A success may stem from an overemphasis on the pre-merger stage at the expense of the negotiation process and post-merger stage, including the integration approach used during the processes of integration [Weber, Tarba & RozenBachar, 2011].

It can be alleged that cultural diversity in organizations can be both an asset and a liability. Whether the losses associated with cultural diversity can be minimized and the gains be realized will depend likewise on the managers' ability to manage the negotiations and due diligence processes in an effective manner. This research aims to reveal how cultural diversity influences organizations' performance and the factors that help or impede organizations' performance.

For some scholars [Gertsen, Soederberg & Vaara, 2004; Li Destri, Picone & Mina, 2012], the emphasis on contingency and embeddedness makes it less likely that practitioners overlook relevant local linkages and the impact of national business procedures on merger performance. Thus, the key to understanding the dynamics underlying the performance of M&A is the comparison between the amount of premium of acquisition and the value of synergies that a merger generates. The lack of understanding of culture and synergies and their appropriate evaluation results in destruction of wealth.

This review has discovered various interpretations of M&A performance. Consequently, it can be expressed that many scholars and practitioners had significant contributions in the field. Despite a growing body of research on M&A performance, the conclusion is that the concept of "performance" is still poorly understood. There is a need for researchers to bridge the gap between theory and

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practice. Practitioners should encourage theoreticians to be more realistic and less reductionist in an interdisciplinary approach.

### *2.2. Intercultural aspects*

Intercultural approach should remain what it is and was considered since its inception: a way to consider relating of different cultures where the company, corporation or organization performs actions, activities or business to which those connections can have consequences. There are frequent references to the cultural factor that functions as leverage, for example in the case of FDI [Zait, 2013; Rkibi, 2009]. A learning culture is included by some companies in their vision and mission, which creates the possibility to innovate, but also to adapt to the dynamic, changing environment [Zait *et al.*, 2013].

Some studies, such as Gesteland (2012) and Connaughton, Meikle and Teerikangas (2015), define business culture as a unique set of expectations and assumptions about how to do business. Interestingly, strong corporate cultures appear to enable firms to tap into their human capital resources through organic growth, instead of relying on the purchase of other firms via M&A.

As Hofstede *et al.* (2010) observe, lack of universal solutions to management and organization problems does not mean that countries cannot learn from each other. On the contrary, looking across the border is one of the most effective ways of getting new ideas for management, and organization. Accordingly, international business education should include seminars that focus on awareness of differences in cross-cultural business communication as well as on culture-specific discourse systems that have an impact on business communication [Zaidman, 2001]. In the case of an education-oriented company, more than with other types of organisations, balance and collaboration hold a greater weight in the relationship built on communication, in order to obtain qualitative results [Campeanu-Sonea, Sonea & Bordean, 2013]. The overall pattern of connections between employees of the combined firms, the kind of personal relationship people develop with each other and shared interpretations and systems of meaning among parties are influenced by cultural differences and how they in turn impact M&A outcomes. Employees recreate and re-form a culture or subculture by mixing elements of their existing cultural frameworks with other elements required to adapt to the M&A process [Hajro, 2014; Van Marrewijk, 2016].

This review has found various interpretations of intercultural aspects. As scholars contend, culture is a fundamental issue not only in M&A and cross border transactions but also in research and in everyday life in the age of globalization.

One of the conclusions is that any management and research approach should consider the significant role of culture. Even in domestic transactions, neglecting the cultural factor can be a huge mistake.

According to Xing *et al.* (2016) the level of the individual, the influences of national culture and economic ideology combine to produce a value system that is fully aligned with neither culture nor ideology. From another perspective, Lu, Huang and Bond (2016) and Jing and Bond (2015) point out that in national cultures where people's independence and personal responsibility are endorsed, individuals' decisions and actions are more likely to be decided by their own inside "cores" (i.e., values, beliefs, and orientations), or by external incentive that is consistent with their broader cultural norms. Conceptualized in this way, national culture will impact on its citizen's psychological particularities by positioning the psychological particularities of its citizenry differently with respect to the citizenry of other nations.

A quite similar approach [Reus, 2012; Hofstede *et al.*, 2010] considers that cross-border M&As have double-layered cultural differences of organizational and national differences, which might complicate integrating knowledge pools or can lead to a richer cluster of knowledge. For example, multinationals with a dominant home culture have a clearer set of basic values and therefore are easier to run than international organizations that lack such a common frame of reference.

Another theory on cultural differences measurement means is presented by Rosinski (2011) who emphasises the need of a vocabulary to describe cultural characteristics. The author created: The Cultural Orientations Framework (COF), an integrative framework designed to assess and compare cultures. The difference between cultures doesn't lie in the different type of dilemmas being faced but in the order in which they are taken and reconciled. Consequently, a systematic and triangulated approach to assessing cultural differences needs to be in place and communicated through the management ranks and beyond. Moreover, the archetype approach allows capturing cultural variations and certain nuances that are associated with culture within countries [Trompenaars & Asser, 2010; Richter *et al.*, 2016].

This paper reveals some of the most important cultural dimension measurement tools. It can be stated that despite certain approach differences, these tools, regardless their names and aggregation manner originate from the same basic human values.

It is no wonder that 'cultural differences' have become important issues in contemporary merger or acquisition deals. At the same time, working on or managing cultural differences has grown into one of the key objectives and challenges of both pre-merger and post-merger stages. A widely used construct in

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international business, cultural distance has been applied to foreign investment expansion, entry mode choice, and the performance of M&As.

In search for solutions to reduce the cultural distance to the host country, [Shenkar, 2012] points out that acculturation has been defined as “changes induced in systems as a result of the diffusion of cultural elements in both directions”. Certain cultures are considered attractive to other cultures, a foreign culture’s perceived features may be a major reason for the preferences expressed by potential partners and host countries. Correspondingly, much of the risk associated with working in Central Europe stems from uncertainty and lack of experience, as [Zait, Warter & Warter, 2014] reveal. This gives neighbouring countries with close historical and cultural ties to the region, such as Austria, a distinct advantage over more distant investors.

### *2.3. Due diligence*

According to Boyle and Winter (2010) and Howson (2003), prior to spending considerable resources on putting together meaningful due diligence, it is imperative to ask ourselves some major questions regarding the decision under consideration due to the fact that due diligence is variously described as boring, expensive or time. What, explicitly, do we hope to achieve by the deal? What is the outcome and what are the alternatives? Why is the deal better than a greenfield operation or some other business arrangement? Multi-level due diligence and involvement of key stakeholders at every stage of the acquisition process would be helpful in overcoming many of the challenges. Furthermore, legal documents should never be viewed as a substitute for conducting formal due diligence [Caiazza & Volpe, 2015; DePamphilis, 2011].

McDonald, Smith and Ward (2005) and Reed-Lajoux and Elson (2010) criticize the due diligence process. In spite of all its rigour and detail, it only really considers the tangible aspects of a company’s valuation and neglects “soft” information such as conflict and culture. The nature of each due diligence finding dictates whether it is best addressed before or after the closing. Navigating the raging waters of a fast flowing river requires the expertise of a due diligence team to tame the rapids and torrents zigzagging across the river, and at times against its natural flow and directions. These rapids and torrents represent the frequently risks that are plentiful in an M&A landscape [Gole & Hilger, 2009; Ho & Koh, 2016]. This calls for a change in the multi-level due-diligence process conducted by firms before an acquisition, factoring in management’s motivations, evaluation of risks and ability to overcome specific challenges [Caiazza & Volpe, 2015; Howson,

2006]. In other words, the better the due diligence, the more an acquirer knows about the target firm and therefore the more it knows about the immediate risks it is taking on.

Back in 1997, an author [Carleton, 1997] mentioned that regardless of what models we choose or what methodology we employ, cultural due diligence is coming, and soon. It won't be accountants or lawyers who conduct the audits; it will be human resources (HR) people. The question is: Will we be ready?. Today's M&A success rate hovers around 30 to 40 percent, with clashing cultures cited as at least a contributing factor in most cases. And yet, despite the lessons of history, many due diligence teams glance past the topic, preferring instead to focus on items that can be easily quantified [Recardo & Toterhi, 2014; Gomes *et al.*, 2012].

Consistent with the Stachowicz-Stanusch (2009) paper, a study by Berkman (2013) contends that in the context of a merger of two businesses, one of the intangible issues directly affecting the success of the transaction down the road is whether the business cultures mesh well. The cultural due diligence process can avoid a merger disaster. In a reflection on cultural due diligence opportunity, Carleton and Lineberry (2004) and Rosenbloom (2002) consider CDD should be viewed as a mandatory step to maximize post-merger or acquisition organizational effectiveness and profitability. According to them, CDD can determine the extent to which change can or cannot occur smoothly within a firm.

Other authors [Reed-Lajoux & Elson, 2010; Gleich *et al.*, 2010; Galpin & Herndon, 2014] also support the need for CDD. They reveal that cultural due diligence includes research into what the people in an organization routinely believe, think, and do, including attitudes and mental processes, behaviour, norms, symbols, and history. Moreover, due diligence is a key ingredient both of successful negotiation and of post-deal integration. Cultural due diligence can provide a picture of where two companies converge or diverge on such aspects as leadership, communication, performance management, and so on.

In their comprehensive analyses, Carleton (1997) and Rottig (2013) underscore that the point of cultural due diligence is not to discourage mergers between companies whose cultures happen to differ-most culture-clash problems can be (and have been) handled successfully. Rather, the point is to have a strategy to manage these differences, just as companies do with divergent financial procedures or information systems. CDD, as a crucial first step in the socio-cultural integration process, involves a systematic analysis of the cultural particularities of a possible merger or acquisition partner in order to determine the cultural compatibility between the involved organizations.



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Focusing on the practical approach to cultural due diligence, Spedding (2008) and Warter and Warter (2014) reveal that, although most of the experts and practitioners point to the importance of due diligence of M&A, in many cases there is not an appropriate practical approach. Furthermore, CDD has to include leadership, change management, decision-making, cultural descriptions etc. Unfortunately, many companies, although conducting systematic financial analyses in the pre-M&A stage, neglect to examine cultural issues during the cultural due diligence process. This shows the lack of importance companies attach to the cultural integration process prior to a merger or acquisition.

Other authors [Reed-Lajoux & Elson, 2010; Gleich *et al.*, 2010] show that approaches to cultural due diligence fall into four general categories: integrating cultural criteria into the pre-merger discussions, staffing and preparing the due diligence team with an eye toward cultural issues, adding cultural criteria to due diligence data collection, and using formal tools to assess culture fit.

Integration teams should conduct a thorough cultural due diligence on the other company's culture and also should investigate own company, culture and standards in order to determine if the companies fit. The findings show a lack of consensus about the CDD content, a relatively new area of the due diligence process, and about the depth of this process. It can be remarked, though, that the overall opinion is that CDD has a strong influence on M&A performance.

### 3. Research methods

#### 3.1. Research setting

The study took a quantitative approach. The most appropriate way to reach the research goals was to develop a questionnaire. The subjects of this research were managers involved in the pre-M&A stage.

The quantitative survey approach follows from the post-positivist ontological and epistemological bases of this study. An important advantage of the quantitative survey method is that looking across numerous cases makes it possible to generalize results.

This research is more suitable to well-defined research questions. Open questions are very time consuming. Close-ended questions also avoided poor-quality responses. Considering that the subjects of the research were mainly middle and top managers, the response rate to open questions could be very low and the results not very convincing.

This study used newly generated numerical data. Numerical data might seem inadequate for a study based on perceptions but the levels of perception were

translated into numerical data using the Likert scale. A 5-point Likert scale was used because it's easier for the respondent and less time consuming than a 7-point Osgood scale.

This research is based on the following question:

How important is it to investigate soft risks during due diligence?

Not at all	Very important				
Communication	1	2	3	4	5
Organizational culture	1	2	3	4	5
National culture	1	2	3	4	5
Professional culture	1	2	3	4	5

Data collection was held 1 to 6 years after the merger or acquisition date. This delay allowed the analysis of the integration process in a meaningful way. At the same it was not too long to create problems concerning the retrospective sense making.

The data collection process was performed in absence of an interviewer. The data collection activities were done remotely. From the basic methods available for data collection in surveys (telephone survey, personal interviews, and mail survey), the mail survey method was chosen due to several reasons:

- the cost was lower;
- it offered the opportunity to reach more respondents in a wider geographical area;
- it was less time consuming for the respondents in key positions;
- it avoided interviewer bias, consequently increasing the reliability.

A special concern was to minimize the negative reaction of the respondents by using appropriate questions and question wording. Special attention was paid to other characteristics of the survey items: the time reference, social desirability, and saliency or centrality.

Clear instructions about the requested details in the mail survey were provided. The questionnaire was developed considering the usefulness of responses, the chance of getting the expected data and the readiness of the respondents to accurately answer the questions.

A careful examination was conducted in order to reduce the non-sampling errors associated with validity, specification, and measurement reflected in the

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following questions: “What can be measured to reflect the concept?”, “How well does the measurement reflect the concept?”, “How well does the question capture the desired measurement?”, “How well does the response match the intent of the question?”.

The questionnaire was sent in English because people involved in the pre-M&A stage have a high level of this language.

### *3.2. Data Gathering and Analysis*

The participants were senior managers who experienced first-hand the process of intercultural due diligence, negotiation and decision-making. All participants (154) were anonymous to each other in order to get their own ideas, answers, and experiences when responding to the questionnaire.

The selection of the sample was a question of balancing accuracy against cost and feasibility. Non-probabilistic sampling was used and therefore it is a potential for bias and inaccuracies in generalizing to a larger population.

The sample companies were selected using secondary data provided by the main financial magazines in the analysed countries. The main target countries were Romania and Eastern European countries (52 companies from Poland, Bulgaria, Czech Republic, and Hungary). The sample companies included also companies from other countries (39 companies from Austria, Netherlands, USA, Israel, Canada, France, Germany, Switzerland, Pakistan, Cyprus, South Africa, Belgium, Sweden, Japan, and Brazil). The companies are from various industries like: Agriculture, Chemical industry, Construction industry, Electronics industry, Food industry, Healthcare industry, Plastics industry, Textile industry, Software industry. The selection was carried out according to the following criteria:

1. The acquired company or one of the participants in merger was a local company from the selected countries.
2. Management buy-outs and purely financial acquisitions were excluded.
3. Regarding acquisitions, there were considered only cases in which the acquiring party had gained a majority stake (over 50%) of the acquired firm.
4. Only mergers/acquisitions where the minimum turnover of the two parties involved exceeded EUR 1 million were included.

Participation in the study was solicited through a number of direct and indirect channels to individuals who had the above-mentioned profile. These channels included:

- friends and colleagues;

- referrals from friends and colleagues;
- postings on M&A related web forums and electronic distribution lists;
- direct emails to members of M&A related communities of interest;
- email referrals from individuals who filled the questionnaire.

The questionnaire has been made available to the general public by placing it on Dropbox.

In addition, the following Social Networking Sites for Scholars and Business Professionals were used: Research Gate, Academia.edu, LinkedIn, and Facebook.

Special attention was paid to the errors that occur due to the nature of the research design and the precision of execution (systematic errors). Very significant for the research were both broad categories: administrative errors and respondent errors. Sample error or bias (results of a sample show consistent deviation, in a direction away from the true value of the population parameter) was also examined. The mail survey raised the issue of significance of instrument-associated errors due to poor questionnaire design, improper selection of samples, etc.

Regarding ethical assurance, this study was designed to comply with the standards for conducting research with human participants. Provisions were made for the participants to receive a copy after the study will be completed. The privacy of the respondents was respected by the exclusion of questions that participants may have considered personal or private. The respondents were not asked about their religion, marital status, etc.

A cross-sectional survey was conducted because it focuses on collecting data about current attitudes, opinions, or beliefs relating to the national, organizational and professional culture. This kind of survey was more representative of the population and the research objectives did not include repeated research over a period of time. The data is based on a single data collection round. The response rate for the survey was rather small. However, in mergers and acquisitions research, the sensitive nature of the operations restricts the willingness of managers to comment on the process.

The main preoccupations after the data collection concerned the internal validity, external validity and reliability. Internal validity is the extent to which results can be interpreted accurately. During data-collection, several measures to improve the internal validity of the questionnaire were taken. External validity is defined as the extent to which the results can be generalized to populations and conditions. The response rates seemed adequate to enable generalizations. Reliability is the degree to which the observed variable is free of measurement

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error. Several precautions were taken to increase the reliability of the measures. Special attention was paid to sampling error and non-sampling error.

Received responses were downloaded into an Excel spreadsheet. Statistical analyses were performed on the data using Statistical Package for the Social Science (SPSS 20.0).

The most important steps in data preparation for the research were analysis, validation, editing and data cleaning.

Given the design of the questionnaire missing values were not a central issue but still there were missing values from some respondents. Incorrect values were an issue of lesser importance.

**4. Findings and Discussion**

**4.1. Results**

Table no. 1 presents the factors and corresponding items for Importance of soft risks investigation during due diligence.

**Table no. 1. Factors and corresponding items for Importance of soft risks investigation during due diligence**

Item number	Item name	Item code	Factor	Factor name
1.	Communication	c	F1	Culture
2.	Organizational culture	oc	F1	Culture
3.	National culture	nc	F1	Culture
4.	Professional culture	pc	F1	Culture

Table no. 2 presents KMO and Bartlett's Test results for Importance of soft risks investigation during due diligence. It can be observed that the overall value for the "Measure of Sampling Adequacy" has a suitable value at 0.813, and "Bartlett's Test of Sphericity" has an associated P value (Sig. in the table) of <0.001 as by default SPSS reports p values of less than 0.001 as 0.000. These results indicate that a valid factor analysis can be performed.

**Table no. 2. KMO and Bartlett's Test for Importance of soft risks investigation during due diligence**

KMO Measure of Sampling Adequacy.		0.813
Bartlett's Test	Approx. Chi-Square	95.354
	df	6
	Sig.	0

Table no. 3 presents Total Variance Explained results for Importance of soft risks investigation during due diligence. In the table can be noticed that one component was extracted. The scree plot is displaying the same data visually.

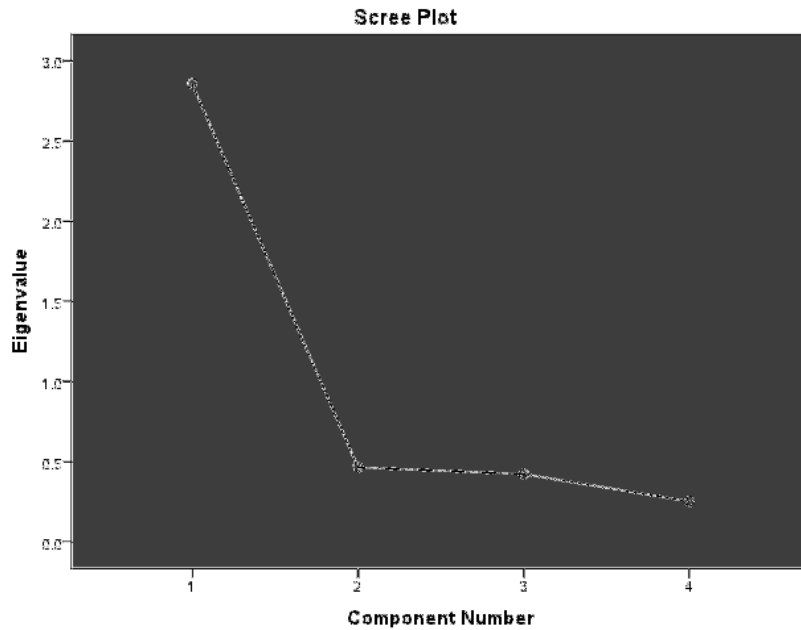
**Table no. 3. Total Variance Explained for Importance of soft risks investigation during due diligence**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.860	71.489	71.489	2.860	71.489	71.489
2	.465	11.630	83.119			
3	.423	10.578	93.698			
4	.252	6.302	100.000			

Table no. 3 also shows the importance of each of the principal components. Only the first has eigenvalue over 1.00, and this explains over 71% of the total variability in the data. This means that a one factor solution will be acceptable.

The middle part of the table shows the eigen-values and percentage of variance explained for just the factor of the initial solution that is considered important. In the right hand part of the table, can be found the eigen-value and percentage of variance explained for the rotated factor

The unrotated factor loadings show the expected pattern, with high positive loadings on the first factor (Figure no. 1).



**Figure no. 1. Scree plot for Importance of soft risks investigation during due diligence**

Communication, Organizational culture, National culture and Professional culture (1, 2, 3 and 4) all have high positive loadings on the factor.

It is reasonable to identify the factor (F1) as “Culture”.

As one factor was extracted, we have one factor equation.

Table no. 4 presents the Component Score Coefficient Matrix for Importance of soft risks investigation during due diligence.

**Table no. 4. Component Score Coefficient Matrix for Importance of soft risks investigation during due diligence**

	Component Score
1	0.310
2	0.303
3	0.288
4	0.280

Using the values from Table no. 4, the equation is:

$$F1 = 0.310 * c + 0.303 * oc + 0.288 * nc + 0.280 * pc$$

The Saved Factor scores have been added to the data. These are standardized scores, obtained by applying the rotated factor loadings to the standardized score of each participant on each of the variables.

#### *4.2. Discussion on empirical findings*

Using Factor Analysis it was extracted a factor for this dimension. It corresponds to 4 basic items.

The dimension Importance of soft risks investigation during due diligence is essential for the content of the Cultural Due Diligence. This study allowed furthering the understanding on the issues that need more attention from practitioners during the pre-M&A investigation. The analysis of the CDD construct is also meant to unravel the biases of some scholarly research.

The extracted factor Culture represents the core of the Cultural Due Diligence.

The basic items (Communication, Organizational culture, National culture, and Professional culture) could be ranked according to the perceptions of the respondents. The most important is: Communication, while Professional culture is considered the least important.

The resulted formula is a tool to be used for measuring the perception of respondents on the content of Cultural Due diligence.



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### 5. Conclusions and suggestions for future research

#### 5.1. Limitations

The main limitations of this study are:

- The research is based on collected data that represents the perception of the sample population, as opposed to an objective measurement of data.
- The population of this study is composed of senior managers who experienced first-hand the process of intercultural due diligence, negotiation and decision-making. This study is not restricted to a specific industry or company profile.
- The questionnaire used in this research relates to only some facets of the pre-M&A activities. The results and interpretation of this research are limited to these facets.
- The selected countries sample populations is not a probability sample because the sample is voluntary and hence it may have a self-selection bias.
- The emotional involvement of the respondents might cause exaggeration of facts.

#### 5.2. Implications

M&A is one of the major business phenomena in the past decades and it will continue to be in the future. In the last twenty years, there has been a growing body of research on M&A performance and on the success of mergers and acquisitions (M&As). Notwithstanding the foregoing, the key determinants for success remain poorly understood.

The core of this work is the pre-M&A stage. The aim is to throw light on the cultural issues related to due diligence.

This study makes a contribution to the field of intercultural issues in M&A by integrating research on national, organizational and professional culture, into a theory of cultural due diligence content and outcome. It attempted to investigate not only the outcomes but the perception on the process of cultural due diligence.

The common underlying belief is that intercultural aspects have a strong influence on M&A performance. A significant deficiency is the almost complete separation between national, corporate and professional culture. Ergo researchers have to bridge the gap between theory and practice and to be more realistic and less reductionist in an interdisciplinary approach.

The dimension Importance of soft risks investigation during due diligence is essential for the content of the Cultural Due Diligence. This study approached in

depth the issues that need more attention from practitioners during the pre-M&A investigation.

The extracted factor Culture represents the core of the Cultural Due Diligence.

The basic items (Communication, Organizational culture, National culture, and Professional culture) were rated in compliance with the perceptions of the M&A practitioners. Consequently the most important is: Communication, while Professional culture is considered the least important.

The resulted formula is a tool to be used for measuring the perception of respondents on the content of Cultural Due diligence.

Cultural Due Diligence (CDD) intends to offer data enough detailed to determine potential areas of culture clash. The impact of cultural diversity rest on the managers' ability to manage the negotiations and due diligence processes in an effective manner.

Given the findings of this study which suggest a combined effect of national, organizational and professional cultures, future research may need to examine the dynamic nature of a wider spectrum of cultural influences on M&A perceptions. Such exploration would lead to a more refined understanding of the cultural issues in M&A and how organizations can benefit from such a shift.

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## HOW TO DESIGN A WEB SURVEY USING SPRING BOOT WITH MYSQL: A ROMANIAN NETWORK CASE STUDY

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### Abstract

The article presents a survey applied on a representative sample of Romanian SMEs. The article represents a case study and focus on technical elements that allow collecting data from Romanian SMEs managers and save it in a MySQL database. The Back-End component is developed with the newest Spring Boot MVC.

**Keywords:** survey, MVC, Spring Boot, MySQL database, Romanian SMEs.

**JEL Classification:** M<sub>15</sub>

### Introduction

The article presents the technical implementation on collecting data during a survey for Romanian SMEs. The scope of the survey is to find out the level of awareness and the knowledge of SMEs on ICT facilities. The survey analysis and interpretations will be published publicly and send to each SME, in order to help surpass the current technological challenges. Another scope is to help SMEs to be more adapted to market requirements.

#### 1. Research methodology

During the survey the Romanian SMEs are interviewed regarding:

A: *General information:* company name, headquarters of the institution, phone, e-mail, geographic area, activity area, name of person who completed the questionnaire-mail the person who completed the questionnaire



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### B: *IT & C data*

– What management system the company chosen and paying ratings on a scale from 1 (very poor) to 5 (best) for the following attributes related to the management information system: functionality (ability to respond specifically to program a task), reliability (the program's ability to maintain performance levels respecting given conditions), ergonomics (ease of use and learning using the program), effective management of time and space required memory execution, Maintainability (stability execution after making changes), portability (the extent to which the application can run on systems other than the one it was originally made).

– What business intelligence solution and accounting program (licensed or open source) the company chose.

– If the management information system is designed by IT specialists within the company what tools used for building them? Does the company indent to add more functional modules or to change the application?

### C: *Data regarding the On Line presence of the company*

– What is the role of the internet in defining managerial objectives of the company? Which are the sites that the company often visits? Is the company a member of a forum/blog or other portal discussion on topics of business? Does the company maintain correspondence internet business? How does the company identify the investment opportunities, etc.

### D: *Economic data*

There were gathered data regarding the number of enterprise employees, turnover in 2007, the share in turnover of institution, annual budget that was allocated to software solutions or hardware, the value of company's export and imports.

The companies were asked if the financial indicators have improved once deployed application and which are the items to base on the development of the company. They also were pleased to indicate what types of European funds had accessed and to mention three main positive and negative events that the company recorded in the past years.

### E: *Data on IT&C awareness*

The companies were investigated regarding the awareness of free open source licensed software, such as: Open Office package, Linux-Apache-PHP Mysq, Saga, SpagoBI, etc.

## 2. Front end component

The client side contains a HTML form, named chestionar that sends users answers by fill in the form through GET http method:

The form elements are:

### 1. Textboxes, such as:

Denumirea, sediul institutiei, telefon, adresa de e-mail:<br> <input name="T1" type="text" id="T1" size="60"><br>

### 2. Drop down lists, such as:

1. Ce sistem informatic pentru management ati ales pentru companie (sistem informatic de asistarea deciziei)?<br>

```
<select id="siad" name="siad">
  <option>Alegeti
  <option value=1>1. Dicodess - orientare pe modele;
  <option value=2>2. NetMeeting - orientare pe comunicare;
  <option value=3>3. Groove - orientare pe comunicare;
  <option value=4>4. Sphinx- orientare pe analiza datelor;
  <option value=5>5. Altele - specificati numele
  <option value=6>6. Nicu unul (nu utilizam )
</select><br>
```

Specificati in aceasta casuta care este raspunsul pentru altele<br><input name="T4" type="text" id="T4" size="30"><br><br>

### 3. Lists, such as:

2. Acordati calificative pe o scala de la 1 (foarte slab) la 5 (foarte bun) pentru urmatoarele atribute referitoare la sistemul informatic de management:

```
<ul>
  <li>functionalitate (capacitatea programului de a raspunde precis la o sarcina)
    <select id="f1" name="f1">
      .....
    </select><br>
  <li>fiabilitate (capacitatea programului de a-si mentine nivelul de
  performanta respectand conditiile date)
    <select id="f2" name="f2">
```

```
.....  
</select><br>
```

4. *Textarea*, that allows a longer open answer for user, such as:

```
12. Care sunt facilitatile software pe care NU vi le ofera solutiile software  
utilizate de companie si care considerati ca ar influenta benefic activitatea  
companiei?<br>
```

```
<textarea name="facil" id="facil" rows="4" cols="60"></textarea><br>
```

```
Ce site-uri vizitati?<br><textarea name="sites" id="sites" rows="4"  
cols="60"></textarea>
```

5. *Check boxes*, for choosing yes/no answers

```
<li><b>Bifati casuta alaturata daca doriti sa publicam pe acest site numele si  
scurta descriere a companiei dvs &nbsp; &nbsp;
```

```
<input type="checkbox" id="bifa" name="bifa" value="bifat"><br /><br />
```

6. *Submission button*

```
Va rugam, apasati acest buton pentru a salva raspunsurile dvs.<input  
type="button" onclick="valid_sondaj()" name="raspunsuri" value="Trimite"  
</br><br> </form>
```

The result of the previous code is the questionnaire form presented in the picture below (fig.1.):

**A. Date Generale**  
 Denumirea, sediul institutiei, telefon, adresa de e-mail:  
  
 Zona geografica:   
 Domeniu de activitate:   
 Numele persoanei care a completat chestionarul:  
  
 Adresa de e-mail a persoanei care a completat chestionarul:

**B. Date IT&C**  
 1. Ce sistem informatic pentru management ati ales pentru companie (sistem informatic de asistarea deciziei)?  
  
 Specificati in aceasta casuta care este raspunsul pentru altele  

Alegeti
1. IBM (Applix, Cognos)
2. LogiXML
3. Microsoft Analysis Services, PerformancePoint Server 2007, Proclarity
4. Oracle Corporation (Hyperion Solutions Corporation)
5. SAP Business Information Warehouse (Business Objects, OutlookSoft)
6. SPSS - Statistical Package for the Social Sciences
7. PANORAMA BUSINESS INTELLIGENCE SOFTWARE
8. VISION - Infor SystemsUnion (LLP Bucharest)
9. Qlik View
10. PeopleSoft
11. Charisma
12. Altele - specificati numele
13. Nicu una (nu utilizam )
Alegeti

 Specificati in aceasta casuta care este raspunsul pentru altele  
  
 4. Ce solutii business intelligence gratuite (open source) utilizati?

**Figure no. 1. Form presented to Romanian SMEs manager to fill in**

### 3. Back end component

MySQL create table directive is shown below:

```
create table chestionar ( id MEDIUMINT PRIMARY KEY AUTO_INCREMENT, T1 varchar(60) NOT NULL, zona varchar(20) NOTNULL, dom varchar(20) NOT NULL, T2 varchar(20) NOT NULL, T3 varchar(20) NOT NULL, siad varcha
```

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r(20) NOT NULL, T4varchar(30) NOT NULL, f1 varchar(10) NOT NULL, f2 varchar(10) NOT NULL, f3 varchar(10) NOT NULL, f4 varchar(10) NOT NULL, f5 varchar(10) NOT NULL, f6 varchar(10) NOT NULL, facil varchar(250) NOT NULL, bifa bit NOT NULL, tsTIMESTAMP DEFAULT CURRENT\_TIMESTAMP)

The result can be seen in the next image:

#	Name	Type	Collat
1	<b>id</b>	mediumint(9)	
2	<b>T1</b>	varchar(60)	latin1_
3	<b>zona</b>	varchar(20)	latin1_
4	<b>dom</b>	varchar(20)	latin1_
5	<b>T2</b>	varchar(20)	latin1_
6	<b>T3</b>	varchar(20)	latin1_
7	<b>siad</b>	varchar(20)	latin1_
8	<b>T4</b>	varchar(30)	latin1_
9	<b>f1</b>	varchar(10)	latin1_
10	<b>f2</b>	varchar(10)	latin1_
11	<b>f3</b>	varchar(10)	latin1_
12	<b>f4</b>	varchar(10)	latin1_
13	<b>f5</b>	varchar(10)	latin1_

**Figure no. 2. Chestionar MySQL table**

We are using Spring Boot MVC for deploying the web application. The Model component is detailed below.

This annotation tells Hibernate to make a table out of this class:

```
@Entity
public class chest {
```

The following annotation helps identify id field as a unique identifier or primary key:

```
@Id
```

The next annotation is for automated increment of the id field:

```
@GeneratedValue(strategy= GenerationType.AUTO)
```

This following block of code contains the fields that map the table in the database:

```
private Integer id;
private String T1;
private String zona;
private String dom;
...
private java.util.Date ts;
```

The getters and setters employed for the CRUD methods implementation are shown below:

```
public String getT1(){
    return T1;
}
public void setT1(String T1){
    this.T1=T1;
}
...

```

The Controller implements two methods: one for adding one questionnaire at a time (addNewChest), and one to show all the questionnaires (getAllChest).

```
package hello;
...
import hello.chest;
import hello.UserRepository;

@Controller // This means that this class is a Controller
@RequestMapping(path="/demo") // This means URL's start with /demo (after
Application path)
```

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```

public class MainController {
    @Autowired // This means to get the bean called userRepository
                // Which is auto-generated by Spring, we will use it to handle the
data
    private UserRepository userRepository;

    @GetMapping(path="/add") // Map ONLY GET Requests
    public @ResponseBody String addNewChest (@RequestParam String
T1, @RequestParam String zona, ..., @RequestParam String bifa) {
        // @ResponseBody means the returned String is the response, not a
view name
        // @RequestParam means it is a parameter from the GET or POST
request

        chest n = new chest();
        n.setDom(dom);
        ...
        n.setZona(zona);
        userRepository.save(n);
        return "Saved";
    }

    @GetMapping(path="/all")
    public @ResponseBody Iterable<chest> getAllChest() {
        // This returns a JSON or XML with the users
        return userRepository.findAll();
    }
}

```

When the application starts, it recreates the table in MySQL (thus erasing all the previously recorded data!) and the Tomcat web server waits for clients to connect:

```

@SpringBootApplication
public class Application {
    public static void main(String[] args) {
        SpringApplication.run(Application.class, args);
    }
}

```

}

The configuration file used for this application contains the following information:

```
spring.jpa.hibernate.ddl-auto=create
spring.datasource.url=jdbc:mysql://localhost:3306/Chestionare
spring.datasource.username=root
spring.datasource.password=
```

All the elements in the HTML page are associated with fields in Java. For example, the String T1 field that requests the content from the T1 text box (<input name = "T1" type = "text" id = "T1" size = "60">) using GET http method, like in the form below:

```
<form      name="chestionar"      id="sondajfrm"      method="get"
action="demo/add"><font  color=#0066CC>      <ol  type="A"><li><b>Date
Generale</b><br>.....</font>
```

To ensure that all fields are filled in, survey validations are implemented on each field, as presented in the code below:

```
<script type="text/javascript">
function valid_sondaj(){
    if (document.getElementById('sondajfrm').T1.value=="") alert('Va rugam sa
completati datele referitoare la companie!');
    else if (document.getElementById('sondajfrm').dom.value=='Alegeti')
alert('Va rugam sa completati domeniul de activitate!');
    else if (document.getElementById('sondajfrm').T2.value=="") alert('Va rugam
sa completati numele dvs!');
    .....
    else if (document.getElementById('sondajfrm').oportun.value=='Alegeti')
alert ('Va rugam sa completati cum descoperiti oportunitatile de investitii!');
```



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```
else if (document.getElementById('sondajfrm').outsourcing.value=='Alegeti')  
alert ('Va rugam sa completati ce forma de outsourcing a ales compania!');  
  
else if (document.getElementById('sondajfrm').ind.value=='Alegeti') alert('Va  
rugam sa completati ce indicatori s-au imbunatatit!');  
  
else document.getElementById('sondajfrm').submit();  
}  
</script>
```

### **Further research**

In a future paper, it will be presented the survey interpretation and conclusions in order to offer support and consultancy on ICT facilities for SMEs.

### **Conclusions**

The article is an original research representing a case study of technical solutions to implement an html form that sends collected data from end-users in a MySQL database through GET HTTP method. Thus any SMEs can follow the steps above and use the code presented for collecting different type of data on internet and send it into their own database. There are free web forms on the market, but they set a limit in the number of collected questionnaires.

## EMERGENT GENDER RELATIONS IN FEMALE EMPLOYMENT WITHIN THE SOCIAL STRATIFICATION IN RURAL INDIA

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### ABSTRACT

*The paper has presented an empirical picture of inequalities, both within and outside the labour market for women, from gender relations emerging within the framework of overlapping social stratification in rural India. Analysis is based on secondary data, where the emphasis is not only on measurement of quantitative variables, but also on the interactions between various qualitative, socio-economic and socio-cultural variables. The main finding of the present study is that the participation of women in labour force varies across economic classes, social groups, religions, regions and the rural urban divide. Factors determining labour supply decisions of women are different from those of men. Interconnectedness of female employment with other social parameters, which are outside the realm of the standard labour market analysis, gets highlighted in the study.*

**Keywords:** *gender relation; female labour force/work force participation; social hierarchy.*

**JEL Classification:** J<sub>16</sub>, J<sub>21</sub>

### 1. Introduction

The notion of 'work' and 'employment' for women is complex. While economic factors predominantly determine a man's participation in employment, the reasons why women work, or do not work or whether they work part-time or full-time can be diverse and are often rooted in a complex interplay of economic, social, cultural and personal factors.

In India, as in other parts of the world, fewer women participate in employment as compared to men both in urban and rural areas. But more women work as compared to men. This is the backdrop against which this paper analyses

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what gender relations emerge in employment under overlapping class, caste and community identity (religious groups) and finally how such gendering of work has many significant and related consequences.

Rural women have less access than men to productive resources, services and opportunities, such as land, livestock, financial services and education. Numerous studies underscore the social costs of rural women's lack of education and assets, linking it directly to high economic costs: wasted human capital and low labour productivity that stifle rural development and progress. To understand women's work status in India's rural areas and to examine the nature of women's employment, data from large scale National Employment-Unemployment Surveys is analysed in the present study.

Theoretically, female labour supply is often modelled using the framework of the time allocation model (Becker, 1965), which states that women make their labour supply decisions not only considering leisure and labour trade-offs, but also home-based production of goods and services (including caring for children)<sup>1</sup>. Seminal work done by Goldin (1995) explored the U-shaped relationship between female labour supply and the level of economic development across countries. Initially, when the income level is low and the agricultural sector dominates the economy, women's participation in the labour force is high, due to the necessity of working to provide for consumption of goods and services. As incomes rise, women's labour force participation falls, only to rise again when female education levels improve and, consequently, the value of women's time in the labour market increases. This process suggests that, at low levels of development, the income effect of providing additional labour dominates a small substitution effect, while as incomes increase; the substitution effect starts dominating<sup>2</sup>.

The key contribution of this paper is that it explores the dimensions of women's participation; both within the labour market and outside, across socio-religious and socio-economic groups. The interface of class, caste and religion (community identity) with labour market outcomes of women has been explored and it is seen how specific attention to social and cultural variables has relevance for discussions on women's employment (Neetha, 2013). The importance of

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<sup>1</sup> Hence the need to consider participation of women workers in activities which are outside the production boundary and officially considered as being 'out of labour force'

<sup>2</sup> The income effect is the change of hours of work of an individual with respect to a change in family income. The own-substitution effect is the change in hours of work of an individual with respect to change in their wage, holding income constant.

explicitly drawing distinctions between class, religious and caste categories in the analysis of female employment pattern is highlighted in the paper. The novelty of this study is that it uses a detailed and very large Indian household survey dataset conducted by the National Sample Survey Office (NSSO). Stylised facts from the data are presented in a later section.

### **1.1 A History of Gender Relationships**

There are two levels at which women and men interact with each other: there are large-scale, more impersonal gender relations and intimate gendered relationships (Holmes, 2008). At the large-scale level women as a social group are compared to men as a social group. Concerns at that level are with general patterns in how the two groups are positioned in relation to each other within society. The usual framework employed to understand gender relations is the common sociological framework of social stratification and the associated inequalities.

‘Social Stratification’ refers to the different layers within a society, the hierarchies organised around different groups. The major forms of stratification occur around class, caste, ethnicity or religion and gender. Women’s social position has historically been and continues to be one of disadvantage. A lot of research has been done on gender inequalities which mention that women typically have worse jobs, get less pay and are likely to be poorer. Continuity of women’s relative disadvantage has been the focus of much research particularly through the 1980s and 1990s. There has also been a growing emphasis on complexity and diversity. Much of empirical research demonstrates that major continuities of inequality still confront women in the labour market (Arber & Ginn 1995; Hakim 1996; Rubery et al 1999). Gender relations which operate at a large-scale level (studied in the paper) impact gendered relations which are at a more personalised and intimate level.

### **1.2 Conceptualising Continuities and Changes of Gender Relations in Employment**

Research regarding gender relations in work and family has been evolving over recent decades (Irwin, 2005). Initially continuities in inequalities were focused but this has given way to recent concern with complexity and diversity. Researchers are now trying to understand how change in gendered employment patterns connects to change in social organisation more widely. There has been a shift in the system of gender relations over the twentieth century, resulting in a change of the pattern of inequality between men and women. Hence a need to develop and apply an intersectional approach to gender analysis has been

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emphasised by the International Labour Organisation (ILO). Recent research thus focuses more on issues of diversity, complexity and contextual specificities in the reshaping of gender relations within the hierarchies of class, caste, social and religious groups.

### *2. Research Objective*

A major gap in the existing literature is the limited attention paid to the representation of class (as proxied by Landownership) and of Caste. Class considerations have been represented in the form of technological change in agricultural methods (Da Corta & Venkateshwarlu, 1999) or in the form of income classes of the household as represented by monthly per capita expenditure. But the idea that land ownership is a form of wealth which decides the economic class of the household has yet to be exploited in studies. Land holding size from National Sample Survey (NSS) data has been used as one of the many determinants of female labour force participation in studies before but the stratification of social hierarchy in terms of land ownership has been attempted<sup>3</sup> few and far between. Ownership of land being a historically important indicator of wealth of the households and hence a socio-economic determinant, especially in rural India, warrants a detailed study of its effects on the labour supply decisions of women workers, i.e. on female employment. To try to fill in the existent gaps in the literature this paper has the following objectives:

- i. To present a disaggregated analysis of female employment across class, caste and religious identities in rural India
- ii. Investigate the causal relationship between socio-economic and socio-religious determinants of female work force participation.
- iii. Establish the effectiveness of intersectionality in determining female work force participation.

The social stratification of class has been done by considering 'economic class' which in rural areas is well delineated by the land ownership of the respective households. Greater amounts of land imply higher social positioning and hence a privileged position. Amount of land owned is a strong class stratifier in rural India. Hence the idea of taking up land as one of the causal variable. As female labour is not decided by any single factor but rather by an interplay of various factors so the concept of intersectionality has been utilised. Introduction of

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<sup>3</sup> A study by Gita Sen and Chiranjib Sen (1985) has studied the female employment pattern with respect to unpaid work within the land holding sizes of the households.

the interaction terms brings in the concept of 'Intersectionality' (Crenshaw,1989). It enables the present study to consider three dimensional axes at one point of time.

The axes of observation are;

- 1)landownership class;
  - 2)socio-religious group (interaction terms of social groups and religions);
- and
- 3)interaction terms (of land ownership and socio-religious groups).

The extent of female participation in the labour market is determined in India by a nexus of class/caste hierarchy and norms of patriarchal ideology. In a hierarchical society based on patrilineal-patrilocal families, the location of the family in the caste/class hierarchy would determine the level and forms of female work participation (Bardhan, 1985). This observation encouraged a look into the behaviour of female work-participation of the different socio-religious groups in India. These groups have been constructed from NSS data, which gives the position of the household in the socio-religious ladder. Interaction of these socio-religious groups and land ownership has given the position of the household in the class or socio-economic ladder. Econometric estimation and analysis of the impact of these interaction terms on the work participation of female workers has enabled the study to make certain conclusions about the behaviour of female labour supply. It has provided an insight into the employment aspects of women workers belonging to various land ownership classes of the different socio-religious groups. The need for such a study was felt as there are differences in inheritance and asset ownership legislations among the various social and religious groups in India.

### ***3. Data and Methods***

The data used for analysis in this paper were collected as part of the all India quinquennial survey on Employment-Unemployment by National Sample Survey Office (NSSO). The NSSO carries out all India household survey programme about Employment and Unemployment every 5 years called the quinquennial rounds of Employment and Unemployment Survey (EUS). A nationwide enquiry is conducted to generate estimates of various characteristics pertaining to employment and unemployment and Labour Force characteristics at the National and State levels. Information on various facets of employment and unemployment are collected through a schedule of enquiry (Schedule 10) adopting established concepts, definitions and procedures. Based on the data collected during the entire period of survey, estimates pertaining to employment-unemployment in India along with various characteristics associated with them are presented in the reports.

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NSSO employs three different methods of determining the activity status of the persons. The first method identifies the Usual Principal Activity Status (called 'Usual Principal Status', UPS) of a person by using a reference period of 365 days preceding the date of survey. A person is considered as being in the Work Force<sup>4</sup> if he/she is gainfully employed for a major part of the preceding 365 days. The second method considers a reference period of one week (current weekly status) and the third method considers each day of the week (current daily status)<sup>5</sup>. Our study is based on Usual Principal Status (UPS). In the usual status approach, the broad activity status of a person viz. employed, unemployed and 'not in labour force' is decided by major time criterion.

Using employment data from the quinquennial rounds of the National Sample Survey (NSS), several papers/reports have examined the employment situation in India (Dev 2002, Ghose 2004, Masood and Ahmad 2009, Srivastava and Srivastava 2010, Majumder 2011, Mehrotra et al 2012, Shaw 2013). A major conclusion from

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<sup>4</sup> (i) WORK FORCE PARTICIPATION RATE (WFPR) or WORKER POPULATION RATIO (WPR) is defined as the number of persons/person-days employed per thousand persons/person-days.

$$\begin{aligned} \text{Work Force Participation Rate} &= \\ &= (\text{Number of persons employed})/(\text{total population}) \times 1000 \end{aligned}$$

(ii) LABOUR FORCE PARTICIPATION RATE (LFPR) is defined as the number of person/person days in the labour force per 1000 persons/person days.

$$\begin{aligned} \text{Labour Force Participation Rate} &= \\ &= (\text{no. of employed persons} \\ &+ \text{no. of unemployed persons})/(\text{total population}) \times 1000 \end{aligned}$$

It is the economically active population which supplies labour for production and hence includes both 'employed' and 'unemployed' persons.

<sup>5</sup> The NSSO has, over time, developed and standardised measures of employment and unemployment. Four different estimates of the Labour Force and Work Force are obtained based on the 3 approaches adopted in the survey for classification of the population by activity status viz: Usual Status, Current Weekly Status and Current Daily Status. These Are:

(i) Number of persons in the labour/work force according to the 'Usual Status' (ps) i.e by considering usual principal activity only.

(ii) Number of persons in the labour/work force according to the 'Usual Status' (ps+ss) i.e. by considering usual principal and subsidiary activity together.

(iii) Number of persons in the labour/work force according to the 'Current Weekly Status' approach &

(iv) Number of persons in the labour/work force according to the 'Current Daily Status' approach

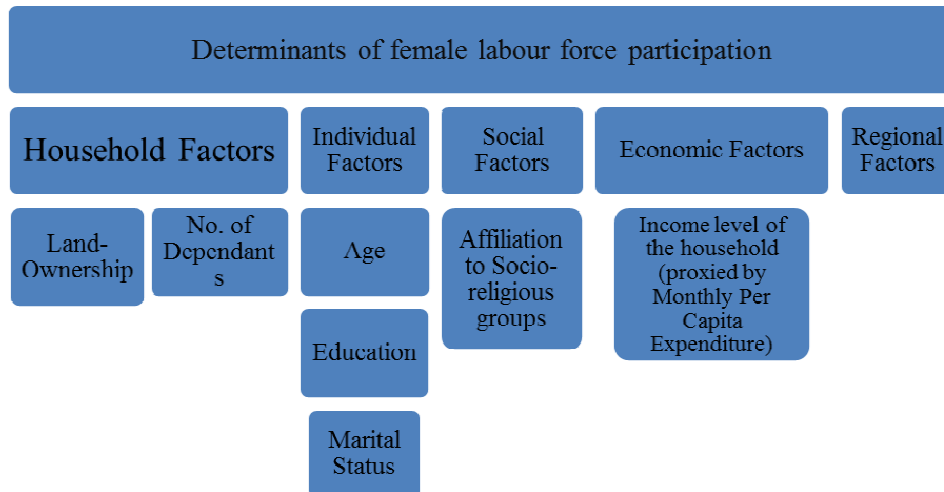
these studies is the fact that there has been a marked slowdown in employment growth in the year 2011-12 and that this slowdown is more marked for female employment, both in urban as well as rural areas. These studies provide an insight into a neglected area – the female labour supply process in India (Dasgupta and Goldar, 2005).

While mainly economic factors determine a man's participation in employment, the forces that influence a woman's participation are many and diverse and include demographic, reproductive, social, religious and cultural factors. Hence, the decision to participate in the labour force is influenced by women's individual preferences and/or those of her household, family circumstances. The probability of participating in the labour force is thus modelled as a function of several explanatory variables split into categories: individual characteristics, household characteristics, social characteristics and regional characteristics. The existing literature (e.g. Klasen and Pieters 2012, World Bank 2012) suggest that important determinants of participation in India can be education (human capital endowment), family income, socio-economic and cultural factors, access to resources (skills and capital), labour market regulations, and infrastructure. The paper has thus tried to estimate the proximate determinants of the probability of labour force participation for women in rural areas, in the sub-section 3.1. The impact of the significant variables is explored. Stratification is done based on class and hence sub group regressions have been performed for the land ownership classes separately, in section 4. An effort has been made to highlight the multi dimensionality of determinants of the different economic classes in section 5. Section 6 concludes.

The varying importance of the determinants throws light on the interconnected nature of female employment. It is clearly established that only economic variables are not the deciding factors for female labour force participation. A host of other factors work in unison, as is seen in figure no. 1 below.

The main data set used in the study is Unit Level Data from the NSSO 68<sup>th</sup> Round for the year 2011-12, extracted from Schedule 10. Logistic regressions have been performed as the dependent variable takes up a binary value. Independent variables are either categorical or continuous. All the statistical work has been done using the software Stata, version 12. Central Sample has been used throughout the study. Data arrangement being very specific to the sections which deal with the various aspects of the analysis of female employment issues have been explained in detail in the respective sections.





**Figure no. 1. Flowchart showing the determinants of female labour force participation for the year 2011-12 (68th Round) at a glance**

Descriptive statistics for the variables used in the analysis in this section are presented in Table A1 and the definition of variables is provided in Table A2.

It is important to note that the data on women's labour force participation in developing countries have been highly criticized as resulting in serious omission of women's work due to undercounting (Jain and Banerjee 1985, Hirway 2002). Much of this criticism has come from Indian feminists who have worked extensively with the National Sample Survey Office to develop more nuanced measures of women's work including questions on non-remunerative activities that are often encompassed under domestic chores such as farm work and looking after livestock (Das and Desai, 2003).

### 3.1 Observations

Regression results from Table no. 1 show that older women in the age group of 30 to 59 years have greater probability of participating in the labour force (with women in the age group 30 to 44 being more probable than the ones in the age group 45 to 59) than women in the age group of 15 to 29 years. This is because after 30s women generally have reduced reproductive responsibilities. In many

households, the elder kids take care of the younger ones when the mother goes out to work. Care work is always the responsibility of the female hence it is seen that if the household has children less than five years' age or elders above the age of 65 years then the probability of labour force participation lowers significantly. For marital status, with 'never married' status being the reference category it is noticed that there is a significantly higher probability of female workers participating in the labour force. Odds ratios are the highest for 'divorced separated' category, highlighting the distress push that such women face which forces them in the labour market<sup>6</sup>. Education level of the individual has a significant positive impact on labour force participation. An increase in the education level of the woman causes a higher probability of labour force participation.

**Table no. 1. Logit Estimates (Odds-Ratio<sup>7</sup>) of the determinants of labour-force participation of women workers, 15-59 years, Usual Principal Status**

Independent Variables	Female Workers (15-59 years)
	1=In Labour Force 0= Out of Labour Force
Age (Ref:15-29 years)	
<b>30-44</b>	4.22***(0.05)
<b>45-59</b>	3.81***(0.05)
Marital Status (Ref: Never Married)	
<b>Currently Married</b>	8.53***(0.11)
<b>Widowed</b>	10.11***(0.24)
<b>Divorced Separated</b>	22.22***(1.51)
Education (Ref: Illiterate)	

<sup>6</sup> Similar regressions have been carried out for urban area and the odds-ratio for Divorced and Separated women is positive but not so high. It is 6.40(0.52)\*\*\*. The results have not been published to economise on space.

<sup>7</sup> An odds ratio (OR) is a measure of association between an exposure and an outcome. The OR represents the odds that an outcome will occur given a particular exposure, compared to the odds of the outcome occurring in the absence of that exposure.

OR=1 Exposure does not affect odds of outcome

OR>1 Exposure associated with higher odds of outcome

OR<1 Exposure associated with lower odds of outcome

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<b>Below Primary</b>	0.48***(0.00)
<b>Primary and Middle</b>	1.03***(0.01)
<b>Secondary and Higher secondary</b>	1.10***(0.01)
<b>Graduate &amp; Above(diploma)</b>	2.26***(0.04)
Households with Children(age<=5yrs)	0.99(0.00)
Households with Elderly(age>=65yrs)	0.72***(0.00)
Land-Ownership (Ref: Landless)	
<b>Marginal Owners</b>	0.82***(0.04)
<b>Small Owners</b>	1.00(0.05)
<b>Large Owners</b>	1.08(0.05)
MPCE Quartile (Ref: Lowest Quartile)	
<b>Second quartile</b>	0.94***(0.01)
<b>Third quartile</b>	0.82***(0.01)
<b>Fourth (highest) quartile</b>	0.62***(0.00)
Social Group (Ref: ST)	
<b>SC</b>	0.76***(0.01)
<b>OBC</b>	0.66***(0.01)
<b>Others</b>	0.57***(0.00)
Religion (Ref: Hindu)	
<b>Muslims</b>	0.90***(0.01)
<b>Other-Religions</b>	1.02***(0.01)
Regions (Ref: East)	
<b>West</b>	1.44***(0.02)
<b>Central</b>	0.83***(0.01)
<b>North</b>	1.08***(0.01)
<b>South</b>	1.59***(0.02)
<b>North East</b>	0.98*(0.01)

*Ref. implies reference category; \*\*\* implies significance at 1%, \*\* implies significance at 5%, \* implies significance at 10% level. The figures given in the parenthesis are the robust standard errors. Source: NSSO 68th Round, 2011-12.*

Social groups and religion have a significant effect and results show that there is a lower probability of participation among Scheduled Castes, Other Backward Castes, Others and Muslims. Regions present a varied picture with West, North and South showing a higher probability of participation compared to Central and North-East.

Economic class of the household can either be proxied by the land-ownership or by the monthly per capita expenditure<sup>8</sup>.

a) As the land-ownership of the household increases the probability of labour force participation increases but results are not significant. If the amount of land owned is an indication of wealth of the household then our hypothesis is that with an increasing ownership of land, probability of participation should be less<sup>9</sup>. But results show that there is an increasing probability of participation. This proves that there is some other element which is influencing the labour supply decision of female workers. It will be brought to light in a later section where the participatory process has been explored under the overlap of socio-economic and socio-religious factors influencing female labour supply decision.

b) With an increase in the income of the household the probability of labour force participation of the female worker lowers<sup>10</sup>.

This study seeks to bring forth the gender relations in employment under the social hierarchies. As such a process works under the social stratification of class, caste, gender and religion so in the next section sub group regressions for the different land-ownership classes have been performed to see the determinants which are affecting participation of women in labour force.

#### ***4. Economic Class as a Determinant of Rural Female Employment***

In this section, an effort has been made to elucidate the factors which play an important role in female labour supply decisions in rural India in the 68<sup>th</sup> round, 2011-12. Such an exercise has been performed within the stratification of the

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<sup>8</sup> The study considers land ownership only, as it is in the rural backdrop and because of the fact that the stratification according to class has been defined in terms of land ownership. Sub group Regressions have been run for mpce classes in rural and urban areas though, but the results have not been published.

<sup>9</sup> It maybe due to the 'stigma effect' as mentioned by Goldin (1995) in the U-Hypothesis.

<sup>10</sup> 'Income Effect' as mentioned by Neff et al. (2012) and Rangarajan et al. (2014)

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economic class. Separate sub group regressions have been run for each land-ownership class to verify if the deciding factors are different for each of the class. Table 2 shows that for each land-owning class, a host of varying factors are significant in determining the probability of participation for the women workers. What has also been endeavoured is to check if there is a uni-dimensionality in these factors. The results have established the significant role of multi-dimensionality through the interplay of social, cultural and demographic factors.

**Table no. 2. Results (Odds-Ratio) of logistic regression for women workers (15-59 years), 2011-12 according to Usual Principal Status**

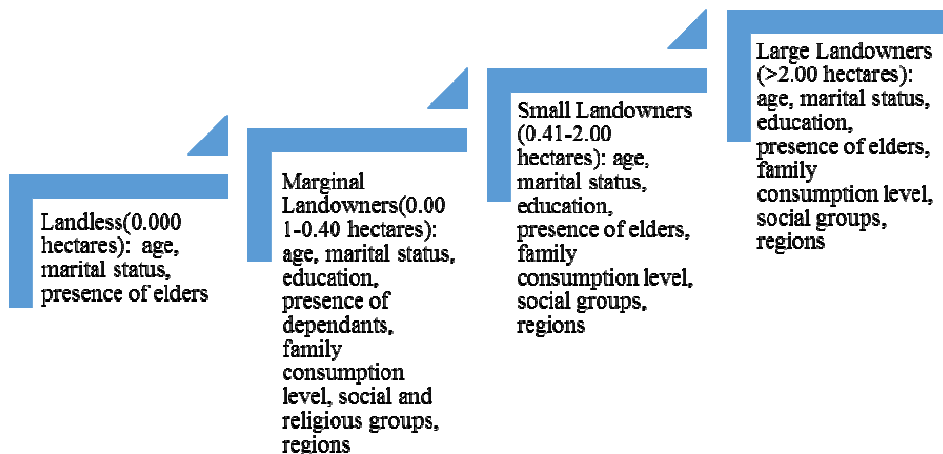
Independent Variables	1=InLabForce 0=Not in LabForce	1=InLabForce 0=Not in LabForce	1=InLabForce 0=Not in LabForce	1=InLabForce 0=Not in LabForce
	<b>LANDLESS</b>	<b>MARGINAL LANDOWNERS</b>	<b>SMALL LANDOWNERS</b>	<b>LARGE LANDOWNERS</b>
Age (Ref: 15-29)				
<b>30-44</b>	3.23(0.4)***	4.76(0.07)***	3.46(0.08)***	3.94(0.10)***
<b>45-59</b>	2.80(0.48)***	4.23(0.07)***	3.45(0.09)***	3.29(0.09)***
Marital Status (Ref: Never Married)				
<b>Currently Married</b>	6.15(1.02)***	7.06(0.12)***	12.15(0.35)***	10.07(0.30)***
<b>Widowed</b>	8.47(2.58)***	9.95(0.31)***	10.22(0.51)***	10.74(0.60)***
<b>Divorced/Separated</b>	5.43(0.05)***	18.59(1.64)***	18.07(2.99)***	42.34(6.22)***
Education (Ref: Illiterate)				
<b>Below Primary</b>	0.30(0.05)***	0.499(0.00)***	0.51(0.01)***	0.44(0.01)***
<b>Primary and Middle</b>	0.92(0.14)	1.08(0.01)***	1.08(0.02)***	0.89(0.02)***
<b>Secondary and Higher secondary</b>	0.83(0.14)	1.156(0.02)***	1.27(0.03)***	0.90(0.02)***
<b>Graduate &amp; above (diploma)</b>	2.68(0.5)***	2.45(0.06)***	2.15(0.09)***	2.06(0.08)***

Households with children (<=5 years)	0.98(0.06)	0.98(0.00)***	1.00(0.01)	0.99(0.01)
Households with elderly (>=65 years)	0.61(0.07)** *	0.69(0.00)***	0.79(0.01)***	0.71(0.01)***
MPCE Quartile (Ref: Lowest quartile)				
<b>Second Quartile</b>	1.17(0.21)	0.93(0.01)***	0.99(0.02)	0.92(0.02)***
<b>Third Quartile</b>	0.99(0.18)	0.80 (0.01)***	0.83(0.02)***	0.84(0.02)***
<b>Fourth (highest) Quartile</b>	0.71(0.14)** *	0.58(0.01)***	0.64(0.01)***	0.71(0.02)***
Social Group (Ref:ST)				
<b>SC</b>	1.05(0.24)	0.79(0.01)***	0.65(0.02)***	0.76(0.03)***
<b>OBC</b>	0.80 (0.17)	0.67(0.01)***	0.59(0.01)***	0.70(0.02)***
<b>Others</b>	0.68(0.13)*	0.57(0.01)***	0.51(0.01)***	0.60(0.02)***
Religion (Ref: Hindu)				
<b>Muslims</b>	0.81(0.11)	0.94(0.01)***	0.72(0.02)***	1.00(0.03)
<b>Other Religions</b>	1.46(0.27)**	1.09(0.02)***	1.02(0.03)	0.88(0.03)***
Regions (Ref: East)				
<b>West</b>	0.97(0.20)	1.30(0.03)***	1.65(0.06)***	1.58(0.06)***
<b>Central</b>	0.48(0.11)** *	0.81(0.01)***	0.95(0.03)	0.83(0.03)***
<b>North</b>	0.77(0.17)	0.97(0.02)	1.51(0.05)***	1.03(0.04)
<b>South</b>	1.19(0.28)	1.44(0.03)***	2.17(0.07)***	1.57(0.06)***
<b>North East</b>	0.72(0.15)	0.93(0.02)***	1.18(0.04)***	1.01(0.04)

*Ref. implies reference category; \*\*\* implies significance at 1%, \*\* implies significance at 5%, \* implies significance at 10% level. The figures given in the parenthesis are the robust standard errors. Source: NSSO 68th Round, 2011-12.*

#### 4.1 Snapshot of the important determinants

Below, a summary of the determinants which are significant in female labour force participation for women belonging to the four categorised land-ownership classes has been provided



**Figure no. 2. Significant determinants of female labour force participation for the different land-ownership classes**

From Figure no. 2 it is evident that the interconnectedness of social and economic factors plays a very important role in determining female labour supply. Gender relations being created in the employment process are not in favour of women. While employment issues in India centrally focus around the category of gender, by mentioning quantitative levels of female employment, the issues of patriarchy, domestic subordination, biological determinism, reproductive norms etc. are not taken into consideration<sup>11</sup>. These are often informed by the cross-linkages with identities of class and caste. These categories often overlap with gender. The importance of intersectionality has been established which leads us to our next econometric specification.

### ***5. Female Work Force Participation under the Overlap of Class, Caste And Religion***

A lot has been studied about the different determinants of female labour supply process in the Indian Economy along a single axis. Studies on female employment need to delve more into the overlap (McBride et al. 2014) of the axes

<sup>11</sup> <http://vle.du.ac.in/mod/book/print.php?id=13454&chapterid=29812>

of class, caste and religious identities and the cross linkage of the variables in influencing the decision of female labour supply. This section has tried to focus on this aspect. Economic class has been proxied by land-ownership, caste and religious identities have been proxied by creating socio-religious groups from NSS data. Wealth being a stock concept, its availability with the households should affect the decision of the family to send their women folk to work. This would be applicable not only for the current generation but for future as well as the past generations also. So, there would be an intergenerational impact of this determinant of female labour supply. The present section, however, has focussed only at the effect on the present generation of women workers in the 68<sup>th</sup> Round for the year 2011-12.

### 5.1 Model

*Total no. of observations in the 68th Round= 4,56,999 individuals.*

This includes both males and females in rural as well as urban areas. For this specific study only females have been considered and then the data set reduces to 2,23,195 persons. An attempt is made to analyse the employment behaviour of female workers, so the data set consists of working age females in the age group 15-59 years. Now the data set consists of 1,42,776 persons. After adjusting for work-force participation of female workers in rural areas the final data-set is 90,230 persons.

For considering Work-Participation of Female Workers (in the age group of 15-59 years) in the Usual Principal Activity Status the data has been arranged in the following manner:

- i. Usual Principal Activity Status code 81<sup>12</sup> (as per NSSO schedule) has not been taken into consideration as that will give us the Labour Force estimate but we are considering Work-Force participation only.
- ii. Usual Principal Activity Status code 91<sup>13</sup> (attending educational institutions) has been considered 'out of labour force' (as per NSSO directive),
- iii. Usual Principal Activity Status codes [(92<sup>14</sup>,93<sup>15</sup>), (94,95,97<sup>16</sup>)] have not been taken into consideration as they do not enable us to define work-participation

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<sup>12</sup> Did not work but was seeking and/or available for work – Upa81.

<sup>13</sup> Attended educational institution – Upa91.

<sup>14</sup> Attended domestic duties only – Upa92.



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as gainful employment. {These codes describe activities which are not remunerable or done for gainful purposes }

iv. An observation needs to be made here: Although Upa21<sup>17</sup> defines unpaid family worker yet we have considered it in Work Participation because as landownership increases there is a greater representation of working age women in the family who work as unpaid family labour. Most of the unpaid agricultural (on owned farms) or non-agricultural (in own household enterprise) work is done by female workers of the household. Taking Upa21 into consideration or leaving it out of the definition of Work Participation changes the econometric results for the different socio-religious groups.

$$\text{Work-Participation} = \text{Usual Principal Activity Status} \\ [(11^{18}+12^{19})+21]+31^{20}+[(41^{21}+51^{22})]$$

Final size of the dataset= 90230(observations). Over this data set describing and testing of the hypotheses is done using the Binary Logit framework.

*The Model can be expressed as follows:*

$$\text{Logit } x = \alpha_0 + \sum_{i=1}^k \alpha_i Y_i$$

Where x is the probability that an individual participates in workforce;

$$\text{Logit } x = \ln\left(\frac{x}{1-x}\right)$$

{ $Y_i$ }(i=1,2,...,k) are the predictor variables,  $\alpha_0$  is the intercept and  $\alpha_i$ s are the regression coefficients.

<sup>15</sup> Attended domestic duties and was also engaged in free collection of goods (vegetables, roots, firewood, cattle-feed, etc.), sewing, tailoring, weaving, etc. for household use – Upa93.

<sup>16</sup> Rentiers, Pensioners, Remittance recipients etc. – Upa94, Not able to work due to disability – Upa95, Others (including begging, prostitution, etc.) – Upa97.

<sup>17</sup> Worked as helper in h.h enterprise (unpaid family worker) – Upa21.

<sup>18</sup> Worked in h.h. enterprise (self-employed): own account worker – Upa11.

<sup>19</sup> Employer – Upa12.

<sup>20</sup> Worked as regular salaried/ wage employee – Upa31.

<sup>21</sup> Worked as casual wage labour: in public works – Upa41.

<sup>22</sup> Worked as a casual wage labour in other types of work – Upa51.

**Table no. 3. Odds ratios explaining female participation (68th Round)**

	<b>Model1</b>	
<b>Land-Classes</b>	Wfpr (with UPA21)	Wfpr (without UPA21)
Landless <sup>1</sup>	Ref	Ref
Marginal Land Owner	0.99(0.08)	0.99(0.08)
Small Land Owner	1.04(0.08)	0.88(0.07)
Large Land Owner	1.07(0.01)	0.94(0.07)
	<b>Model2</b>	
<b>Socio-religious grps</b>		
Hindu-STs <sup>2</sup>	Ref	Ref
Hindu-Others	0.82(0.02)***	0.85(0.02)***
Hindu-SCs	0.82(0.03)***	0.93(0.03)**
Muslims	0.64(0.03)***	0.70(0.02)***
Other-Religions	0.72(0.03)***	0.75(0.02)***
	<b>Model3</b>	
<b>Interaction Terms</b>		
<i><b>Hindu-Others</b></i>		
Landless	Ref	Ref
Marginal	1.02(0.08)	1.01(0.08)
Small	1.08(0.08)	0.93(0.08)
Large	1.12(0.08)	0.96(0.08)
<i><b>Hindu-SCs</b></i>		
Landless	Ref	Ref
Marginal	1.07(0.09)	1.11(0.09)
Small	1.11(0.09)	1.02(0.09)
Large	1.04(0.09)	0.95(0.09)
<i><b>Hindu-STs</b></i>		
Landless	Ref	Ref
Marginal	1.30(0.12)***	1.32(0.12)***

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Small	1.2(0.09)	1.01(0.09)
Large	1.30(0.10)	1.00(0.10)
<b>Muslims</b>		
Landless	Ref	Ref
Marginal	0.85(0.07)**	0.82(0.07)**
Small	0.77(0.06)***	0.69(0.06)***
Large	0.95(0.08)	0.89(0.08)
<b>Other-Religions</b>		
Landless	Ref	Ref
Marginal	0.93(0.07)	0.90(0.07)
Small	0.96(0.07)***	0.88(0.07)***
Large	0.93(0.08)	0.87(0.08)*

*Note: 1&2 are reference categories because they have lowest representation in sample. Ref. implies reference category; \*\*\* implies significance at 1%, \*\* implies significance at 5%, \* implies significance at 10% level. The figures given in the parenthesis are the robust standard errors. Source: NSSO 68th Round, 2011-12*

## 5.2 Observations

The results of the micro decision making process (Table 3) as evident from the binary choice model are explored. The model uses land (categorised as marginal, small and large), socio-religious groups (categorised as Hindu-Others, Hindu-SC, Hindu-ST, Muslims and Other Religions), interaction terms of land and socio-religious groups and sector (categorised as rural and urban) as the causal variables.

### 5.2.1 Model 1

The most important result from this model is that economic class is not a significant variable in determining whether the women worker will take part in work-force or not. Women workers belonging to marginal landowning households have a lower probability of working. Those from small and large landowning have a greater probability of taking part in work force. There is no inverse relationship between land-ownership classes and female work-force participation implying that the 'income effect' is not at work in the year 2011-12.

This is mainly due to the presence of Unpaid home based work (Upa21) because when binary logit without including this kind of work in the definition of work participation is performed then results show that there is an inverse relation between the two variables. The tables showing both the regression results have been presented.

As the ownership of land increases there is a lower probability of women workers working when the 'unpaid work'(Upa21) done by women workers is not considered, but once this work is taken into consideration the work force participation increases with increase in land ownership size.

This is a representation of the fact that for female workers the decision to participate in work force is not a simple function of economic or social or demographic or cultural factors. There are elements beyond these determinants which must be factored in to get the actual scenario.

The forces at play in determining whether a women worker will provide labour supply are varying. This proves the fact that unlike for male, female labour force participation is an interplay of a myriad factors. The interconnectedness of female labour is clearly brought out from the results.

Asset ownership laws are varied among the different socio-religious groups in India. To study the impact of such differences we have studied female work-participation behaviour among the various socio-religious groups.

#### 5.2.2 Model 2

Hindu-STs (Schedule tribes who are Hindus) are considered as the reference category for the next section of study involving socio-religious groups as they are least represented in the sample.

Women workers from Hindu-Others, Hindu-SCs, Muslims (considering Mus-STs, Mus-SCs, Mus-Others and Mus-OBCs) and Other-Religions have a significantly lower probability of taking part in work-force participation, irrespective of the presence or absence of non-remunerative work done on own farm or household enterprise (Upa21) in both the rounds. This proves the importance of caste as a variable in determining the trend of female labour supply.

In the social stratification of class and caste, in the 68<sup>th</sup> round, class loses its significance and the composition of work done by the women worker gains more importance.

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### 5.2.3 Model 3

The overlap of economic class, caste, religion and gender is studied with the concept of intersectionality by looking at the impact of the interaction of land and socio-religious groups on female work participation. Results show that for Hindu-Others, women workers belonging to marginal, small and large landownership households have a greater probability of working. Presence of land as a productive asset, which is a form of wealth, is not affecting work participation favourably, i.e. there is no inverse relationship between landownership and Female Work Force Participation Rate among this socio-religious group. This is again due to the presence of 'unpaid work (Upa21)' in the definition of work participation. As there is no clarity about the ownership rights of the available land with the households, it has been assumed that the women workers have the same right to ownership as their male counterparts.

For Hindu-SCs and Hindu-STs, the results show that women workers from marginal, small and large landowning households have a greater probability of working. This is irrespective of whether unpaid work in household farms is included or not. So, the overlap of class, caste and religion determine the employment relations for women workers. An increase in wealth is not affecting the work participation decision favourably.

For Muslims and Other-Religions too the lower probability of work force participation by women workers, both in case of the presence or absence of unpaid work on household farms again reiterates the fact that the Overlap plays an important role in decision making.

Thus, interconnectedness of economic and social variables play a strong role in determining female work force participation whereas economic variables are stronger in determining male work force participation<sup>23</sup>.

### 6. Conclusion

Main finding of the present study is that the participation of women in labour force varies across economic classes, social groups, religions, regions and the rural urban divide. Labour force participation is the outcome of both the supply-side

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<sup>23</sup> As a robustness check similar exercises have been performed for male workers (15-59 years). It has been found that class plays an important role in the decision-making process of male labour supply. Caste and composition of work do not have a significance. Overlap does not bring about any changes in the decision-making process. Results have not been published to economise on space.

factors and the demand for labour. Factors determining labour supply decisions of women are different from those of men. Interconnectedness of female employment with other social parameters which are outside the realm of the standard labour market analysis gets highlighted in the study. This is responsible for creating puzzling trends and patterns in employment data. It is also responsible for the gender gap in labour force and workforce levels. Social and religious background is an important determinant of labour market participation for both men and women. Relative influence of social and religious background is much higher for females (Neetha, 2013). The differences in male and female participation rates, controlling for demographic variables and education is partly explained by this peculiarity of female employment. In fact, women belonging to different social, cultural and religious backgrounds exhibit varying participation rates in the activity statuses enumerated by NSS data. This fact has been corroborated in the paper, where econometric analyses have revealed that women belonging to different socio-economic and socio-religious groups have varying participation rates in the workforce. Large anecdotal evidence suggests that female behaviour in labour market is dramatically affected by their and their household's religious beliefs (Pastore and Tenaglia, 2013). Results of this study depict that socio-religious groups are significant determining factors for work force participation. So, the determinants which are significant for female employment are not on a single axis of consideration, they are always intertwined and manifest themselves along multiple axes. Hence, the gender relations emerging in the employment process are not always in favour of women. It is evident that majority of women in rural areas are subjugated to such relations, i.e. they cannot participate in the labour/work force independent of the relations. Women must decide to participate in the labour/work force within the boundaries of the gender relations which are created in the households or the work place.

Multiple layers of the society are referred to as 'Social Stratification'. The paper has presented an empirical picture of labour market inequalities for women and the inequalities outside, within the framework of such overlapping stratification in rural India. Analysis is based on secondary data, where the emphasis is not only on measurement of quantitative variables, but also on the interactions between various qualitative, socio-economic and socio-cultural dimensions which have an implication on female participation in the labour force. Clear and significant results are obtained when the interaction between landownership categories and socio-religious groups are taken into consideration. The multi dimensionality of the data provides a definite

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pattern of the employment of women workers within the gender relations created thereof.

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**Table A1: Descriptive Statistics of the Independent Variables in section 3**

<i>Independent Variables</i>	<i>Description</i>	<i>Proportional Representation</i>
Age	<b>Categorical Variable</b>	
<b>15-29</b>	yes=1, no=0 Reference	29.08%
<b>30-44</b>	yes=1, no=0	23.46%
<b>45-59</b>	yes=1, no=0	15.43%
Marital Status	<b>Categorical Variable</b>	
<b>Never Married</b>	yes=1, no=0 Reference	41.15%
<b>Currently Married</b>	yes=1, no=0	53.35%
<b>Widowed</b>	yes=1, no=0	5.15%
<b>Divorced Separated</b>	yes=1, no=0	0.34%
Education	<b>Categorical Variable</b>	
<b>Illiterate</b>	yes=1, no=0, Reference	23.70%
<b>Below Primary</b>	yes=1, no=0	18.72%
<b>Primary and Middle</b>	yes=1, no=0	32.66%
<b>Secondary and Higher secondary</b>	yes=1, no=0	18.66%
<b>Graduate &amp; Above(diploma)</b>	yes=1, no=0	5.62%
Households with Children(age<=5yrs)	<b>in numbers, Continuous Variable</b>	<b>36.31%</b>
Households with Elderly(age>=65yrs)	<b>in numbers, Continuous Variable</b>	<b>23.20%</b>
Land-Ownership	<b>Categorical Variable</b>	
<b>Landless</b>	yes=1, no=0, Reference	0.22%
<b>Marginal Owners</b>	yes=1, no=0	50.20%
<b>Small Owners</b>	yes=1, no=0	31.68%
<b>Large Owners</b>	yes=1, no=0	17.89%
MPCE Quartile	<b>Categorical Variable</b>	
<b>Lowest Quartile</b>	yes=1, no=0, Reference	29.82%
<b>Second quartile</b>	yes=1, no=0	28.58%
<b>Third quartile</b>	yes=1, no=0	23.72%
<b>Fourth (highest) quartile</b>	yes=1, no=0	15.88%
Social Group	<b>Categorical Variable</b>	
<b>ST</b>	yes=1, no=0, Reference	16.74%
<b>SC</b>	yes=1, no=0	16.58%

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<b>OBC</b>	yes=1, no=0	39.64%
<b>Others</b>	yes=1, no=0	27.03%
<b>Religion</b>	<b>Categorical Variable</b>	
<b>Hindu</b>	yes=1, no=0, Reference	74.68%
<b>Muslim</b>	yes=1, no=0	12.87%
<b>Other-Religion</b>	yes=1, no=0	12.45%
<b>Regions</b>	<b>Categorical Variable</b>	
<b>East</b>	yes=1, no=0, Reference	10.66%
<b>West</b>	yes=1, no=0	10.09%
<b>Central</b>	yes=1, no=0	29.16%
<b>North</b>	yes=1, no=0	16.56%
<b>South</b>	yes=1, no=0	18.02%
<b>North-East</b>	yes=1, no=0	15.50%

*Author's calculation.*

*Source: NSSO 68<sup>th</sup> Round Unit Level Data, 2011-12.*

**TableA2: Definition of variables used in Section 3**

<b>Dependent Variable</b>
The dependent variable in logistic regression analysis, participation in labour force, is a dummy variable with value=1 if 'in the labour force' and value=0 if 'not in the labour force'
<b>Independent Variables</b>
The independent variables of importance and interest are:
i. Land ownership [coded as three dummies indicating marginal land owners (0.001-0.40 hectares), small land owners (0.40-2.00 hectares) and large landowners (>2.00 hectares) with landless households being the reference category],
ii. Caste (coded as three dummies for Schedule Castes, OBCs, Others with Schedule Tribe being the reference category)
iii. Religion (coded as two dummies for Muslims and Other-Religions with Hindus as the reference categories).
iv. Several important control variables indicating demographic characteristics of the individual (age, educational level, marital status) and the household (dependence level, income level <sup>24</sup> ), regional dummies have been incorporated in the model.

<sup>24</sup> As NSSO does not provide data on income of the households hence, following normal standard the data on monthly per capita consumption level of the household has been considered.

**TableA3: Definition of variables used in section 5**

<b>1) Land Ownership<sup>25</sup>:</b>
Is a categorical variable where the classes considered are:
Land1 = Landless Households (landownership 0.000 hectares), (yes=1; no=0)
Land2 = Marginal Landowners (ownership 0.001-0.40 hectares), (yes=1; no=0)
Land3 = Small Landowners (ownership 0.41-2.00 hectares), (yes=1; no=0)
Land4 = Large Landowners (ownership >2.00 hectares), (yes=1; no=0)
<b>2) Socio-Religious Groups :</b>
NSSO disaggregates data on the basis of social groups and religions. The following socio-religious groups have been created to get a detailed picture of the behaviour of workforce participation.
Hindu-Others(H-O), (yes=1; no=0)
Hindu-SC(H-SC), (yes=1; no=0)
Hindu-ST(H-ST), (yes=1; no=0)
Muslims(M), (yes=1; no=0)
Other-Religions(Othr-Relgns), (yes=1; no=0) [Includes Christianity-3,Sikhism-4, Jainism-5, Buddhism-6, Zoroastrianism-7, Others-9] <sup>26</sup>
<b>(3) Interaction Terms:</b>
To get a further disaggregated picture of the work-force participation behaviour of the socio-religious groups, interaction terms of landownership and the socio religious groups have been created in the following manner:
Lasrg11= Hindu-Others who are landless, (yes=1; no=0)
Lasrg12= Hindu-SCs who are landless, (yes=1; no=0)
Lasrg13= Hindu-STs who are landless, (yes=1; no=0)
Lasrg14= Muslims who are landless, (yes=1; no=0)

<sup>25</sup> The concept used in this paper of creating land-ownership categories has also been used by the following researchers in their papers:

(a) P.K. Bardhan (1979); where he has considered three main classes viz, Landless labourers, Small farmers (holdings<2.5 acres) and Large farmers (holding>2.5 acres)

(b) Supriya Garikipati (2006); where she has classified men and women labourers using 'labour class ranks' developed by Bardhan (1979) and DaCorta & Venkateshwarlu (1999). It is based on Roemer's (1982) system and gives three labour classes: Pure Labourers, Labour Plus and Small Farmers.

<sup>26</sup> The steps involved in creating the socio-religious groups can be obtained from the author on request.

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Lasrg15= Other-Religions who are landless, (yes=1; no=0)
Lasrg21= Hindu-Others who are marginal landowners, (yes=1; no=0)
Lasrg22= Hindu-SCs who are marginal landowners, (yes=1; no=0)
Lasrg23= Hindu-STs who are marginal landowners, (yes=1; no=0)
Lasrg24= Muslims who are marginal landowners, (yes=1; no=0)
Lasrg25= Other-Religions who are marginal landowners,(yes=1; no=0)
Lasrg31= Hindu-Others who are small landowners, (yes=1; no=0)
Lasrg32= Hindu-SCs who are small landowners, (yes=1; no=0)
Lasrg33= Hindu-STs who are small landowners, (yes=1; no=0)
Lasrg34= Muslims who are small landowners, (yes=1; no=0)
Lasrg35= Other-religions who are small landowners, ( yes=1; no=0)
Lasrg41= Hindu-Others who are large landowners, (yes=1; no=0)
Lasrg42= Hindu-SCs who are large landowners, (yes=1; no=0)
Lasrg43= Hindu-STs who are large landowners, (yes=1; no=0)
Lasrg44= Muslims who are large landowners, (yes=1; no=0)
Lasrg45= Other-Religions who are large landowners, (yes=1; no=0)

## EFFECT OF INVESTOR SENTIMENT ON FUTURE RETURNS IN THE NIGERIAN STOCK MARKET

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### Abstract

*The study investigated the effect of investor sentiment on future returns in the Nigerian stock market for a period covering the time from the first quarter of 2008 to fourth quarter of 2015. The OLS regression and granger causality techniques were employed for data analyses. The results showed that (1) investor sentiment has a significant positive effect on stock market returns even after control for fundamentals such as Industrial production index, consumer price index and Treasury bill rate; (2) there is a uni-directional causality that runs from change in investor sentiment ( $\Delta CCI$ ) to stock market returns ( $R_m$ ). Derived finding showed that the inclusion of fundamentals increased the explanatory power of investor sentiment from 3.96% to 33.05%, though at both level, investor sentiment ( $\Delta CCI$ ) has low explanatory power on stock market returns. The study posits existence of a dynamic relationship between investor sentiment and the behaviour of stock future returns in Nigeria such that higher sentiment concurrently leads to higher stock prices.*

**Keywords:** investor sentiment; Nigerian stock market; stock returns; consumer confidence index; noise trading.

**JEL Classification:** G<sub>11</sub>, M<sub>12</sub>

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### 1. *Introduction*

#### 1.1 **Background to the Study**

The term sentiment is associated with attitude, thought, or judgment prompted by feeling (Almansour, 2015). Li (2010) defines investor sentiment as “the general feeling, mood, belief or expectation of market performance”. The term is not only used in psychology but also in the field of finance. Generally, sentiment is associated with the cognitive comparisons made by investors in their investment (Zweig, 1973). Investors can rely on cognitive factors as well as their experience in making investment decisions. Thus, sentiment is the investment decisions about asset prices that is not related with the economic and market fundamentals. Earlier researchers have seen sentiment as investors’ biased expectations on asset values (Zweig, 1973); the noise in financial markets (Black, 1986); the component of investors’ expectations about asset returns that are not justified by fundamentals (Lee, Shleifer & Thaler, 1991). Further to this, Schmitz, Glaser and Weber (2006) define investor sentiment as the expectation of investors regarding the price of one or more financial assets that is not based on fundamental information. All these definitions point to the influence of non-fundamental variables on financial decision making. In a nutshell, investor sentiment is the bias in asset pricing which creates wrong value of financial assets, away from the equilibrium, as a result of use of physiological state rather than logical decisions based on fundamental.

Investor sentiment is a new concept in finance that has changed the belief about factors that affect asset pricing in financial markets. The traditional financial theorists have either ignored sentiment as a risk factor or assumed that prices are not affected by investor sentiment because their demands will be neutralized by the transactions of arbitrageurs and thus discounts the possible effects of sentimental investors (Wang, Li, & Lin, 2009). This follows from the assumption that: firstly, financial markets are informationally efficient and secondly, market participants are rational. In an efficient market, absence of market friction guarantees price of marketable securities to be equal to their face value defined as the sum of present value of all expected cash flows (Gizelis & Chowdhury, 2016). However the second assumption that individual investors behave rationally implies that they consider and rely on all available relevant information within their reach in all investment decision making. Rationality in financial markets is based on the hypothesis of rational expectations found in economic theory, which states that the predictions of economic agents regarding the future value of an asset are not systematically biased; that is, errors are not correlated. The classical financial theorists further argue that any additional factors introduced by noise traders will

be quickly expelled from the market and with them the opportunities of making risk-free profits.

However, there have been reasons to believe that non-fundamental factors, such as sentiment, also influence asset pricing. History has shown that economic downturns, financial crises, political turmoil, and other social factors have caused the stock markets around the world to be unstable and highly volatile for investors (Guiso, Sapienza & Zingales, 2008). A number of stock market events including the Great Crash of 1929, Tronics Boom and Go-Go years of the 1960s, The Nifty-Fifty bubble of the 1970s, Black Monday Crash of October 1987, the Dot.com bubble of the 1990s, 1997's East Asian financial crisis and the global financial crisis of 2008, are all cases that have not been explained by the classical finance theories (Almansour, 2015; Li, 2010). These events support the theoretical propositions of the Behavioural finance which posits that investor sentiment cannot be wished away in determining asset prices. They argue that sentiments will naturally affect asset prices because some investors are not completely rational; and arbitrage – which they describe as the transactions conducted by rational investors – is risky and therefore limited (Shleifer & Summers, 1990).

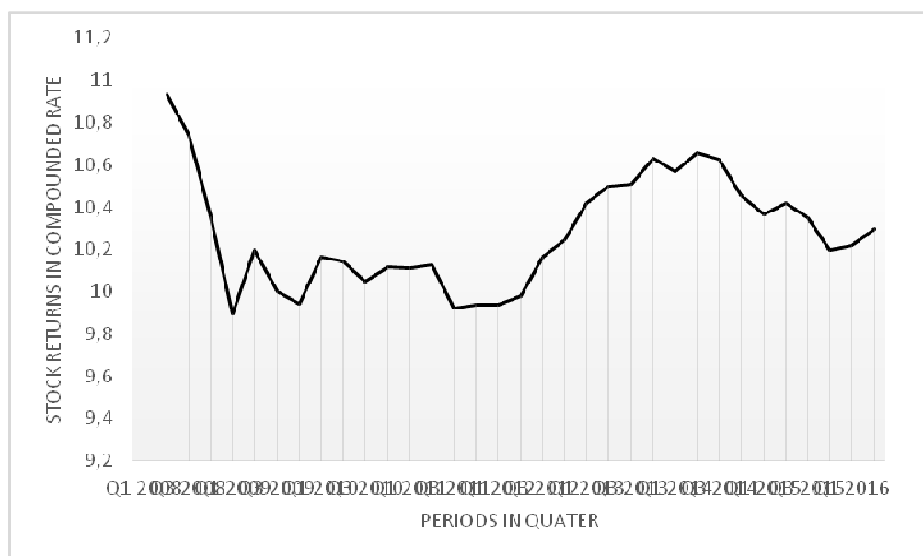
However, investor sentiment caused by demand shocks of irrational traders could be correlated over time leading to a strong and persistent mispricing (Brown & Cliff, 2005). How long this stock mispricing last is determined by the activities of the rational investors (arbitrageurs) who will want to profit from the market disequilibrium caused by noise trading. Huguen and McDonald (2005) explained that the existence of significant arbitrage costs will impede the trading activity of the rational investors and limitation to arbitrage will exist as sentiment is cross-sectionally correlated and the rational investors face the risk of continued movements away from fundamental values. The limits of arbitrage prevent rational traders to eliminate this influence on stock prices since it is unclear how long the buying or selling pressure from overly optimistic or pessimistic irrational traders will persist (Shleifer & Vishny, 1997). However, every mispricing must eventually be corrected so that one should observe that high levels of investor optimism (pessimism) are on average followed by low (high) returns (Schmeling, 2009).

The aggregate stock market returns on the Nigerian stock market has witnessed consistent variations over time (see Figure). In the second quarter of 2008, the market earns about 10.8% returns. The rate of stock returns from then till first quarter of 2009 nosedived as low as 9.8%. The return has remained oscillatory from 2009 till 2015. This implies that investment in Nigeria can be risky. Theories and empirical studies have posited that perception of investors on share prices on



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the market can be influenced by either rational fundamental factors or some set of irrational sentiments. Yet no study has been carried out to show evidence of the effect of investor sentiments on stock returns in Nigeria.



**Figure no. 1. Aggregate stock market returns in Nigeria**

**1.2 Statement of the Problem**

The conflict between the classical and behavioural finance theorists on the role of investor sentiment on asset prices is worth investigating in an undeveloped small size stock market like Nigeria. As developing and most emerging markets are dominated relatively more by individual investors that lack quality information and professional financial analysts’ services, the performances of these markets are more likely to be influenced by the sentiment of general investors. Short selling usually is either not allowed or it is very shallow in many developing and emerging stock markets and this is for all practical purposes the case of the Nigerian market as well. Hence, as expected, the absence of the mechanism of short selling makes it difficult for smart investors to respond quickly to any new information in order to align mispriced stocks.

Despite the high possibility of presence of sentiment in the Nigeria capital market, there is hardly any known published papers dealing with the effect of

sentiment. Thus, this paper investigates the performance of the Nigerian stock market primarily from behavioural perspective by introducing sentiment factors in the empirical asset pricing models. The specific objectives include:

1. To examine the relationship between changes in investor sentiment and stock market returns.
2. To determine whether sentiment depends on previous returns or it is returns that depend on previous sentiment movements.

### 1.3 Hypotheses

Ho1: The relationship between sentiment and expected returns is significantly negative, even after controlling for fundamental factors.

Ho2: There is no causality between investor sentiment and future stock market returns.

### 1.4 Scope of the Study

The study was restricted to the use of only one sentiment indicator (Consumer Confidence Index – CCI) in measuring the effect of investor sentiment on stock returns. Since the computation of CCI available in CBN Statistical bulletin Survey started in 2008, the scope of this study covered the time frame of 2008 to 2016 using quarterly data.

## 2. Literature Review

### 2.1 Theoretical Framework

The theoretical framework of this study hinges on the divide between the traditional and behavioural finance theorists on the role of investor sentiment in asset pricing. The traditional finance theorists rule out the element of investor sentiment in asset pricing and states that rational investors make the market to become efficient such that all information that affect the prices of stock are known and accurately evaluated by the market participants. For instance, Capital Asset Pricing Model (CAPM) states that security prices will be at par with their fundamental value due to the presence of rational investors (Bathia & Bredin, 2012). The latter efficient market hypothesis from Fama (1970) was based on the assumption of investor rationality, and posits that prices react only to information about changes in fundamental and considers noise as a non-fundamental factor that should not have any influence on asset pricing (Rehman & Shahzad, 2016). Generally, Baker and Wurgler (2006) explained that traditional theorists fundamentally argue that competition among rational investors, who diversify to optimize the statistical properties of their

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portfolios, will normally lead to an equilibrium in which prices equal the rationally discounted value of expected cash flows, and in which the cross-section of expected returns depends only on the cross-section of systematic risks. This is to say that the stock markets are efficient, the investors are rational in their behaviour and they utilize complete (possible) information for decision making, so the capital asset prices are adequate and reflect their intrinsic values without being effected by investor sentiment (Rehman & Shahzad, 2016). This position connotes that sentiment has no role in asset pricing. The crux of this notion is that arbitrage activities of the rational investors will offset the mispricing caused by the irrational investors. Since the rational investors will always seek to exploit the profit opportunities in the market, their activities will counteract the asset mispricing and eliminate sentiment effects (Baker & Wurgler, 2006; Stambaugh, Yu & Yuan 2010; Bathia & Bredin, 2012; Rahman, Shien & Sadique, 2013).

On the contrary, the behavioural theorists posit that waves of sentiment effects (mispricing) will always subsist for significant periods of time (Schmeling, 2009). They contest the rationality hypothesis by assuming that investors are irrational, and that they are prone to exogenous sentiment waves. Investors may have incorrect stochastic expectations, either with overly pessimism or optimism, which results in an incorrect valuation of asset values, causing asset prices to deviate from their intrinsic values (Tran & Nguyen, 2013)

According to Baker and Wurgler (2006), the two ingredients of sentiment-based mispricing are uninformed demand shock and a limit to arbitrage. In the first ingredient, Brown and Cliff (2005) contend that demand shocks of uninformed noise traders may be correlated over time to give rise to strong and persistent mispricing. This happens if sentiments results in herd behaviour leading to mass opinion and trading on wrong asset value. However, the second ingredient, the limits of arbitrage can deter informed traders from eliminating this situation (Shleifer & Vishny, 1997) since it is a priori unclear how long buying or selling pressure from overly optimistic or pessimistic noise traders will persist. Further to this, Stambaugh, Yu and Yuan (2010) posit that sentiment effects might subsist if rational traders are not able to fully exploit the opportunities presented by the demand shocks of uninformed noise traders. The behaviourist however agreed that every sentiment effect (mispricing) must eventually be corrected so that one should observe that high levels of investor optimism are on average followed by low returns and vice versa (Tran & Nguyen, 2013).

### 2.3 Empirical Studies

An ample of empirical studies has been conducted to provide evidence on the relationship between investor sentiment and stock returns. An earlier empirical study from Baker and Wurgler (2006) investigated how investor sentiment impacted on cross-section of stock returns by constructing an investor sentiment index based on the six measures including trading volume; dividend premium; close end fund discount; number of IPOs; average first-day returns on IPOs; and equity share in new issues. They developed a hard-to-value and difficult-to-arbitrage hypothesis in order to explain the cross-sectional effect of sentiment associated with firm characteristics, particularly for young, small size, unprofitable, growth, distressed, and non-dividend-paying stocks. Because of these stocks' lack of earnings history, tangible assets and collateral, they are more sensitive to subjective valuations and fluctuations in the propensity of speculation. Additionally, these stocks are likely to have lower liquidity and higher idiosyncratic risk, which means that they tend to be the riskiest and costliest to arbitrage. Therefore, these stocks are more profoundly affected by shifts in investor sentiment. It was however found that returns are relatively high (low) for small, young, growth and distressed stocks when beginning-of-period proxies for sentiment are low (high).

Schmitz, Glaser and Weber (2006) employed warrant transaction data set from a large discount broker to test whether individual investor sentiment is related to daily stock returns in Germany. The sentiment measured a data set of daily transactions of individual investors who had accounts at a big German online brokerage between January 1997 and April 2001. The sample was separated into a rising and a declining stock market. With the help of the spearman correlation, vector autoregressive models and Granger causality tests, the study found that a mutual influence exist in very short-run (one and two trading days) for sentiment on stock market returns. Further results showed that returns have a negative influence on sentiment, while the influence of sentiment on returns is positive for the next trading day. The influence of stock market returns on sentiment is strong and vice versa.

Schmeling (2009) investigated whether consumer confidence (a proxy for individual investor sentiment) affects expected stock returns internationally in 18 industrialized countries. The data covered a time series from January 1985 to December 2005. The study built a multiple regression model with consumer confidence as proxy for sentiment and macroeconomic variables as control to include annual CPI inflation, the annual percentage change in industrial production, the term spread, the dividend yield, and the detrended (6 months) short rate. The returns used

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included aggregate market, value stocks and growth stocks forecasted with 1, 6, 12 and 24 months horizons. The Granger-Causality tests and Block exogeneity tests inferred there is two-way “causality” such that sentiment depends on previous returns and that returns depend on previous sentiment movements. Panel fixed-effects regression result showed that that sentiment negatively forecasts aggregate stock market returns on average across countries. This implies that high sentiment leads to lowers future stock returns and vice versa. This relation also holds for returns of value stocks, growth stocks, small stocks, and for different forecasting horizons. Again, the study employed a cross-sectional perspective and provides evidence that the impact of sentiment on stock returns is higher for countries which have less market integrity and which are culturally more prone to herd-like behaviour and overreaction.

With the help of two proxies for sentiments (Economic Sentiment Indicator and the Consumer Confidence), Fernandes, Gama and Vieira (2010) carried out a study that investigated the effect of investor sentiment on future aggregate stock market returns and industrial indices returns in Portugal within the period of September 1997 and April 2009. The study also examined whether a significant negative relationship exists between sentiment and expected returns after controlling for macroeconomic factors. The regression model analysis showed that sentiment had a negative impact on future market returns for forecast horizons of 1 to 12 months. In the industry analysis, they found that PSI Telecommunications was the index that showed a more similar behaviour to the aggregate market. For the other industry indices sentiment just had some predictive power on the future returns of the PSI Utilities and PSI Technology for forecasting horizons longer than 1 month. The study thus posits that stock market in Portugal is prone to the influence of sentiment.

Grigaliūnienė and Cibulskienė (2010) studied investor sentiment effect on stock returns at aggregate level and cross-sectionally in Scandinavian stock market using Sweden, Finland, Norway, and Denmark. The study employed Consumer Confidence Index (CCI) and Economic Sentiment Indicator (ESI) as measures of investor sentiment. The study found that high sentiment has a negative effect on future stock returns. Further results showed that the effect is more pronounced for hard-to-value and hard-to-arbitrage stock returns.

Bathia and Bredin (2012) studied the effect of investor sentiment on the stock market returns of the G7. The sentiment indicators employed included investor survey, equity fund flow, closed-end equity fund discount and equity put-call ratio covering a monthly data for the period January 1995-December 2007. The study

specifically investigated whether investor sentiment has a significant influence on value and growth stock returns as well as aggregate market returns. With the help of panel regression, the study found a negative relationship between investor sentiment and future returns. The study further showed that investor sentiment has inverse relationship with returns such that when investor sentiment is high (low), future returns are low (high). More so, the study showed that effect of survey sentiment on future returns slowly declines far above the one-month predicted time frame. The study also indicated that increases in concurrent equity fund flow causes price pressure on value stocks and the overall market, while the discount of closed-end equity fund was also found to proxy for investor sentiment, with a narrower discount being associated with an increase (decrease) in value (growth) stocks.

Li (2010) noted that the influence of investor sentiment cannot be ignored, as he acknowledged that investor sentiment induces uninformed demand shock especially in the face of high cost of arbitrage. Using multiple factors to construct a sentiment index, he examined the effect of investor sentiment on asset pricing mechanism of two stock exchanges in China. Six proxies were employed to form a composite sentiment index: the closed-end fund discount, A-share market turnover, the number of IPOs, the average first-day returns on IPOs, the number of new accounts opened, and consumer confidence index. By using multiple factors to construct a sentiment index, this study provides some evidence to show that if the sentiment at the beginning of a period is low, large stocks (growth stocks) tend to have relatively lower return than small stocks (value stocks), and vice versa. The study splitted the entire period into bull and bear periods, and found that the impact of investor sentiment in the bear periods is much more influential than in bull periods. Further results suggested that investors in the Chinese markets exhibit a significant learning effect. As the regression analyses show that the influence of the sentiment index is rarely significant since 2006, indicating that investor sentiment is not one of the major risk factors that should be accounted for in Chinese market in the recent times.

Bu and Pi (2014) examined the proxy variables of investor sentiment in Chinese stock market and constructed an investor sentiment index indirectly using data from January 2006 to December 2012, monthly. The study used a cross correlation analysis to examine lead-lag relationship between the proxy variables and HS300 index. The results show that net added accounts, SSE share turnover and closed-end fund discount are leading variables to stock market. The average first day return of IPOs and relative degree of active trading in equity market are

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contemporary variables, while number of IPOs is a lagging variable of stock market. Using the sentiment proxy variables with most possible leading order, and forward selection stepwise regression method, the empirical results on monthly stock returns reveal that three leading proxy variables can be used to form a sentiment index. The study thus posits that sentiment index has good predictive power of Chinese stock market.

With the help of a composite sentiment index constructed using eight proxies, Tran and Nguyen (2013) investigated the effects of investor sentiment on stock returns in the Norwegian and Vietnamese stock markets. The Principal Component Analysis was used to extract the first principal component of these 8 chosen proxies. 10 equally-weighted portfolios according to their characteristics of firm size, total risk, earnings-to-book ratio, dividend-to-book ratio, asset tangibility, R&D over assets, book-to-market ratio, and external finance over assets and sales growth were used. Through establishing portfolios of different types of stocks, we found that the sentiment effect on returns is stronger for stocks that are hard to value and hard to arbitrage, i.e. small, high volatility, non-dividend-paying, and value stocks. Sentiment negatively predicts these types of stocks' returns, i.e. when sentiment is low (high), future stock returns tend to be higher (lower). Particularly in Norway, when sentiment is high, subsequent returns are relatively low for small firms and unprofitable firms. In Vietnam, when sentiment is high, subsequent returns are relatively low for small firms and firms with highly volatile stock returns and vice-versa. The results from a robustness test of the orthogonalized sentiment indices for Norway and Vietnam shows that the sentiment indices for Norway are sensitive to *VIX* whereas the sentiment indices in Vietnam show no pattern. This implies that *VIX* plays an important role when constructing the sentiment index in a developed stock market, i.e. Norway, than in an emerging stock market, i.e. Vietnam. *CCI* as a sentiment proxy can also forecast stock returns in Norway; however, its predictive power is not as strong as *VIX*.

Rahman, Shien, and Sadique (2013) investigated the impact of noise trader sentiment on the formation of expected returns and volatility in the context of the frontier stock market of Bangladesh. The study measured of sentiment shift using a modified trading index – a measure of relative strength of trading volume in relation to advancing stocks against that of declining stocks interpreted as the ratio of the average daily volume of declining stocks to the average daily volume of the advancing stocks. Returns were calculated as the logarithmic differences of prices times 100 while capitalization weighted returns on the portfolio of sample stocks is considered to represent the market return. The stock-level daily data over the period

from 1 Jan 2001 through 28 Dec 2012, and this was divided into two panel ranging from 2001 to 2006 and the other from 2007 to 2012. Empirical results based on a GARCH-in-mean framework show that shifts in investor sentiment are significantly positively correlated with excess market returns. In addition, the study found that the magnitude of bullish or bearish sentiment changes also exerts an indirect effect on expected returns through its asymmetric influence on the conditional volatility process.

In Romania, Oprea and Brad (2014) acknowledged that the attitude of individual investors is strongly correlated with their sentiment. They went further to posit that behaviour of investors on the stock market can generate important changes in price fluctuations. They then a study on the Bucharest Stock Exchange for a 10 year time period, starting from 2002 to 2011 to investigate the relationship between the evolution of stock market and the individual investor sentiment. The study used consumer confidence index as proxy for investor sentiment while stock returns was computed from the monthly all share index of the stock market. The result from a simple regression analyses showed that there is a positive correlation between changes in consumer confidence and stock market returns, demonstrating that individual investor sentiment affects stock prices. The study further found that the influence of individual investor sentiment seems to be quickly removed by the force of arbitrage with price adjustments realized in less than a month.

Employing the OLS regression technique, Huang, Jiang, Tu, and Zhou (2014) carried out a study to determine the model of investor sentiment index and relationship between investor sentiment and stock returns. Six sentiment measures were used: close-end fund discount rate, share turnover, number of IPOs, First-day returns of IPOs, Dividend premium, and Equity share in new issues, while the aggregate stock market return is computed as the excess return. By eliminating a common noise component in sentiment proxies, the new index has much greater predictive power than existing sentiment indices both in- and out-of-sample, and the predictability becomes both statistically and economically significant. In addition, it outperforms well recognized macroeconomic variables and can also predict cross-sectional stock returns sorted by industry, size, value, and momentum.

Chowdhury, Sharmin, and Rahman (2014) introduced the behavioural factors in the empirical asset pricing models to investigate the effect of sentiments on Bangladesh stock market with data collected from Dhaka Stock Exchange. Returns were divided into market index, weighted large, medium and small stock portfolio returns. The study used the error term to capture the return that is not explained by macroeconomic variables, industrial production, inflation and interest rate. The



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return was then regressed on sentiment variables (TRIN index, trade volume, number of IPOs per month, number of Beneficiary Owner account changes and moving average). The study found that TRIN and moving average significantly affect the residual market returns. Considering the impact of sentiment factors by firm size, the results show that the impact of TRIN and trade volume is strong for large and medium size firms. However, the effect of TRIN is either low or insignificant for small size firms, indicating less interest of investors for neglected stocks. Results also show that high sentiment leads to high return followed by negative correction in the next period. The study thus concluded that sentiment plays a big role in determining stock market performance indicating that the role of fundamentals is rather limited in the Bangladesh stock market.

Following the theory that a broad wave of sentiment will disproportionately affect stocks whose valuations are highly subjective and are difficult to arbitrage, Dalika and Seetharam (2015) investigated the effect of investor sentiment on the stock returns in the South African Market within the period covering 1999 and 2009. The study employed a composite index of investor sentiment as the linear combination of four indirect measures, namely, volatility premium, total volume of IPOs, average initial first day returns of IPOs and market turnover. However, the Johannesburg Securities Exchange (JSE) All Share Index was used as the proxy for stock market returns. The results indicate that investor sentiment has a strong impact on share returns in South Africa. When sentiment is low, subsequent returns are relatively high on smaller stocks, high volatility stocks, extreme growth stocks, and young stocks, with high sentiment reserving the patterns.

Almansour (2015) investigated the role of investor sentiment in asset pricing mechanism by focusing on Malaysian stock market and using data from January 2000 to December 2010; and further examines whether the influence of investor sentiment index on stock returns varies according to some characteristics of the firm. The technique of Principal Component Analysis (PCA) is used on market data to construct the investor sentiment index for Malaysian stock market. The market sentiment index derived from the sentiment proxies namely are Kuala Lumpur stock exchange share turnover, number of IPOs, first-day return on IPOs, dividend premium, equity share in new issues, price to earnings ratio for the market index, and the advance decline ratio. It was shown that Malaysian investor sentiment index could be measured by an equation of seven market variables. Using regression analysis and controlling for firm size, market-to-book ratio, financial leverage and growth opportunity, this index is shown to be able to predict Kuala Lumpur Composite Index (KLCI) returns in general. Further analyses which are

based on portfolios of stocks formed based on size, risk and age show that the influence of the investor sentiment index on stock returns varies according to age and risk, but not size. However, after classifying the period of studies into before and after crisis periods, it is then shown that the significant relationship between the investor sentiment index and stock returns only takes place before the crisis period but not after the crisis period. The relationship between the index and stock returns is shown to differ according to firm age and risk after the crisis period but not before the crisis period. As a whole, the market sentiment is able to predict stock return in Malaysian equity market. The study thus posits that investor sentiment could be one of the major factors that should be accounted for in recent.

Rehman and Shahzad (2016) explored the time frequency relationship between investors' sentiments and industry specific returns in Karachi Stock Exchange of Pakistan. A sentiment index proxy was constructed using level and lag values of six indicators of investors' mood swing through Principle Component Analysis. The investors indicators were number of Initial Public Offerings (IPO), average 1<sup>st</sup> day return on IPOs, Karachi Stock Exchange (KSE-100) Index average daily turnover, Equity/Debt ratio, closed end mutual fund discount, and dividend premiums. The data on investors' sentiments and nine major industry's returns was used from 2001 to 2011. Wavelet Coherency analysis reveal that investors' sentiments and industry returns are significantly related and are in phase (cyclical). An optimistic view of the investors regarding an industry's performance results in higher returns and pessimistic view results otherwise. The relationship is significant on 0 ~ 8 and 32 ~ 64 months scale. Financial and energy crises play major role in the sentiment led industry's return.

Gizelis and Chowdhury (2016) examined the relationship between investor sentiment and stock market returns of firms listed in the Athens Stock Exchange using direct and an indirect sentiment proxies. The historical investor sentiment indicators compiled by the European Commission was used as the direct measurement of sentiment while the closed-end equity fund discount/premium was the indirect sentiment. Using monthly data for the period January 1995 to April 2014 the regression results indicate that investor sentiment weakly explains returns in Greece.

#### **2.4 Summary of Review and Gap in Literature**

The review of empirical studies on sentiment-return nexus showed that sentiment indicators significantly determine stock returns. These studies cut across developed and emerging economies in the world. A number of dimensions covered

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in existing studies are whether sentiment can affect stock returns; whether it affects returns of large firms as much as it affects those of small firms; the time periods within which sentiment effect can take to correct and return to equilibrium; and then the direction of causal effect of sentiment and returns. Among these issues, the widely accepted consensus findings have been that sentiment influences returns and that small firms suffer sentiment effects more than large firm returns. The issue on whether time frame for correcting stock mispricing is divergent across stock markets. Only one study exists on the direction of causal effect of sentiment – return nexus. Among these objectives, the present study has undertaken to investigate existence of sentiment effect on stock returns in Nigeria, as well as determine the causal relationship between sentiment and stock returns.

However, the empirical studies in this area has come from developed countries of USA (Baker & Wurgler, 2006), Germany (Schmitz, Glaser & Weber, 2006); group of 18 industrialised nations (Schmeling, 2009), Greece (Gizelis & Chowdhury, 2016), Norway and Vietnam (Tran & Nguyen, 2013), Portugal (Fernandes, Gama & Vieira, 2010), Romania (Oprea & Brad, 2014), Sweden, Finland, Norway, and Denmark (Grigaliūnienė & Cibulskienė, 2010) and the G7 nations (Bathia & Bredin, 2012). The Asian world also has ample of extant literature that explains the sentiment-return nexus. Among these studies are works in China (Li, 2010; Bu & Pi, 2014; Huang, Jiang, Tu & Zhou, 2014). Bangladesh (Rahman, Shien & Sadique, 2013; Chowdhury, Sharmin & Rahman, 2014), Malaysia (Almansour, 2015) and Pakistan (Rehman & Shahzad, 2016); and African nation shared only one work from South Africa (Dalika & Seetharam, 2015). Evidence has shown that there is no empirical evidence to explain sentiment-return nexus in Nigeria.

### **3. Methodology**

In line with Gizelis and Chowdhury (2016), the market aggregates rather than individual stock data were used. Though, it is highly probable that sentiment will permeate across all stocks to the market level, we cannot rule out the possibility that the number of stocks positively affected by bullish sentiment is roughly the same as those that are negatively affected by bearish sentiment and thus they negate one another. However, as explained by Gizelis and Chowdhury (2016), the use of market aggregates is primarily imposed by pragmatic considerations stemming from the fact that most of the measures we examine are available for the entire market and not on a disaggregated level. The study collected secondary data from CBN documents to measure investor sentiments and stock market returns.

Proxies for investor sentiment are the independent variables while stock market return is the dependent variable.

**Stock market return (R<sub>m</sub>):** Stock market return is the dependent variable of the study and is obtained from Central Bank of Nigeria Statistical bulletin, 2015. The data consisted of closing quarterly prices of all firms listed on the Nigerian Stock Exchange (NSE) for the period QTR1 2008 to QTR4 2015. The closing prices of the NSE All Share Index (ALSI) are specifically chosen as it is likely to be representative of the entire Nigerian securities market. The study followed the work of Oprea and Brad (2014) to transform the quarterly data of ALSI into continuously computed returns as:

$$R_{mt} = \ln(P_t - P_{t-1}) / P_{t-1} \quad (1)$$

Where:  $R_{mt}$  represents quarterly market return for period  $t$ ;  $P_t$  and  $P_{t-1}$  denote market prices for period  $t$  and period  $t-1$  respectively and  $\ln$  denotes natural logarithm. The log transformation was employed in order to convert the data into continuously compounded rates. This practice is common rather than using discrete compounding (Simons & Laryea, 2015).

**Investor Sentiment Proxy:** The study employed the Consumer Confidence Index to measure investor sentiment. This is obtained from investor survey reported in CBN Statistical Bulletin. The CBN analysts obtains the overall consumer confidence index as average of three (3) measures, namely, the outlook on macroeconomic conditions, family financial situation and family income (CBN, 2016). The consumer confidence index is the combined expectations and beliefs of investors on the fundamentals of the economy and markets. Lemmon and Portniaguina (2006), and Qiu and Welch (2005) argue that the consumer confidence index forms a direct measure of the general feeling of investors, and changes can measure the fluctuation of the stock returns, especially for small firms. This study used the inverse form of the CCI following the explanation of Oprea and Brad (2014) that CCI has only negative levels and as such have to be modified into its inverse form in order to reveal its impact on stock market return. Thus, we calculated the absolute value:

$$CCL_1 = \frac{1}{CCI_t} \quad (2)$$

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Where  $CCI_t$  is the level of consumer confidence index in quarter  $t$ . These mathematical tricks, according to Oprea and Brad (2014:21) have been used to sustain and to provide proper interpretation to the return – sentiment nexus. Also, the change of consumer confidence index was computed as follows:

$$\Delta CCI_t = \frac{CCI_{-1t} - CCI_{-1t-1}}{CCI_{-1t-1}} \quad (3)$$

Where:  $\Delta CCI_t$  is the change of consumer confidence index in quarter  $t$ .

In line with previous studies, this study includes some macroeconomic indicators in order to capture how sentiment measures are related to overall economic activity. Following Gizelis and Chowdhury (2016), some of the key macroeconomic variables that are motivated by asset pricing theory are used including Industrial Production Index (IPI) as an indicator of economic activity, the Consumer Price Index (CPI) as a measure of inflation, and the treasury bill rate as a proxy for the risk-free nominal interest rate.

To examine whether investor sentiment predicts future aggregate stock market returns and industry indices returns in Nigeria, we follow Schmeling (2009) and Oprea and Brad (2014) to estimate the predictive regression equation of the form:

$$R_{mt} = \beta_0 + \beta_1 \Delta CCI_{1t} + \varepsilon_t \quad (4)$$

Where:  $R_{mt}$  represents quarterly market return of the aggregate stock market at time  $t+1$  and  $\Delta CCI_{1t}$  is the change in consumer confidence index in quarter  $t$  as proxy for lagged Nigeria investor sentiment.  $\beta_0$  is a constant coefficient while  $\beta_1$  defines the coefficient of the regression model 4 while  $\varepsilon_t$  is residual term.

Following the modelling adopted in Schmeling (2009) and Fernandes, Gama and Vieira (2010), the study added a set of macroeconomic factors as control variables and estimate the predictive regression equation of the form:

$$R_{mt} = \beta_0 + \beta_1 \Delta CCI_{1t} + \lambda_t + \varepsilon_t \quad (5)$$

The term  $\lambda_t$  is a macroeconomic factor matrix including *IPI*, *CPI*, and *TBR* being the quarterly inflation, interest rates and industrial production growth, respectively.

To address hypothesis two (Ho2), an endogenous model is developed as follows:

$$\hat{Rm}_t = \alpha_0 + \alpha_1 \hat{CCI}_{-1t} + \mu_t \quad (6)$$

Where:  $CCI_{-1t}$  is the inverse value of the consumer confidence index in quarter t as proxy for lagged Nigeria investor sentiment.  $\alpha_0$  and  $\alpha_1$  are the coefficients of the regression model.  $\mu_t$  is residual term.

A series of statistical analyses were carried out to address the objectives of the study. At first preliminary analyses were conducted to understand the nature of the variables employed in the study. These include the descriptive statistics involving mean, standard deviation, minimum, maximum and Jarque-Bera statistics, as well as multicollinearity test. The OLS regression technique was used to estimate the model for hypothesis one while granger causality techniques addressed hypothesis two of the study.

#### 4. Results and Discussion

The descriptive statistics was used to test for the normality of the variables while multicollinearity tested with Variance Inflation Factor (VIF) tested for the reliability OF THE model.

**Table no. 1. Descriptive statistics**

	RM	$\Delta CCI$	IPI	TBR	CPI
Mean	10.27	-8.31	123.42	8.52	157.83
Median	10.22	-8.40	125.25	9.00	156.90
Maximum	10.93	7.26	139.45	14.49	215.60
Minimum	9.90	-24.63	90.80	1.04	104.90
Std. Dev.	0.26	8.05	15.46	3.57	32.13
Skewness	0.46	-0.12	-0.83	-0.32	0.08
Kurtosis	2.46	2.76	2.76	2.27	1.90
Jarque-Bera	1.5991	0.1619	3.9854	1.3384	1.7391
Probability	0.4495	0.9222	0.1363	0.5121	0.4191
Observations	33	33	34	34	34

Source: Data analysis from Eviews 8, 2017

The result of descriptive statistics on Table 1 showed that the mean for market return (RM) indicates that 10.27 in log form is the average return of quoted firms in Nigeria between 2008 and 2016. The mean of change in consumer

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confidence index is -8.31 which suggests that sentiment in Nigeria is on the negative. However, the mean for all the variables including RM,  $\Delta$ CCI, IPI, TBR and CPI are higher than the respective standard deviations. This suggests possible stability in the distribution of the variables. The Jarque-Bera test was used to test for the normality of the variables. The Jarque-Bera test uses skewness and kurtosis measurements. The null hypothesis in this test is data follow normal distribution. **Decision rule:** Reject the null hypothesis, when p.value is less than 0.05 level of significance, otherwise, do not reject. Since the p.value of Jarque-Bera statistics is greater than 0.05 in all the variables (RM,  $\Delta$ CCI, IPI, TBR and CPI) the study cannot reject the null hypothesis. Thus it concludes that all the variables RM,  $\Delta$ CCI, IPI, TBR and CPI are normally distributed.

Further test of reliability is carried out to determine whether there is presence of multicollinearity in the model. This test becomes necessary since presence of multicollinearity in the data makes the OLS estimators imprecisely estimated (Ranjit, 2006). The Variance Inflation Factor (VIF) has been adopted to test for the presence of multicollinearity in the models. **Decision Rule:** “when the value of VIF is 10 and above, then the multicollinearity is problematic.

**Table no. 2. Variance Inflation Factors for test of multicollinearity in the model**

Variable	VIF	Remarks
$\Delta$ CCI	1.107703	No multicollinearity
IPI	1.751225	No multicollinearity
TBR	1.388463	No multicollinearity
CPI	1.489564	No multicollinearity
C	NA	

Source: Data analysis from Eviews 8, 2017

The result on Table 2 is the VIF statistics of the explanatory variables of stock market returns ( $\Delta$ CCI, IPI, TBR and CPI). The results for all the variables are below 10. This indicates that inclusion of the independent variables as employed in the model does not bring about multicollinearity in the model. The study thus concludes that the model is reliable for examining the effect of sentiment on returns in Nigeria.

**Table no. 3. Model estimation of the effect of sentiment on returns**  
**Dependent Variable: RM**

Variables	Model 1		Model 2	
	Coefficient	T-statistics (P.value)	Coefficient	T-statistics (P.value)
$\Delta$ CCI	0.0067*	2.1319 (0.0329)	0.01525**	2.2897 (0.0298)
IPI	-	-	-0.0045	-1.1749 (0.21499)
TBR	-	-	0.02745	2.0164 (0.0534)
CPI	-	-	0.0039**	2.1582 (0.0396)
C	10.3338*	233.6966 (0.0000)	10.1004*	16.6137 (0.000)
R-squared	0.0396		0.3305	
F-statistic (P.value)	7.2814** (0.0329)		3.456613** (0.0204)	
Durbin-Watson stat	0.3790		0.8014	

\*significant at 1%; \*\*significant at %,

Source: Data analysis from Eviews 8, 2017

The result on Table 3 is used to address objective one of the study. The hypothesis tested is that: The relationship between sentiment and expected returns is significantly negative, even after controlling for fundamental factors. Two models are used to address this objective. The first model (1) regressed sentiment (CCI) on stock returns (R<sub>m</sub>). The second model (2) incorporated three economic variables: IPI (industrial production growth) as indicator of economic activities, CPI as indicator of inflationary trend and TBR as measure of risk free interest rate.

The result of Model 1 showed that a unit change in investor sentiment ( $\Delta$ CCI) has positive effect on stock returns in Nigeria (coefficient = 0.0067, t-statistics = 2.1319, p.value = 0.0329). The result indicates that the higher the level of sentiment, the higher the expected returns from asset trading. Thus, positive sentiment leads to positive returns while negative sentiment brings about negative returns. The results showed that sentiment has significant effect on stock market returns on Nigeria.

The second model (2) incorporated control variables of fundamental factors. The results also showed that unit change in investor sentiment ( $\Delta$ CCI) has positive effect on stock returns in Nigeria (coefficient = 0.01525, t-statistics = 2.2897, p.value =



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0.0298). This suggests that sentiment has significant effect even when fundamental variables are factored in. The results showed that Industrial Production Index (IPI = -0.0045) has insignificant negative effect while Treasury bill rate as proxy for risk free interest rate (TBR = 0.02745, not significant) and consumer price index as proxy for inflation (CPI = 0.0039, significant) have positive relationship with stock market returns.

The coefficient of determination (R<sup>2</sup>) indicated that, in (model 1)  $\Delta$ CCI explains 3.96% while in model 2, it explains 33.05%. The F-statistics indicated that the explanatory power remains statistically significant at both Model 1 and Model 2. However, the value of R<sup>2</sup> in each case is not large enough as it could not control at least half of the factors that explains stock returns in Nigeria. Thus it can be said that sentiment is not the major factor that determines stock market returns in Nigeria.

**Table no. 4. Pairwise Granger Causality Tests of the causal relationship between sentiment and stock returns**

Null Hypothesis:	Obs	F-Statistic	Prob.	Remark
$\Delta$ CCI does not Granger Cause RM	31	3.90564	0.0329	Uni-directional causality from $\Delta$ CCI to RM
RM does not Granger Cause $\Delta$ CCI		0.90147	0.4183	

Source: Data analysis from Eviews 8, 2017

The second objective aims to determine whether sentiment depends on previous returns or it is returns that depend on previous sentiment movements. This is tested using the granger causality analyses presented on Table 4. The result of the analysis test the two: “There is no causality between investor sentiment and future stock market returns”. At 5% level of significance, the study rejects the null hypothesis for “ $\Delta$ CCI does not Granger Cause RM” and concludes that change in investment sentiment ( $\Delta$ CCI) granger causes stock market returns (RM). It however, did not reject the null hypothesis for RM does not Granger Cause  $\Delta$ CCI.

## **5. Conclusion and Recommendations**

### **5.1 Conclusion**

This study has examined the effect of investor sentiment on stock market returns in Nigeria. The vast majority of previous studies on sentiment-return relationship have only examined the case of the developed American and European countries as well as Asian countries.

The present study has shown that investor sentiment has positive effect on the aggregate stock market returns in Nigeria. This implies that asset pricing can be influenced by changes in investor sentiments in Nigeria. The influence of sentiment on stock returns still hold even after the inclusion of market fundamentals such as industrial production index, inflation and risk free interest rate. The study thus concludes that there is a possible dynamic relationship between the investor sentiment and the behaviour of stock returns in Nigeria such that higher sentiment concurrently leads to higher stock prices. In the Nigerian stock market, sentiment is a source of market risk, which cannot be diversified away and hence it is priced. However, the study posits that sentiment is not a key variable for explaining changes in asset prices in Nigerian stock market.

### 5.2 Recommendations

A number of recommendations can be drawn from the findings of this study:

1. The results suggest several avenues for future work. In corporate finance, a better understanding of sentiment may shed light on patterns in security issuance and the supply of firm characteristics that seem to be conditionally relevant to share price. In asset pricing, the results suggest that descriptively accurate models of prices and expected returns need to incorporate a prominent role of investor sentiment.

2. Following the findings that sentiment is significant in determining stock returns, it is suggested that behavioural factors be considered in empirical asset pricing models for emerging stock markets.

### 5.3 Limitations of the study

One of the limitations of this study centres on the use of only one proxy as investor sentiment index. The reduced period of analysis, in this case due to the availability of data on some of the macroeconomic variables, is another limitation. The choice of these variables may represent yet another limitation. However, as Qiu and Welch (2006) posit that the consumer confidence index is a valid variable to obtain a proxy for investor sentiment, it becomes reasonable to accept that consumer confidence index alone (in the face of dearth of data to proxy sentiment index) can serve as a good measure for investor sentiment in a study of this nature. This is true following that some empirical studies have sufficiently employed only consumer confidence index and successfully examined the effect of investor sentiment on stock returns in other countries (Schmeling, 2009; Oprea & Brad, 2014).

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**Author Contributions:** Alajekwu Udoka Bernard, analyzed the data wrote the paper. Obialor M.C. provided the data for analyses and contributed in the review of related literature while C.O. Okoro did the content editing and fine-tuned the statement of problems and conclusion to the study.

**Conflicts of Interest:** The authors declare no conflicts of interest.

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## THE ECONOMIC IMPACT ON GLOBAL TOURISM

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### Abstract

*Tourism is an important economic activity in most countries around the world. As well as its direct economic impact, the industry has significant indirect and induced impacts.*

*The outlook for the tourism sector in 2017 remains robust and will continue to be at the forefront of wealth and employment creation in the global economy, despite the emergence of a number of challenging headwinds.*

*In tourism, GDP growth is expected to accelerate to 3.8%, up from 3.1% in 2016. As nations seem to be looking increasingly inward, putting in place barriers to trade and movement of people, the role of tourism becomes even more significant, as an engine of economic development and as a vehicle for sharing cultures, creating peace, and building mutual understanding.*

**Keywords:** *economic impact; tourism; global tourism; travel; tourism economics.*

**JEL Classification:** Z<sub>30</sub>, Z<sub>32</sub>

### Introduction

The main objective of the research: the economic impact on global tourism is to provide, on a basis-consistent, reliable, comparable data and to assess tourism contribution to national economic activity. [Economic Impact Research, 2017]

Over the longer term, growth of tourism sector will continue to be strong so long as the investment and development take place in an open and sustainable manner. Enacting pro-growth travel policies that share benefits more equitably can foster a talent and business environment necessary to enable tourism to realize its potential. In doing so, not only can we expect the sector to support over 380 million jobs by 2027, but it will continue to grow its economic contribution, providing the rationale for the further protection of nature, habitats, and biodiversity. [Economic Impact World, 2017]

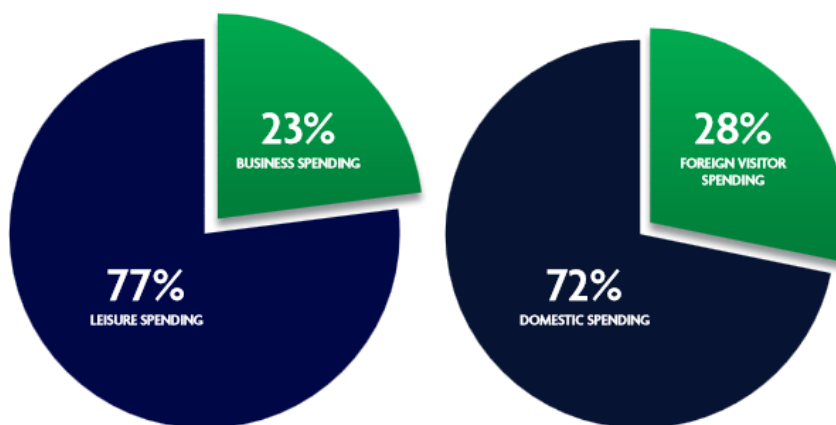
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Tourism is a key sector for economic development and job creation throughout the world. In 2016, tourism directly contributed US\$2.3 trillion and 109 million jobs worldwide. Taking its wider indirect and induced impacts into account, the sector contributed US\$7.6 trillion to the global economy and supported 292 million jobs in 2016. This was equal to 10.2% of the world’s GDP, and approximately 1 in 10 of all jobs. [Global Economic Impact and Issues, 2017]

Tourism’s impact includes people travelling for both leisure and business, domestically and internationally. In 2016, 76.8% of all travel spend was as a result of leisure travel, compared to 23.2% from business travel. [Global Economic Impact and Issues, 2017]

Domestic travel generated 72% of the sector’s contribution to GDP, thus making a significantly larger contribution than international travel, with foreign visitor spending at 28%. [Global Economic Impact and Issues, 2017]

Tourism is an export sector, attracting foreign spending to a country in the form of international visitors. In 2016, global visitor exports accounted for 6.6% of total world exports (a total of US\$1.4 trillion) and almost 30% of total world services exports. [Global Economic Impact and Issues, 2017]



**Figure no. 1. Business vs Leisure / Domestic vs Foreign Spending**

Source: “Global Economic Impact and Issues (2017),” World Travel & Tourism Council, accessed May 4, 2017, <https://www.wttc.org/-/media/files/reports/economic-impact-research/2017-documents/global-economic-impact-and-issues-2017.pdf>, p. 3

### **Literature review**

My research paper entitled: The economic impact on global tourism, is written after I've documented on the basis of the following published articles:

1. Economic Impacts Analysis written and published by World Travel and Tourism Council.
2. Economic Impacts of Tourism Industry written by Fateme Tohid Ardahaey published on International Journal of Business and Management.
3. The Economic Impacts of Tourism: A Special Issue written by Timothy J. Tyrell and Robert J. Johnston published on Journal of Travel Research.

### **Tourism's contribution to the world's economy**

Tourism's direct contribution to GDP grew by 3.1% in 2016. This was faster than the global economy as a whole which grew at 2.5%, meaning that, for six consecutive years, the tourism sector has outperformed the global economy. [Global Economic Impact and Issues, 2017]

The direct contribution of tourism to employment grew by 1.8% in 2016 meaning almost 2 million net additional jobs were generated directly by the sector, and a total of around 6 million new jobs created as a result of total direct, indirect and induced activity. This means that almost 1 in 5 of all new jobs created in 2016 was linked to tourism. [Global Economic Impact and Issues, 2017]

In addition to outpacing global economic growth, the tourism sector also outperformed several other major global economic sectors in 2016. Specifically, direct tourism GDP growth was stronger than the growth recorded in the financial and business services, manufacturing, public services, retail and distribution, and transport sectors, but was marginally slower than growth in the communications sector. [Global Economic Impact and Issues, 2017]

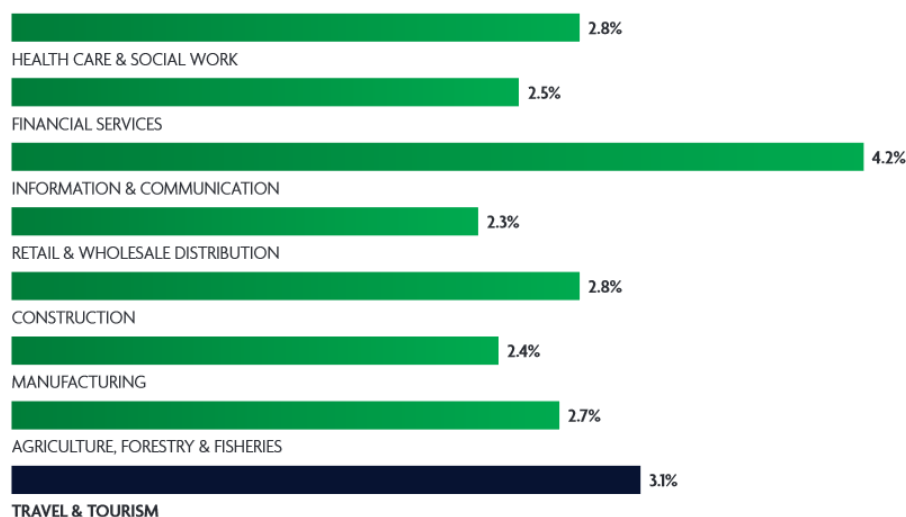
In 2017, the total contribution of tourism to the world's economy is forecast to grow by 3.5%. Continued solid growth at a global level is expected across the main economic indicators of GDP contribution, job creation, investment, and visitor exports, with visitor exports making an especially strong contribution. [Global Economic Impact and Issues, 2017]

A key challenge for tourism in 2017 will be a general slowdown in consumer spending power, which will impact consumer spending on tourism. The combination of higher inflation caused by recovering oil prices (which could have knock-on impacts for air fares), rising debt servicing costs as interest rates rise, and a slowdown in job creation across the globe is curbing global spending power



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which is expected to grow at the weakest rate for eight years in 2017. [Global Economic Impact and Issues, 2017]



**Figure no. 2. World industry GDP growth**

Source: “Global Economic Impact and Issues (2017),” World Travel & Tourism Council, accessed May 4, 2017, <https://www.wttc.org/-/media/files/reports/economic-impact-research/2017-documents/global-economic-impact-and-issues-2017.pdf>, p. 3

The outlook, however, varies across the different outbound markets [Global Economic Impact and Issues, 2017]:

- With the dollar strength expected to persist, 2017 is forecast to be another strong year for the USA, with growth of 5.4% in outbound tourism spend expected. The most likely beneficiaries of this strong growth will be other North American destinations such as Canada and Mexico, as well as Caribbean and Mediterranean destinations.

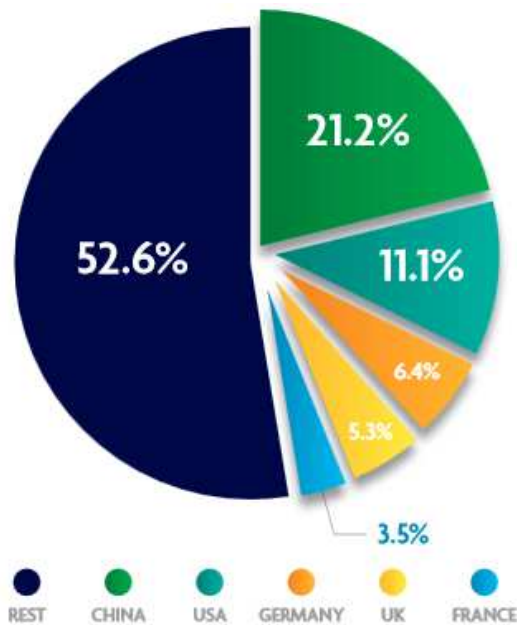
- In China, after 7 consecutive years of annual growth in excess of 20%, outbound spending is expected to cool slightly, yet remain very strong by international standards, with growth of 12.0% expected in 2017.

- The depreciation of sterling is forecast to continue during 2017, which is expected to lead to a substantial slowdown in outbound tourism spending growth

from the UK, from 8.0% in 2016 to a contraction of 4.2% in 2017. The markets most likely to suffer as a consequence are European destinations and longer-haul travel to the USA.

Tourism’s direct contribution to GDP is expected to grow at an average of 3.9% per year over the next ten years. [Global Economic Impact and Issues, 2017]

By 2027, tourism is expected to support more than 380 million jobs globally, which equates to 1 in 9 of all jobs in the world and the sector is expected to contribute around 23% of total global net job creation over the next decade. Meanwhile, total tourism GDP is expected to account for 11.4% of global GDP and global visitor exports are expected to account for 7.1% of total global exports. [Global Economic Impact and Issues, 2017]



**Figure no. 3. Outbound travel expenditure by country**

Source: “Global Economic Impact and Issues (2017),” World Travel & Tourism Council, accessed May 4, 2017, <https://www.wttc.org/-/media/files/reports/economic-impact-research/2017-documents/global-economic-impact-and-issues-2017.pdf>, p. 4

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Furthermore, the sector is expected to outperform the global economy throughout the forecast period and increase its share of global economic activity across each of GDP, employment, exports and investment. [Global Economic Impact and Issues, 2017]

In addition to outperforming the global economy over the next ten years, tourism is also forecast to outpace a range of other major global economic sectors, including communications, financial and business services, manufacturing and retail and distribution. [Global Economic Impact and Issues, 2017]

In 2017, all world sub-regions are expected to experience growth in direct tourism GDP. South East Asia and South Asia are expected to be the fastest growing world regions with growth of around 6.5-7%. This year is also expected to mark a turnaround in fortunes for Latin America (2.0%) and North Africa (2.8%) as modest growth returns after weakness in 2016. [Global Economic Impact and Issues, 2017]

South Asia is expected to be the fastest growing world region over the next 10 years, with average annual direct tourism GDP growth of 6.7% expected, with strong growth in India (6.8%), the driving force. In China long term annual average growth of 7.5% is expected, with the tourism sector being increasingly viewed as a high-potential priority sector by authorities, which has led to an upgrade in our long-term tourism investment forecast. Northeast Asia overall is forecast to grow by 5.9% per year, ahead of Southeast Asia, where average annual growth of 5.7% is expected. The next tier of sub-regions, with growth in the 3-5% bracket include Sub-Saharan Africa (4.8%), the Middle East (4.6%), North Africa (4.0%), the Caribbean (3.6%), Latin America (3.5%) and North America (3.2%). Slower, yet robust growth is expected in Oceania (2.9%) and Europe (2.4%). [Global Economic Impact and Issues, 2017]

*Countries showing strong international tourism growth* [Global Economic Impact and Issues, 2017]:

Tourism has been outpacing the global economy for the past six years, which is reflected in the growth figures for individual countries as well. Several countries have shown especially dramatic growth in visitor exports over this time period. They have seen significantly increased inflow of tourism spending, thanks to prioritisation of tourism, opening borders, infrastructure investment, and promotional efforts, among other factors.

*Countries performed best in 2016* [Global Economic Impact and Issues, 2017]:

At country level, amongst the fastest growing tourism economies in 2016 and buoyed by strong inbound international visitor spending were Azerbaijan (46.1%), Mongolia (24.4%), Iceland (20.1%), Cyprus (15.4%), Kazakhstan (15.2%), Moldova (14.2%), Costa Rica (12.1%), Georgia (11.2%), Sri Lanka (10.7%), and Thailand (10.7%), which grew even more strongly than fast growth markets like India (8.5%), China (8.1%), and Indonesia (5.8%).

*Tourism outperforming economy* [Global Economic Impact and Issues, 2017]:

At country level, direct tourism GDP growth also outpaced economy-wide GDP growth in 116 of the 185 countries covered by this research. [Global Economic Impact and Issues, 2017]

Bulgaria, Cyprus, Iceland, Qatar, and Thailand are some of the countries which saw their tourism sectors outperform the general economy most significantly. [Global Economic Impact and Issues, 2017]

G20 countries whose tourism performed better than the economy as a whole in 2016 include Australia, Canada, China, India, Mexico and South Africa. [Global Economic Impact and Issues, 2017]

At country level, the fastest growing larger tourism countries are expected to be China, India, Thailand, and Indonesia. By 2027, China is expected to have overtaken the USA in terms of total tourism GDP, domestic tourism spending and investment. However, the USA is expected to remain on top in terms of direct tourism GDP, visitor exports and business travel spending. [Global Economic Impact and Issues, 2017]

India is expected to establish itself as the fourth largest tourism economy by 2027, both in terms of direct and total GDP, only behind China, the USA and Germany. Thailand is expected to continue its fast-paced growth and become the third largest market for visitor exports by 2027, taking over Spain, which is expected to drop to fourth place. Other notable countries expected to move up the tourism GDP rankings considerably by 2027 include Qatar, UAE, and Vietnam. [Global Economic Impact and Issues, 2017]

Amongst the smaller economies, Kyrgyzstan, Namibia, Myanmar, and Rwanda are expected to be star performers in terms of tourism growth to 2027. [Global Economic Impact and Issues, 2017]

In 2017, the economic fallout from the Brexit vote is expected to have diverging implications for domestic and international tourism spending. Due to

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higher inflation and weakened consumer spending prospects, the domestic tourism spending outlook has been downgraded. At the same time, the depreciated value of sterling should provide a boost to inbound international spending. Outbound tourism spending from the UK was very strong in 2015 and 2016, but should slow considerably in 2017 through a combination of the weaker consumer outlook and the exchange rate depreciation, with the latter expected to switch some demand from international to domestic. Overall, direct tourism GDP growth in the UK is expected to slow to 2.9% in 2017, down from 3.2% last year. [Global Economic Impact and Issues, 2017]

### **The economic impact on world tourism**

The direct contribution of tourism to GDP reflects the 'internal' spending on tourism (total spending within a particular spending by government on tourism services directly linked to visitors, such as cultural or recreational. [Economic Impact World, 2017]

The direct contribution of tourism to GDP is calculated to be consistent with the output, as expressed in National Accounting of tourism-characteristic sectors such as hotels, airlines, airports, travel agents and leisure and recreation services that deal directly with tourists. The direct contribution of tourism to GDP is calculated from total internal spending by 'netting out' the purchases made by the different tourism sectors. This measure is consistent with the definition of tourism GDP. [Economic Impact World, 2017]

The total contribution of tourism includes its 'wider impacts' (i.e. the indirect and induced impacts) on the economy. The 'indirect' contribution includes the GDP and jobs supported by [Economic Impact World, 2017]:

- tourism investment spending – an important aspect of both current and future activity that includes investment activity such as the purchase of new aircraft and construction of new hotels;
- government 'collective' spending, which helps tourism activity in many different ways as it is made on behalf of the 'community at large' – e.g. tourism marketing and promotion, aviation, administration, security services, resort area security services, resort area sanitation services;
- domestic purchases of goods and services by the sectors dealing directly with tourists – including, for example, purchases of food and cleaning services by hotels, of fuel and catering services by airlines, and IT services by travel agents.

*Tourism's contribution to employment* [Economic Impact World, 2017]:

Tourism generated 108,741,000 jobs directly in 2016 (3.6% of total employment) and this is forecast to grow by 2.1% in 2017 to 111,013,000 (3.6% of total employment). This includes employment by hotels, travel agents, airlines and other passenger transportation services (excluding commuter services). It also includes, for example, the activities of the restaurant and leisure industries directly supported by tourists.

By 2027, tourism will account for 138,086,000 jobs directly, an increase of 2.2% pa over the next ten years.

The total contribution of tourism to employment was 292,220,000 jobs in 2016 (9.6% of total employment). This is forecast to rise by 1.9% in 2017 to 297,896,000 jobs (9.7% of total employment).

By 2027, tourism is forecast to support 381,700,000 jobs (11.1% of total employment), an increase of 2.5% pa over the period.

*Visitor exports* [Economic Impact World, 2017]:

Money spent by foreign visitors to a country (or visitor exports) is a key component of the direct contribution of tourism. In 2016, the world generated USD1,401.5bn in visitor exports. In 2017, this is expected to grow by 4.5%, and the world is expected to attract 1,290,780,000 international tourist arrivals.

By 2027, international tourist arrivals are forecast to total 2,042,420,000, generating expenditure of USD2,221.0bn, an increase of 4.3% pa.

*Investment* [Economic Impact World, 2017]:

Tourism is expected to have attracted capital investment of USD806.5bn in 2016. This is expected to rise by 4.1% in 2017, and rise by 4.5% pa over the next ten years to USD1,307.1bn in 2027.

Tourism's share of total national investment will rise from 4.5% in 2017 to 5.0% in 2027.

*Different components of tourism* [Economic Impact World, 2017]:

Leisure travel spending (inbound and domestic) generated 76.8% of direct tourism GDP in 2016 (USD3,822.5bn) compared with 23.2% for business travel spending (USD1,153.6bn).

Leisure travel spending is expected to grow by 3.9% in 2017 to USD3,970.4bn, and rise by 4.1% pa to USD5,917.7bn in 2027.

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Business travel spending is expected to grow by 4.0% in 2017 to USD1,199.7bn, and rise by 3.7% pa to USD1,719.9bn in 2027.

Domestic travel spending generated 71.8% of direct tourism GDP in 2016 compared with 28.2% for visitor exports (i.e. foreign visitor spending or international tourism receipts).

Domestic travel spending is expected to grow by 3.7% in 2017 to USD3,705.4bn, and rise by 3.9% pa to USD5,414.1bn in 2027.

Visitor exports are expected to grow by 4.5% in 2017 to USD1,464.4bn, and rise by 4.3% pa to USD2,221.0bn in 2027.

### **The economic impact on global tourism: results**

The UK formally began the process of leaving the EU after triggering Article 50 at the end of March. In response, the European Council has published guidelines on how the EU will respond to the UK's departure. These guidelines indicate that trade discussions could begin before exit terms have been fully agreed but that trade discussions will not be held until "sufficient progress" has been made on the exit agreement. There is also a likelihood of a slow start to the UK-EU discussions due to the forthcoming elections in France and Germany. Published data indicated that UK GDP grew by 0.7% on Q3 and 1.8% for the whole of 2016, making the UK the second fastest growing economy amongst the G7. However, the latest data for services output in January suggests that Q1 is likely to have seen a slowdown in the pace of GDP with growth in services at 0.4% in Q1 2017, the weakest growth in two years. There has however been strong growth in the production and construction sectors in Q1 which is likely to go some way to offsetting the weakness in services. Real disposable income declined by 0.4% in Q4, the second consecutive quarterly fall as rising inflation continues to weigh on the consumer in 2017. But overall consumer spending is expected to grow by 1.6% this year. [Monthly Economic Impact, March, 2017]

The US economy is facing a diverse environment at present, where by stock valuations and confidence have been inflated by promised fiscal stimulus and deregulation, while the private sector remains more cautious. In Q4 2016 real GDP grew annually by 1.9%, helped by consumer spending increasing by 3%. However, with inflation firming to 2% in 2017 and real disposable income growth expected to slow to 2.1% in 2017 (down from 2.8% in 2016), consumer spending is expected to slow to 2.5%. GDP in Q1 2017 is expected to slow to 1.0% due to weak consumer spending at the beginning of the year. Overall, the outlook for the US

economy has been downgraded for 2017, from 2.3% to 2.1%, due to the weak start to 2017. [Monthly Economic Impact, March, 2017]

Euro zone growth was recorded at 0.4% in Q4 2016, bringing growth for 2016 overall to 1.7%. Business surveys have indicated that an acceleration of growth is underway with quarterly growth for Q1 expected to be around 0.6%. Industrial production growth of around 2% in January will be difficult to maintain with world trade growth expected to remain subdued compared to pre-financial crisis standards. Inflation in February rose to 2%, slightly above the ECB target rate, causing real wage growth to fall from 1.2% in 2016 into negative territory at the start of 2017. The pick-up in inflation throughout the Euro zone is expected to slow household spending growth to 1.5% in 2017 compared to 1.9% in 2016. [Monthly Economic Impact, March, 2017]

Industry indicators show another year of robust growth for tourism in 2016 [Monthly Economic Impact, February, 2017]:

– Estimates of global tourism performance across the core indicators are now available for the whole of 2016. The UNWTO World Tourism Barometer reported global growth in international tourist arrivals of 3.9% for 2016. While this represents continued robust growth in international travel, growth was down compared to 2015, when growth of 4.6% was recorded. The fastest growing world regions for inbound international tourist arrivals in 2016 were Asia Pacific and Sub-Saharan Africa, with growth of 8.4% and 10.7% respectively. Growth was also robust in the Americas (4.3%) but less so Europe (2.0%) where there has been a wide divergence in performance across countries. The only world region to report negative growth in 2016 was the Middle East (-4.1%). Significant declines in inbound arrivals to Egypt (classified as part of the Middle East according to UNWTO) largely explain this wider regional decline. Declines in inbound arrivals to large markets such as Belgium, France, Hong Kong and Turkey also explain the slowdown in global growth between 2015 and 2016.

– Global international air passenger traffic growth remained strong in 2016 with growth of 6.7%, helped by continued low oil prices. This was marginally ahead of the growth of 6.6% recorded in 2015. Growth was robust across all world regions, with the strongest growth recorded in the Middle East (11.8%), while North America was the slowest growing world region at 2.6%. It should be noted that airline traffic is allocated according to the region in which the carrier is registered and should not be considered as regional traffic, which explains the divergence between



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international tourist arrivals and international air passenger traffic growth in regions such as the Middle East.

– Hotel performance was diverse in 2016, with the Middle East experiencing declines across all key performance indicators, while regions such as Europe, North America and Sub-Saharan Africa performed much better. Hotel performance in January 2017 was again diverse across world regions. Continuing on from weakness in 2016, hotel performance has been particularly weak in the Middle East, with declines recorded again across all key performance indicators, including sharp declines in revenue per available room. However, hotel supply is expanding in the region which needs to be taken into account. In Sub-Saharan Africa and Asia Pacific declines have been recorded in occupancy rates. Meanwhile, hotel performance in North Africa has recorded significant annual growth across all key performance indicators for January 2017, compared to January 2016. Growth has also been robust across all key performance indicators in Europe, Americas and North America.

### Conclusions

Tourism can bring many economic benefits, particularly in rural areas and developing countries, but mass tourism is also associated with negative effects. Tourism can only be sustainable if it is carefully managed so that potential negative effects on the host community and the environment are not permitted to outweigh the financial benefits. [Carole Simm, 2017]

The positive economic effects are [Carole Simm, 2017]:

Tourism creates jobs, both through direct employment within the tourism industry and indirectly in sectors such as retail and transportation. When these people spend their wages on goods and services, it leads to what is known as the “multiplier effect,” creating more jobs. The tourism industry also provides opportunities for small-scale business enterprises, which is especially important in rural communities, and generates extra tax revenues, such as airport and hotel taxes, which can be used for schools, housing and hospitals.

The negative economic effects are [Carole Simm, 2017]:

Successful tourism relies on establishing a basic infrastructure, such as roads, visitor centres and hotels. The cost of this usually falls on the government, so it has to come out of tax revenues. Jobs created by tourism are often seasonal and poorly paid, yet tourism can push up local property prices and the cost of goods and services. Money generated by tourism does not always benefit the local community, as some of it leaks out to huge international companies, such as hotel

chains. Destinations dependent on tourism can be adversely affected by events such as terrorism, natural disasters and economic recession.

The direct, indirect and induced effect of tourism spending [Economic Impact World, 2017]:

- Travellers pay directly to: airlines, coaches, rental cars, trains, cruise lines, travel agents, hotels, convention centres, restaurants, shopping centres, sports arenas, entertainment, theatre, recreation.

- These are supplied by: outside goods and services such as marketing and PR, cleaning and maintenance, energy providers, catering and food production, design and print.

- Both of which create jobs: which pay salaries, wages, profits, and taxes.

- Which pay into: infrastructure, agriculture, technology, real estate, communications, education, banks, healthcare and more.

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