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THE PROBLEM OF ADMINISTRATIVELY FORCED PROCESS GOING PUBLIC

Krasimira NAYDENNOVA

Abstract

At the end of the twentieth century the Bulgarian government made steps to create necessary conditions for the trading of shares that citizens and privatization funds had acquired in the process of mass privatization through changes in the normative base. In terms of regulations, all companies subject to mass privatization and privatization funds are required to be listed on the Bulgarian Stock Exchange Sofia Plc. As a result, most private companies have become public companies without going through the "going public" process at the will of their shareholders. However, investor protection rules are not yet at the required level and in most cases ownership is concentrated. The subsequent delisting of companies from the public companies' register before the regulation requiring a tender offer, puts a large part of the new shareholders in a position not to sell their property. The other companies are starting a quick packet consolidation process, where they acquire control and the shares of minority shareholders are no longer of interest to them. As a result, the administratively enforced listing creates conditions of ownership of more than 2.5 million shareholders, with a face value in the range of BGN 2-3 billion, to remain "dormant" i.e. failing to generate income for their owners.

Keywords:
“going public”, Bulgarian capital market, public companies, listing, mass privatization, asset management fund, "dormant" shares, free-float, ownership concentration.

Said administratively enforced listing is the reason for creating a huge, yet inactive stock market for the national economy, which has led to ownership concentration, creating huge "dormant" shareholders' property and many uninterested shareholders. The consequences are low market liquidity and high ownership concentration – factors that will surely put off investors. As such, the national stock market is not useful for the Bulgarian economy. All of the above call for consideration of the different aspects of the problem in an attempt to resolve it.

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Introduction

The good financial system, according to Rousseau and Sylla (2003), has five key components, including a well-functioning securities market. The usefulness of the financial system and the capital market, respectively, consists in the mobilization of capital for companies' projects that contribute to the economic development and growth of the national economy.
Since 1990 transition economies from Eastern Europe have created stock markets to stimulate and sustain long-term growth. Durnev, Li, Mørck and Yeung (2003) find that the existence of a financial instruments market is not enough to stimulate rapid development. According to them, emerging markets do not increase the quality of capital allocation for several reasons, including opportunistic behavior and absolute price trends due to noise, liquidity trading, or Keynesian animal spirits (1). These defects, according to the authors, arise due to political rent-seeking by persons who have no interest in improving the conditions, because in the new ones they would not be competitive. The result is weak economic growth and low productivity.

Bulgaria is also among the transition countries whose governments are trying to intervene in the creation of a capital market. In fact, our national capital market has begun its existence on two counts. The first was in the early 20th century, in 1907. 21 companies were traded there before the Great Depression and 30 before its closure in 1947 (2). The second start happened in 1991, after the adoption of the Commerce Act. Initially, the securities market and the first companies which offered their shares to investors arose spontaneously, without special legislation, solely on the basis of the Commerce Act. Hyperinflation from 1996 to 1997 ended the romantic start. The restart was driven by state intervention, through a change in the normative base, according to which all companies subject to mass privatization become public. Regulated trading in securities became a fact only in 1995, after the adoption of the first special legal basis (3).

As a result of the first wave of mass privatization carried out in 1996-1997, most of the adult Bulgarian citizens received free shares from the enterprises they worked for, together with 25 000 investment vouchers. These vouchers entitled them to participate in the auctions of mass privatization, as well as the possibility to acquire shares from the newly established privatization funds.

The completion of the first wave reveals a number of issues related to the rights of the acquired shares. Most of the statutes of companies, now with multiple shareholders, do not provide for a free transfer of shares. In addition, there is no built-in market infrastructure to mediate transactions.

The solution to these serious problems with the disposal of the securities subject to mass privatization, the ruling government at that time saw in the listing of all companies whose shares had been acquired through investment vouchers or as unpaid as a result of employees' work experience. This also applied to privatization funds. As a result, the start-up capital market was fueled by many public issues and millions of shareholders – according to most sources, 1080 companies were subject to mass privatization, and their shares and shares in privatization funds were already owned by more than 2.5 million shareholders.
The status of a "public company" is given to companies by changing the already abrogated law on securities, stock exchanges and investment companies and they are administratively forced to list (4). At this point, several important issues are solved:

- removing the ban on transfer of the shares and so that they can be freely sold, allowing for securities transactions;
- shareholders are given the opportunity to sell their securities;
- the stock market is set up and a minimum required infrastructure is created;
- it is possible not only to sell the securities held but also buy shares from all companies traded on the regulated market;
- privatization funds can transfer their own shares and buy new ones, thereby consolidating their holdings.

The problems solved through the administratively forced listing created the basis for active trading of the shares of companies that were subject to mass privatization alongside the trading of shares held by the citizens in the privatization funds. Meanwhile, conditions for the future serious problems of the Bulgarian capital market have set in - low market liquidity, ownership concentration, huge (but "dead") market capitalization, many shareholders who are unable to take care of their property and opportunistic behavior.

The delayed change in the legal framework towards further protection of shareholders' rights allowed for some 700 of the 1080 public companies to delist without the obligation of a tender offer. Until 2001, the shareholders of these companies no longer owned shares they could offer for sale on a regulated market. The write-off allowed the management of these companies to prohibit the sale of the securities to outsiders, and take advantage of multiple transactions to reduce their value. Such are the different forms of capital increase, related party transactions without regulatory oversight and sanction at the general meeting, lack of monitoring by an institutional investor. This fact also hinders the development of the Bulgarian capital market.

The aforementioned problems are seen as relevant to the Bulgarian capital market for several reasons:

- extremely low market liquidity;
- high ownership concentration;
- opportunistic behavior is being registered;
- the Bulgarian capital market holds little attraction for investors, making its contribution to the national economy limited;
- shareholders of public companies are unable to sell their ownership due to low market prices, high transaction costs and lack of demand for securities;
- a shareholding of BGN 2-3 billion in face value, owned by over 2.5 million citizens, is poorly managed generating no income.

The outlined problems require analysis and careful evaluation of the consequences of the "administratively forced listing" approach and at the same time offer solutions. The object of the survey is the Bulgarian capital market, and the subject – the complications that creates the administratively forced listing of companies from the mass privatization. The aim is to look at the problems and what caused them and address the issues raised by the administratively force listing, namely high concentration of ownership, low market liquidity and "dormant" share ownership, as well as identify the reasons for them and seek possible solutions.

Set research tasks are as follows:
- identify the problems associated with the administratively forced listing and the reasons for them;
- speculate on the state of the Bulgarian capital market in terms of the administratively forced listing;
- find possible solutions to problems.

The econometric toolbox includes the processing of chronological lines, both periodic (stock turnover, gross domestic product, number of public issues, free-float of the listed companies, market activity) and instantaneous (market capitalization). The methodology of the comparative analysis of aggregated data on Bulgarian and many foreign markets is used, with the purpose of arriving at logical conclusions about the causes and consequences of the actions taken.

1. The Administratively Forced Listing Has Led to the Creation of a Huge for the Scale of the National Economy but Inactive Stock Market

Despite the massive write-off of the public companies register, many companies do not take or cannot take this step. As a result, Bulgaria ranks among the countries with a large number of public issues, especially if this number is considered relative to the health of the national economy.

The current number of publicly traded issues on the Bulgarian capital market is 409 (Table 1). Despite the steady downward trend, this number is too high. In comparison, the German capital market is represented by 450 issues, France's 465, and Italy 290. At the same time, Germany's economy accounts for almost 5% of the world, France's, over 3%, and of Italy are almost 2.50% due. At the end of 2017, Bulgaria accounted for 0.07% of the world's gross product. Luxembourg has a measurable gross product as a total, but publicly traded emissions are only 28.
The Problem of Administratively Forced Process Going Public

Table 1

Comparative data on gross product, number of public companies and market capitalization

<table>
<thead>
<tr>
<th>State</th>
<th>GDP, mln USD</th>
<th>number of public companies</th>
<th>% GDP/world GDP</th>
<th>% number of public companies/total</th>
<th>% MC/GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>53 238 USD</td>
<td>409 (6)</td>
<td>0.07%</td>
<td>0.95%</td>
<td>14.37</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>195 305 USD</td>
<td>15</td>
<td>0.26%</td>
<td>0.03%</td>
<td>17.36</td>
</tr>
<tr>
<td>Germany</td>
<td>3 477 796 USD</td>
<td>450</td>
<td>4.58%</td>
<td>1.05%</td>
<td>49.34</td>
</tr>
<tr>
<td>Spain</td>
<td>1 237 255 USD</td>
<td>3 110</td>
<td>1.63%</td>
<td>7.23%</td>
<td>56.94</td>
</tr>
<tr>
<td>EU</td>
<td>16 491 323 USD</td>
<td>5 893</td>
<td>21.74%</td>
<td>13.69%</td>
<td>52.44</td>
</tr>
<tr>
<td>France</td>
<td>2 465 454 USD</td>
<td>465</td>
<td>3.25%</td>
<td>1.08%</td>
<td>87.57</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2 650 850 USD</td>
<td>1 858</td>
<td>3.49%</td>
<td>4.32%</td>
<td>64.63</td>
</tr>
<tr>
<td>Greece</td>
<td>192 691 USD</td>
<td>196</td>
<td>0.25%</td>
<td>0.46%</td>
<td>19.29</td>
</tr>
<tr>
<td>Croatia</td>
<td>50 715 USD</td>
<td>155</td>
<td>0.07%</td>
<td>0.36%</td>
<td>39.79</td>
</tr>
<tr>
<td>Hungary</td>
<td>125 817 USD</td>
<td>41</td>
<td>0.17%</td>
<td>0.10%</td>
<td>17.93</td>
</tr>
<tr>
<td>Ireland</td>
<td>304 819 USD</td>
<td>41</td>
<td>0.40%</td>
<td>0.10%</td>
<td>39.31</td>
</tr>
<tr>
<td>Italy</td>
<td>1 859 384 USD</td>
<td>290</td>
<td>2.45%</td>
<td>0.67%</td>
<td>27.29</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>58 631 USD</td>
<td>28</td>
<td>0.08%</td>
<td>0.07%</td>
<td>103.89</td>
</tr>
<tr>
<td>Monte Negro</td>
<td>4 374 USD</td>
<td>112</td>
<td>0.01%</td>
<td>0.26%</td>
<td>92.65</td>
</tr>
<tr>
<td>Norway</td>
<td>371 075 USD</td>
<td>180</td>
<td>0.49%</td>
<td>0.42%</td>
<td>62.32</td>
</tr>
<tr>
<td>Poland</td>
<td>471 364 USD</td>
<td>861</td>
<td>0.62%</td>
<td>2.00%</td>
<td>29.42</td>
</tr>
<tr>
<td>Portugal</td>
<td>205 184 USD</td>
<td>43</td>
<td>0.27%</td>
<td>0.10%</td>
<td>27.90</td>
</tr>
<tr>
<td>Romania</td>
<td>187 592 USD</td>
<td>86</td>
<td>0.25%</td>
<td>0.20%</td>
<td>7.57</td>
</tr>
<tr>
<td>Russia</td>
<td>1 283 163 USD</td>
<td>230</td>
<td>1.69%</td>
<td>0.53%</td>
<td>48.48</td>
</tr>
<tr>
<td>Slovakia</td>
<td>89 769 USD</td>
<td>67</td>
<td>0.12%</td>
<td>0.16%</td>
<td>4.88</td>
</tr>
<tr>
<td>Slovenia</td>
<td>44 709 USD</td>
<td>35</td>
<td>0.06%</td>
<td>0.08%</td>
<td>11.77</td>
</tr>
<tr>
<td>Turkey</td>
<td>863 712 USD</td>
<td>374</td>
<td>1.14%</td>
<td>0.87%</td>
<td>19.89</td>
</tr>
<tr>
<td>USA</td>
<td>18 624 475 USD</td>
<td>4 336</td>
<td>24.55%</td>
<td>10.07%</td>
<td>146.86</td>
</tr>
<tr>
<td>World</td>
<td>75 871 742 USD</td>
<td>43 039</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Comparison with other former socialist countries confirms non-compliance. The Czech Republic and Romania produce about four times higher than Bulgaria, but the number of public emissions is far lower – 15 for the Czech Republic and 86 for Romania. In Slovakia and Slovenia, 67 and 35 issues are traded respectively.

The number of traded issues on a regulated market does not reveal the whole picture. Over the years, many companies have managed to divide their status as a public company, but new companies are also emerging. Currently, most of the companies traded in the stock market are public following a decision of their shareholders GM, after they have met all the regulatory requirements for disclosure. For an alternative market, the number of volunteer listings is still less than half. Many new companies are real estate investment trusts or receivables investment trusts where IPO is mandatory.

The review of transactions on the Bulgarian regulated market shows that the most liquid companies in the long run are Sopharma, CCB, IHB, Doverie United Holding, FIB, Monbat, M + S Hydraulic, Albena, Chimimport, Trace Group Hold, BSE Sofia. To these can be added FNIB REIT, Advance Terrafund REIT, Holding Varna, Neochim. Seven of the above mentioned companies fall within the administratively listed as a result of the mass privatization process. The remaining eight are new companies which have voluntarily passed the entire procedure of acquiring the status of a public company. The total number of 15 appears to be completely normal compared to the number of public companies in Hungary and the Czech Republic, as well as the potential of the national economy.

Fifteen actively traded companies appear to be an adequate number, but they are very small as a percentage of the total 409 issues reported. The administratively forced listing formed a wide stock market, with a huge market capitalization for the size of the national economy. As of May 11, 2018, the value of the indicator is BGN 23 890 048 578, of which nearly BGN 15 billion is due to the completely illiquid companies from the alternative market (5). The capitalization of the companies in the main market is just over BGN 9 billion and in the segment "Premium" – about BGN 2.25 billion. If we add to them the capitalization of the investment trusts segment market, the figure will reach around BGN 3 billion for the actively traded companies.

Table 2 presents data on the share of market capitalization of the gross domestic product of Bulgaria and other countries. The comparison of the market capitalization with the value of the national gross domestic product (BGN 98 631 000 000 for 2017) for Bulgaria leads to the following conclusions:

- total market capitalization to GDP of 2017 at the rate of 24.22% places Bulgaria close to countries like Greece, Italy, Poland, Portugal and Turkey; such a place would be logical for a small but old market economy;
market capitalization of the main market (relatively liquid companies) to GDP is 9.24% and this indicator ranks us close to Romania and Slovenia; these countries have a similar history and such a ranking seems logical;
- market capitalization of the companies in the Premium segment – 2.28%;
- market capitalization of the companies from segment "Premium" and the companies from the segment "investment trusts" from the main market – 2.99%;
- the above two indicators correspond to the level of Slovakia, which also seems a logical place for an emerging stock market.

Table 2

<table>
<thead>
<tr>
<th>State</th>
<th>Latest data %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>49.34</td>
</tr>
<tr>
<td>Spain</td>
<td>56.94</td>
</tr>
<tr>
<td>EU</td>
<td>52.44</td>
</tr>
<tr>
<td>France</td>
<td>87.57</td>
</tr>
<tr>
<td>Greece</td>
<td>19.29</td>
</tr>
<tr>
<td>Croatia</td>
<td>39.79</td>
</tr>
<tr>
<td>Hungary</td>
<td>17.93</td>
</tr>
<tr>
<td>Ireland</td>
<td>39.31</td>
</tr>
<tr>
<td>Italy</td>
<td>27.30</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>103.89</td>
</tr>
<tr>
<td>Norway</td>
<td>62.32</td>
</tr>
<tr>
<td>Poland</td>
<td>29.42</td>
</tr>
<tr>
<td>Portugal</td>
<td>27.90</td>
</tr>
<tr>
<td>Romania</td>
<td>7.57</td>
</tr>
<tr>
<td>Russia</td>
<td>48.48</td>
</tr>
<tr>
<td>Slovakia</td>
<td>4.88</td>
</tr>
<tr>
<td>Slovenia</td>
<td>11.77</td>
</tr>
<tr>
<td>Turkey</td>
<td>19.89</td>
</tr>
<tr>
<td>United States</td>
<td>146.86</td>
</tr>
<tr>
<td>World average</td>
<td>98.21</td>
</tr>
</tbody>
</table>

The created broad stock market, with numerous public issues and high market capitalization, is not liquid. Figure 1 presents the historical development of the value of the market activity indicator, calculated as a ratio of the registered turnover of the regulated market and the gross product on a quarterly basis. The indicator scores higher values between 2006 and 2007, but for the rest of the time, including now, values are close to zero. The comparison of several aggregated liquidity indicators places Bulgaria ahead of Slovakia, but it achieves this with just 67 public issues and a market share of 4.88% of GDP.

**Source:** Own calculations on database from BSE – Sofia Plc.

**Fig. 1. Market Activity Indicator (MA) Values (7)**

In summary, the administratively forced listing creates a capital market, which is enormous for the size and degree of development of the Bulgarian economy. This market is illiquid. Market liquidity influences the effectiveness of price positioning against new information (Easley, O'Hara, 1992) as the process is carried out through transactions and requires a high volume of trade. The processes of generating returns and price responses of new information are constant and not separated from one another (Easley, Hvidkjaer, O'Hara, 2002). According to the researchers, the long-term negative market price deflection from the fundamental value resulting from the low market efficiency (itself resulting from low market liquidity) represents a cost and a capital loss, so the equity market loses the opportunity to mediate the investment projects of the companies. In addition, market liquidity directly determines the usefulness of the stock market through the conditions it provides to the national economy to grow faster.
2. The Administratively Forced Listing Allows the Problem of Ownership Concentration

In the case of ownership concentration, one or more large related shareholders hold a significant share of the capital of the public company and the corresponding options in that regard to have inside information about the issue that is inaccessible or not yet disclosed to the other shareholders with a smaller or insignificant share in the capital. These individuals may impose decisions at the general meeting of shareholders and on the company's board. Holders of large packages of shares are usually majority shareholders, professional or institutional investors who, due to their qualifications, contacts, access channels and opportunities for processing, make economies of scale in collecting and handling information about the issue. Concentration of ownership is defined as a built-in investor protection mechanism in an environment of low trust and limited transparency (La Porta, Lopez-de-Silanes, Vishny, 1997), which are characteristics of emerging markets where the regulatory base for investor protection is not sufficiently effective.

Ownership concentration is an important factor for the slow development of the capital market and its usefulness for the national economy. Majority participation is essential because it allows controlling shareholders to expropriate through insider trading and/or through related parties transactions (Rösch and Kaserer, 2010). Opportunistic behavior is a potential possibility of abuse resulting from the concentration of ownership. It manifests itself as decisions that the majority shareholders take for their own benefit and to the detriment of the minority shareholders. An additional problem stems from the information asymmetry that grows with majority interests. It also increases the risk of abuse and because of insider trading. A third problem is in fact the unlimited opportunity for related transactions.

The importance of ownership concentration also arises from the content of listing rules on highly developed stock markets - usually a minimum free float is required to give the company access to a higher segment of the stock market.

Apart from the opportunistic behavior, the ownership concentration appears to be a powerful factor for the low market liquidity, which is a constant problem on the Bulgarian stock market. According to Heflin and Shaw (2010), the effect of concentrated ownership on the market liquidity is indisputable and negative. Demsetz (1968) finds that fragmented share ownership, measured by the number of shareholders, is positively correlated with the liquidity of the company's securities. Kotar (1997) explores the manifestation of the factor in the public supply of primary
or secondary market emissions and concludes that in these cases the concentration of ownership leads to an increase in liquidity costs.

High ownership concentration affects liquidity in several other aspects. Amihud and Mendelson (1986) find higher required returns for illiquid stocks. In markets with ineffective protection of minority shareholders, the intent of investors to acquire a stake in a company with majority ownership is realized at very low asset prices, requiring a high return due to both the illiquidity premium and the risk of expropriation. As a result, deals with similar issues are freezing, and interest is restored in the event of price collapses in an ineffective market. The second aspect is related to the capabilities of institutional and portfolio investors to drive acquisitions in companies with maladministration or undervalued shares. In some cases these are not an option because of the high concentration of ownership. These two channels increase market liquidity when the opportunities for high capital gains are available but critically lower it in the absence of prospects. Thus, the main instrument for capital control of the developed stock markets is not available and this limits both the profits (respectively the interest) of the institutional investors and the possibilities for effective market sizing of qualitative assets for investment.

The ownership concentration is not always a negative factor. In well-functioning markets, strategic investors do not abuse the insider information they hold because their investments are long-term rather than portfolio, and their reputation and business are directly related to the company. They also provide additional benefits through more efficient management. In cases where the control is held by a large number of institutional investors, no one holds a majority share and the spread between the buy-sell quotations is low, respectively the liquidity increases. Primarily, the positive influence is taken into account when the holders are mutual funds, while in the case of commercial banks, pension and insurance funds and investment managers the link is insignificant (Ginglinger and Hamon, 2004). The explanation is that mutual funds are looking for securities with low liquidity costs and are limited by rules set out when the fund is set up and their investment strategy is defined. In addition, it was found that in the majority companies the efficiency of the management is higher, which has a positive effect on the share prices. In this sense, according to Schleifer and Vishny (1986), the presence and influence on the management of large shareholders mitigate the "principal-agent" conflict and benefit from their participation - shared benefits of control of which, naturally all shareholders benefit.

The opportunistic behavior due to concentrated ownership is a result of the regulatory framework of public companies concerning investor protection, but above all the enforcement of norms, the work of regulatory and informal institutions, and the
effectiveness of financial media. The opportunities of expropriation at a country level create the market confidence and fundamentally determine the market liquidity and attractiveness of national companies for investors.

All the above mentioned about the ownership concentration and its presence on the Bulgarian stock market is a serious problem. This problem is also formed due to the administratively forced listing because the trading of shares on a regulated market becomes possible without the adequate regulatory basis allowing the acquisition of a majority stake without the requirement for a tender offer to the minority shareholders.

The process of concentrating ownership of the Bulgarian stock market has been a fact for decades. According to Petranov (2000), public companies arise as a result of mass privatization and their structure of ownership - spontaneously. The result is entirely natural – funds providers are not protected, minority shareholders do not have mechanisms to influence the value of their investments and are ready to sell them relatively easily (Petranov, 2000).

In addition to the missing regulatory framework regulating the tender offer for majority stake holders, this problem is also created due to the lack of requirement in the stock exchange rules for a minimum free-float. New public companies listed due to a legal requirement become publicly traded without there being sufficient effective protection of minority shareholders. The restrictions on the privatization funds are also being dropped after a change in the same law since 1999, resulting in conversion to holding companies or investment companies. The stated limitations in Privatization Funds Act, precisely in Article 7 ("no one can hold directly or through related persons more than 10 percent of the shares of a privatization fund") and in Article 30 ("the privatization fund cannot acquire more than 34 percent of the shares of one company") (8), that guarantee the conditions for low concentration of ownership after the privatization of huge state property, fall due to the abolition of the Privatization Funds Act. The dropping of the above limitations, as well as the lack of adequate stock exchange rules and the legal requirement for a tender offer, allow the funds to exchange shares and become major shareholders in companies that until recently held no more than one third of the votes. The way to majority ownership is also open to all other investors, including workers and managers' privatization companies.

The problem of ownership concentration is characteristic of the Bulgarian capital market and is among the reasons for both low market liquidity and opportunities for opportunistic behavior. Figure 2 presents the relationship between aggregated market liquidity indicators (9) and free float, calculated as the average for all public companies. Dependence is obvious and logical, as fragmented stock ownership is cited by researchers as an important cause of high liquidity.
**Source:** Own calculations on database from BSE – Sofia Plc.

**Fig. 2. Values of turnover level (TR), market activity (MA), market capitalization (Rmc), and free float**

Table 3

<table>
<thead>
<tr>
<th>Company</th>
<th>Majority owned shares</th>
<th>Free-float by 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Holding Bulgaria Plc</td>
<td>56.26%</td>
<td>43.74%</td>
</tr>
<tr>
<td>CB CCB Plc</td>
<td>75.17%</td>
<td>24.83%</td>
</tr>
<tr>
<td>CB FIB Plc</td>
<td>85.00%</td>
<td>15.00%</td>
</tr>
<tr>
<td>Chimimport Plc</td>
<td>72.96%</td>
<td>27.04%</td>
</tr>
<tr>
<td>Monbat Plc</td>
<td>82.32%</td>
<td>17.68%</td>
</tr>
<tr>
<td>Sopharma Plc</td>
<td>68.11%</td>
<td>31.89%</td>
</tr>
<tr>
<td>Doverie Holding Plc</td>
<td>33.88%</td>
<td>66.12%</td>
</tr>
<tr>
<td>Trace Goup Hold Plc</td>
<td>75.97%</td>
<td>24.03%</td>
</tr>
<tr>
<td>Albena Plc</td>
<td>69.41%</td>
<td>30.59%</td>
</tr>
<tr>
<td>BSE Sofia Plc</td>
<td>50.05%</td>
<td>49.95%</td>
</tr>
<tr>
<td>FNIB REIT</td>
<td>19.54%</td>
<td>80.46%</td>
</tr>
<tr>
<td>Advance Terrafund REIT</td>
<td>42.99%</td>
<td>57.01%</td>
</tr>
<tr>
<td>Holding Varna Plc</td>
<td>64.09%</td>
<td>35.91%</td>
</tr>
<tr>
<td>Neohim Plc</td>
<td>76.30%</td>
<td>23.70%</td>
</tr>
<tr>
<td>M+S Hydraulic Plc</td>
<td>77.39%</td>
<td>22.61%</td>
</tr>
<tr>
<td>average free float</td>
<td></td>
<td>36.70%</td>
</tr>
</tbody>
</table>

In the aspect of free-float, it is interesting to compare the average concentration of ownership for the Bulgarian market with the level of concentration for the most traded Bulgarian companies. At an average concentration level of 74,40% in 2017, and 25.60% free-float, respectively, for all public companies, the companies listed in Table 3 recorded a majority shareholding of almost 63% and an average free float about 37%, which is almost 45% higher than the rest of the companies. The extent to which the companies under review are liquid is determined by more factors but fragmented ownership is explicitly mentioned by researchers as a factor for active trading and interest on the part of minority and institutional investors.

Ownership concentration is a major feature of public companies listed on the stock market in Bulgaria. It declines until 2007 - the highest level of the free float indicator is 24.73% as of 31 December 2007. Then the trend of decreasing free float (respectively increase in the concentration of ownership) starts again - at the end of 2009, the indicator is 21.82% and the average for 2014 is 16.15% (10). For 2017, according to data of BSE Sofia Plc, the free-float is 25, 60%, which is a significant increase compared to 2014. However, the average percentage of majority ownership in public companies is 74,40%, which is a clear sign of high concentration of ownership.

"The relatively easy release", according to Petranov (2000), is unfortunately long-term impossible. While in the first years after the administratively forced listing, minority shareholders can very easily, without transaction costs, and at a very low price sell their shares, the transaction costs are now more than the value of these shares. Firstly, this is due to the fact that majority controlling holdings are already formed and there is no need to acquire additional securities. Secondly, the vast majority of stockholders do not have valid documents for their shares. Their sale requires a depository receipt, and the duplication - costs roughly equal to the value of the securities. Thirdly, a large part of the shares are already owned by the heirs of the original owners. Partitioned procedures and new depository receipts exceed the value of the securities at times. These reasons predetermine the fate of 2,5 million accounts in the Central Depository - they will remain frozen and the securities there - with rights that will never be exercised.

In summary, the administratively forced listing, coupled with the late changes in regulations protecting the rights of minority shareholders and the missing minimum free-float requirements in the stock exchange rules, lead to a high ownership concentration. This problem is the cause of low market liquidity and the presence of opportunistic behavior.
3. The problem of "dormant shares"

As a result of the administratively forced listing and the subsequent concentration of ownership, Bulgaria has experienced a particular problem for years, called by the market participants "dormant shares". These are securities with a face value of around BGN 2-3 billion, owned by nearly 2.5 million shareholders held in personal accounts in register A (11). About 60% of these accounts contain 25 shares of a former privatization fund, the remaining 50 to 100 shares refer to cases where family members transferred their investment vouchers to another relative. Part of the accounts also include free shares that employees of state-owned enterprises once received on the basis of their work experience in said enterprise. Transfers with similar instruments account for less than 0.001% of those registered on a daily basis. The real problem of "sleeping" stocks is the fact that they represent 26% of the shares of public companies (12) and unknown percentage of the already delisted but quality companies such as Solvay Sodi Plc.

On the basis of the above data, the Central Depository initiated the creation of a fund to take over and manage the "dormant" shares and the owners of the stocks to receive shares from this fund. The proposal is for the fund to be a public company. The initiators point out that such a management scheme operates in Romania through Fondul Proprietatea with assets of EUR 3.1 billion and is managed by Franklin Templeton Investment Management and since mid-last year is traded on the London Stock Exchange. Preliminary calculations show that such a fund in Bulgaria will have a market capitalization of between BGN 2 and 3 billion and can be managed by a well-known fund manager with solid international experience.

The first question that arises when reviewing the proposal is related to the right to dispose of a property without owner’s permission. The idea of the Central Depository is to carry out an official transfer to the fund, but also to allow the original shareholders to be able to reverse the original shares if they wish so in the future. While the legal basis against such a step is pretty much credible, there is still the question why no action has been taken to resolve the problem for more than 20 years.

The main problem, in fact, stems from the expectation that the future fund will become a key shareholder in some companies, mostly former privatization funds, which will have an opportunity to influence governance. Even with clearly structured ownership of other shareholders, the institutional investor controlling over 5% of a public company has many and varied methods to protect its rights as a shareholder. First of all, institutional investors are working on a longer investment horizon and liquidity costs are not critical to them, and they prefer more aggressive investment. In
addition, they have the administrative capacity to demand private or public regulatory sanctions in the event of opportunistic behavior in the company. Institutional investors often act together and rely on the shareholder support of private individuals who otherwise cannot turn the vote into general meetings.

Some of the opposing opinions are based on another fundamental problem – there are different shares in the "dormant" accounts, some are liquid and higher rated, others are illiquid, with low market prices. The merger of various securities cannot mean the receipt of equivalent shares. An important problem arises from the necessary changes in the legal framework to allow such a fund. Relevant legal principles for protecting property are important.

Despite the problems surrounding the introduction of the idea of a fund to manage "dormant" shares, it is part of the capital market development strategy to handle them (13). This strategy prescribes an information campaign to bring owners of inactive accounts into the subject and their disposal options, as well as provoke action on their part. In addition to an information campaign, the strategy also provides for measures to alleviate procedures for disposing of assets acquired in the process of mass privatization, as well as transaction costs. A problem in this case will arise from investment firms. While the Central Depository's fees may be reduced due to legal interference, the services of investment firms are priced on a market basis, and it is entirely possible that the final decline in transaction costs is not significant.

The problem of "sleeping" or "dormant" shares is actually a problem caused by uninterested owners. The version of mass privatization carried out in Bulgaria, resulted in 2.5 million shareholders who do not know this and at the same time do not have the skills to manage their ownership. The property valued at face value of BGN 2 to 3 billion represents two to three percent of the gross product of the country, probably more if estimated at market price of the assets. In fact, the poorest country in the European Union allows itself not to be interested in property of a similar size, which surely is not an intelligent investment solution.

According to lawyers, the lawful implementation of the idea goes through a lot of changes in the normative base and serious changes in its substance. The opinions are different, with some of them coming out:

- Any disposal of shareholding necessarily requires the justification of a serious public interest. It is only then that some sort of disposition can be made, but the transfer of ownership of these persons must be done for money rather than for shares in a mutual or investment fund. This means that "dormant" shares can be sold and the amounts paid to their owners. The downside of this decision is that stock prices depend directly on their good management, which is the goal of the idea of a fund
managing “dormant” shares - if they are sold before the chance of professional management, their value will be very low;

- Another idea is the transfer of shares in the accounts of their owners, but in private pension funds. In this case, there is no disposition in the first transfer, but it is clear that pension funds do not manage single portfolios, but general;

- Alternative opinion is to go to the legal institute "Keeping a job without assignment". Article 60 of the Law on Obligations and Contracts states that "who undertakes the management of a job which he knows to be alien without being in charge is obliged to take care of it until the person concerned can take charge of it. He has to take care of the job as if he was authorized. His responsibility may be reduced in view of the particular circumstances in which he has taken care of other person's job. According to Art. 61 of the same law "if the work has been undertaken appropriately and has been well managed in someone’s interest, the person concerned is obliged to fulfill the obligations concluded on his behalf to indemnify the manager of the work for the personal obligations which he has undertaken and to return the necessary and useful expenses plus interest on the day of their spending".

At present, the "dormant shares" fund is not initiated, no legislative changes are discussed and no debates are being dealt with on solving the legal problems. Over 2.5 million Bulgarian shareholders remain without real opportunities to protect their rights due to ignorance and / or high transaction costs, and the national stock market persists with low market liquidity and a huge but "sleeping" market capitalization.

Inactive securities accounts are a problem of citizen involvement in the financial system. The financial inclusion of more real-sector companies and citizens alters the composition of the financial system through the transactions that take place, the customers who use different services, the risk in the markets, the institutions that work in the new markets (Hannig and Jansen, 2010). Financial inclusion, according to Hannig and Jansen (2010), can be measured by the ability to use financial services and products through available formal institutions, potential barriers to using services such as the cost and availability of a service point, and through a quality variable - compliance of the financial service or product with the customer's need.

In the aspect of financial inclusion, the Bulgarian financial system does not look good. It is not necessary to conduct complex econometric tests to establish that:

- 2.5 million Bulgarian citizens of about 6 million adults (over 40%) are not interested in their own investment assets;
- access to investment services is only possible in large cities;
- the cost of carrying out securities transactions often exceeds the value of the securities;
- the owners of the "dormant" shares need an institutional intervention in their management, which cannot be implemented under the current conditions in the Bulgarian financial system, at least not without a legislative change.

The conclusion is that the inclusion of Bulgarian citizens in the national financial system, especially concerning transactions in financial instruments, is unsuccessful. In this sense, their non-inclusion changes the composition of this system, placing an important part - the capital market - in a situation of unnecessary appendix.

**Conclusion**

The problems stemming from the administratively forced listing form a stable (more than 20 years) version of the Bulgarian capital market. There are too many companies listed, most of which do not engage in significant stock exchange deals, respectively their shares are not an attractive investment instrument. "Sleeping", “dormant” shares, however, are an asset that works for major shareholders and over-fragmented ownership allows them to control companies without being required to acquire packages at fair market prices. On the other hand, illiquid and poorly managed companies are not of interest to institutional investors. Another aspect of the problem is the high concentration of ownership. It is also a factor that repels institutional investors and makes the national market unattractive, not least creating conditions for aggravating the problem of opportunistic behavior.

Legislation currently in force does not allow most of these companies to delist. They are unable to meet the requirements for acquiring enough shares through a tender offer, namely due to the inactivity and lack of awareness of their shareholders. This problem puts them in one of two possible groups - to bear the costs of the required administrative capacity to implement the restrictions and to pay the annual fees to the supervisor, the depository institution and the regulated market, or to take advantage of its status as a public company through the opportunities provided by the non-taxable profits realized through transactions on a regulated market or the recognition of transaction losses on the OTC market. While in the former case the companies and their shareholders are losing, in the latter the losses are at the expense of the revenues in the state budget.

In any case, according to Barth and Dan Brumbaugh Jr. (1997), market participants adapt to the requirements and achieve relative competitive advantages. As a result, it is very difficult for financial systems to change. And for the Bulgarian stock market, it is certain that in its present version it is not useful for the national economy.
References

1. According to Keynes, some of the instability of the markets is due to the characteristics of human nature. Often people are optimistic or pessimistic not because of objective and mathematically measurable assessments but because of subjective optimism or pessimism.


3. The information is from the website of Bulgarian Stock Exchange Sofia Plc, www.bse-sofia.bg.

4. The exact text of the norm is "The companies under paragraph 1 (the companies which have been included in the privatization program through investment vouchers under Chapter Eight of the Law on the Transformation and Privatization of State and Municipal Enterprises and the Companies under the Privatization Funds Act) shall be obliged within one month from the entry of this law in force to file a standard application for their registration with the Commission (Securities and Stock Exchanges)".

5. BSE Sofia Plc has two markets - the main one for the most liquid companies and an alternative for the companies with occasional deals. The Premium segment of the main market is the most representative, there are traded the most liquid companies with the highest free float.

6. The number 409 for Bulgaria is from the report for 2017 of BSE Sofia Plc and represents the number of registered issues. Data for other countries is for a number of public companies and a source of the World Bank database. Data for Bulgaria in this database is available for an earlier period.

7. Only the "market activity" indicator is presented for the maximum period from 2001 until the end of 2017 due to the fact that it does not require data on market capitalization. The other two aggregated indicators for market liquidity work with the market capitalization and data are available from September 2009. Source: Own calculations of database by BSE Sofia Plc.

8. The texts are from the repealed Privatization Funds Act.

9. The mentioned indicators are: \[ Rmc = \frac{MC}{GDP} \], where \( Rmc \) is the level of market capitalization in terms of GDP, \( MC \) - market capitalization, \( GDP \) - GDP; \[ MA = \frac{TVT}{GDP} \], where \( MA \) is market activity, \( TVT \) - the total value of the stock market transactions,
GDP - GDP; \( TR = \frac{TVT}{MC} \), where TR is the turnover ratio, TVT - the total value of the transactions, MC – the market capitalization.

10. The data are provided by BSE Sofia Plc.

11. Register A of the Central Depository keeps accounts with shares that are not administered by investment intermediaries. The execution of any transactions in these shares requires their transfer to a client's account in register "B", with an investment intermediary. One reason for not doing so is also the existence of transaction costs. Since the establishment of the Investor Guarantee Fund, investment firms pay an annual fee of 0.1%, separately VAT of 20%, on the market value of client portfolios. For illiquid issues, the value of the portfolios is determined on the basis of the net asset value and often exceeds the market price.

12. The data in this paragraph are part of the justification presented by Central Depository team when presenting their idea for fund “Dormant Shares”.


References


17. Law on Obligations and Contracts

18. Law on Securities, Stock Exchanges and Investment Companies

19. Law on the Transformation and Privatization of State and Municipal Enterprises


21. Privatization Funds Act


RISK TAKING, PROACTIVENESS AND INTERNATIONALIZATION OF NIGERIAN DEPOSIT MONEY BANKS

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JEL M16, F2

Abstract

The study examines the effect of proactiveness and risk taking on the internationalization of Nigerian deposit money banks, using census survey, whereby the entire two hundred and twenty six (226) management staff of strategy and foreign operations departments of the ten (10) Nigerian deposit money banks with foreign subsidiaries constituted the population and sample. The validity of the instrument was tested using Content Validity Index (CVI). The CVI gave a value of 0.8998, which suggests that the instrument was valid. The test-re-test method through Cronbach Alpha was used to ascertain the reliability of the research instrument, and Cronbach Alpha of 0.8821, 0.8164 and 0.7942 were obtained for risk taking, proactiveness and internationalization respectively which suggests that the instrument is reliable. The data was analyzed using ordinary least square with the aid of STATA 14. The findings revealed that both proactiveness and risk taking have individual and combined significant effect on the internationalization of Nigerian deposit money banks and that proactiveness and risk taking account for 37.5% variation in the internationalization of Nigerian deposit money banks. The study concludes that proactiveness and risk taking are the critical elements driving the internationalization of Nigerian deposit money banks. It can therefore be recommended that banks’ seeking international presence should consider a futuristic and opportunity-seeking perspective typified by acting in anticipation of future demand and going ahead of competitors which depicts proactiveness. Furthermore, deposit money banks should display a risk-tolerant position towards foreign market incursion.

Keywords:
Proactiveness, Risk Taking, Internationalization, Deposit Money Banks, Nigeria.

Introduction

Internationalization of firms has engendered a lot of arguments in the developed, emerging as well as developing economies. Foreign market entry by Nigeria deposit money banks (DMBs) can be traced to the establishment of representative offices and branches in United States and United Kingdom by some Nigerian DMBs in the 1980s,
which was geared towards the facilitation of trade for their customers. In 2004, the Central Bank of Nigeria (CBN) increased the capital base of banks to 25 billion naira. This led to the enhancement of bank’s financial capacity and due to increased capital availability, some banks developed international expansion strategies, which led to the establishment of foreign subsidiaries.

In the aftermath of the 2009 financial crisis in the Nigerian banking sector, the CBN initiated series of reforms to restore public confidence and stability in the system. As part of the reforms, the CBN categorized banks in the country into three types: commercial banks, merchant banks and specialized banks (which include: micro finance banks, primary mortgage institutions and non interest banks). Commercial banks which are also known as deposit money banks were further categorized into international banks, national banks and regional banks, with a minimum share capital of NGN50 Billion, NGN25 Billion and NGN10 Billion respectively. As of October 2017, Nigeria had ten international banks, nine national banks and two regional banks. These international banks have subsidiaries in other African countries, United States, United Kingdom, France, China and the United Arab Emirates (CBN, 2017).

Internationalization of firms has been studied from various perspectives. Scholars (Ngoma, Sudi & Nangoli, 2017; Nosi, Pucci & Zanni, 2017; Prange & Pinho, 2017; Boermans & Roelfsema, 2015; Sdiri & Ayadi, 2014; O’Cass & Weerawardena 2009) studied internationalization of firms from the perspectives of innovation. Calabro et al., 2016; Chavan & Agarwal, 2016; Ovadje, 2016, and Ghauri, Tasavori & Zaefarian, 2014, studied internationalization from the perspective of social entrepreneurship, corporate governance, relational capability building and culture, with diverse results.

Proactiveness and risk taking are not new concepts in management, entrepreneurship and international business, but a lot is yet to be known about the effect of proactiveness and risk taking on the international expansion of Nigerian deposit money banks. Studies examining internationalization of firms from the perspective of proactiveness and risk taking are sparse, the very few that exist focused on small and medium enterprises (Ngoma, Sudi & Nangoli, 2017; Okpara, 2009). In addressing this research gap this study seeks to examine the effects of proactiveness and risk taking on the internationalization of Nigerian deposit money banks, while the specific objectives are: to investigate the effect of proactiveness on the internationalization of Nigerian deposit money banks; to ascertain the effect of risk taking on the internationalization of Nigerian deposit money banks and to examine the combined effects of proactiveness and risk taking on the internationalization of Nigerian deposit money banks.
The study is divided into five sections; section one introduces the subject matter, while section two presents a review of literature, section three presents the research methodology employed for the study, section four presents the research findings and discussion of the findings and section five provides the conclusion of the study as well as the recommendations.

1. Literature Review

1.1. Internationalization

Historically, internationalization began with man’s ability to travel across national borders. Scholars have made effort in defining internationalization, using different perspectives and variables. The term “internationalization” has varying definitions depending on the incident. Penrose’s (1959) views internationalization as an organization’s core competences and opportunities in the foreign market.

Welch and Luostarinen (1988) opine that internationalization is the process in which firms enhance their participation in international operations. Some scholars (Johanson & Vahlne, 1977; Loane & Bell, 2006; Awolusi, 2013; Chavan & Agarwal, 2016: Xu, Carter, Taute & Dishman, 2016; Ovadje, 2016) agreed that internationalization is the process by which firms increase their awareness of the direct and indirect effect of international dealings on their prospect, set up and carry out business deal with other countries. Calof and Beamish (1995) defined internationalization as the process of adapting an organization operation (strategy, structure and resource) to international business environment. Internationalization as used in this study refers to firms (in these case, banks) that have succeeded in setting-up a foreign subsidiary, either through joint venture or wholly-owned subsidiary as well as other entry strategies.

1.2. Risk Taking and Internationalization

Risk taking entails taking daring steps, by entering into the unknown, borrowing heavily or using considerable resources to venture in uncertain businesses. It includes both local and foreign environmental uncertainty. Zahra and Garvis (2000) opine that risk taking is an organization’s disposition to shore up project that are innovative irrespective of how doubtful such activities are.

Risk tolerance within the entrepreneurial firm gives the employees the opportunity to act freely and be able to take advantage of new ideas that can create competitive advantage. Ngoma, Sudi and Nangoli (2017) found that risk taking is positively and significantly related to internationalization. This type of actions by individuals within the firm brings about the likelihood of acting on probable ideas for
the future expansion of the firm. The actions of managers by focusing on only projects with anticipated returns that are certain, negatively affect firms performance and internationalization as compared to taking bold actions by entering the uncertain business environment (Lumpkin & Dess, 1996). Thus, the support by senior management in the organization gives individuals the opportunity to take calculated risks, which can also propel a firm to go international.

Entrepreneurial organizations are risk-tolerant and this feature often propels them to get rid of traditional rigid structure that hinders mutual learning (Wang, 2008). These organizations give individuals and teams the opportunity to act autonomously and apply their creativity by taking risks in the generation of new ideas (Lumpkin & Dess, 1996). According to Miller (1983) and Wang (2008), risk-tolerant organizations support creativity through creative thinking, showing tolerance for mistakes as well as encouraging individuals with novel ideas that aid innovativeness and enhance businesses.

1.3. Proactiveness and Internationalization

Proactiveness demonstrates an organization’s quest for business opportunities and a strong emphasis on being among the early movers to employ innovativeness in its industry (Rauch et al., 2009). Proactiveness is a futuristic and opportunity-seeking perspective typified by product introduction ahead of the competitors and acting in expectation of future demand. Miller (1983) opines that proactiveness is a sign of a firm’s determination to pursue promising business opportunities, rather than following competitors or responding to competitors’ moves. Lumpkin and Dess (1996) opine that proactiveness shows how a firm relates to business opportunities in the course of new market entry. They added that proactiveness entails pursuing opportunities both in local and international markets, and the resolve to act aggressively to competitors and be ahead of them.

Wiklund (1999) posits that proactiveness gives firms the ability to present new products or services to the market ahead of rivals, which also gives them a competitive advantage. Proactive firms have the likelihood of leading than following in the creation of new products or service, process as well as entering foreign market (Lumpkin & Dess, 1996). An entrepreneurial firm encourages flexibility and grants individuals and teams the freedom to exercise their creativity to develop new ideas (Wang, 2008). These activities by the organization’s team enable the organization to be more proactive in product or service introduction. Ngoma, Sudi & Nangoli (2017) opine that proactiveness is positively related to internationalization.
The conceptual framework revealed that risk taking and proactiveness tend to lead to internationalization.

1.4. Theoretical Review

This study is anchored on Schumpeterian theory of innovation as well as the Benneth theory of corporate entrepreneurship. Schumpeter (1934) theory of innovation, highlights the importance of entrepreneurship by examining entrepreneurial profits, the quest for avenues for new value creation and generation of ideas that tend to enhance the circular flow of income through the entrepreneurs’ innovativeness, proactiveness and risk taking activities as well as promoting the recognition of business opportunities by utilizing the intellectual capital of the enterprise leadership towards the maximization of future growth and profit.

The theory postulates that the innovativeness, proactiveness and risk taking activities of entrepreneurs or management tend to enhance the growth and profitability of the organization. Schumpeter (1934) makes a distinction between
intellectual and physical capital, and between savings that enhances physical capital, and innovation that enhances intellectual capital. It assumes that technological improvement results from innovative activities implemented by organizations propelled by profit motives. The theory posits that the innovativeness, proactiveness and risk taking activities of firms tends to enhance the growth of such firms and the growth could lead to international expansion.

Benneth theory of corporate entrepreneurship is based on five elements of corporate entrepreneurship (which refer to the entrepreneurial activities of corporate organizations): innovation, risk taking, proactive, strategic renewal and corporate venturing. The theory postulates that corporate entrepreneurial activities of firms tend to enhance firms’ performance as well as their international expansion. This theory emerges from models specified by Eze (2017); Abosede, Oladimeji & Eze (2017); Oladimeji, Abosede & Eze (2017), Abosede, Fayose & Eze (2018). The models were used to test the effects of corporate entrepreneurship on manufacturing firms’ performance; innovation on the internationalization of banks; corporate entrepreneurship on the performance of service firms; and corporate entrepreneurship on the international performance of banks. These studies found that corporate entrepreneurship elements have a combined effect on firms’ performance, internationalization and international performance.

Though the theory is still evolving, it is the theory underpinning the model for this study; this is because the theory captures the research objective of this study.

2. Methodology

The study employed survey research design. Well-structured questionnaire on a nine-point Likert scale ranging from 1 (minimum) to 9 (maximum) was administered to the entire targeted population, which are the two hundred and twenty six (226) management staff of strategy and foreign operations departments of the ten (10) deposit money banks with foreign subsidiaries in Nigeria.

Since the study is a census survey, the questionnaire was administered to the entire 226 management staff of foreign operation and strategy department in the ten CBN licensed Nigerian international deposit money banks. Out of the 226 copies of questionnaires administered, 169 copies were returned; however, 167 copies were properly completed and found usable, giving a 76 percent response rate. The study was conducted in July 2017.

Content validity index (CVI) was employed to test the validity of the instrument (questionnaire) through the assessment of twelve independent assessors. The assessors consist of four academics (that have published articles on international
banking), four management staff of foreign operations department in Union Bank Nigeria PLC and four management staff of strategy department in Union Bank Nigeria PLC. The reason behind the choice of the assessors was their experience in banks’ international operations and strategy. Each of the assessors rated the questions on a two point rating scale of ‘relevant’ (R) and ‘not relevant’ (NR). The responses of the assessors were analyzed using content validity index, by employing the CVI formula:

\[ CVI = \frac{n}{N} \]

Where:
N = Total number of items in the instrument
n = numbers of items rated as relevant

The CVI gave a value of 0.8998, which suggests that the instrument is highly valid, as it tends to measure what it is designed to measure.

The internal consistency (reliability) of the instrument (questionnaire) was tested using Cronbach Alpha through a pilot study. The instruments were administered twice within an interval of fourteen days and the results of the first and second pilot studies were correlated and a Cronbach Alpha of 0.8821, 0.8164 and 0.7942 were obtained for risk taking, proactiveness and internationalization respectively. George and Mallery (2003) posit that, examining reliability based on ‘α’ (Cronbach Alpha) can be seen from the following: α greater than 0.9 Excellent (High-Stakes testing), α 0.8 to less than 0.9 Good (Low-Stakes testing), α 0.7 to less than 0.8 Acceptable (Surveys), α 0.6 to less than 0.7 (Questionable), α 0.5 to less 0.6 (Poor), α less than 0.5 (Unacceptable). This suggests that the instrument is reliable, as it tends to produce a consistent outcome.

**Table 1**

<table>
<thead>
<tr>
<th>Risk Taking</th>
<th>Proactiveness</th>
<th>Internationalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relative to our competitors, our bank has higher propensity to take risks</td>
<td>Our bank initiates actions which competitors follow</td>
<td>Our bank prefers to establish a wholly owned foreign subsidiary</td>
</tr>
<tr>
<td>Our bank has shown a great deal of tolerance for high risk projects</td>
<td>In dealing with its competitors, our bank has a tendency to be ahead of other competitors in introducing novel idea or service</td>
<td>Our bank strives to identify new foreign markets to set up subsidiaries.</td>
</tr>
</tbody>
</table>
The top managers of our bank favor a bold, aggressive position in order to maximize the probability of exploiting potentials, when faced with uncertainty.

My bank strives to identify new markets to sell financial services.

Our bank strives to meet foreign financial service demand.

Most people in this organization are willing to take risks.

Our bank shapes the environment by introducing new products, technologies, administrative techniques than merely react.

Our bank considers the host country economic environment in our internationalization drive.

Our bank supports many small and experimental projects realizing that some will undoubtedly fail.

Our bank continuously improves the quality of the product and services to be competitive.

Our bank considers the host country socio-cultural and political environment.

The term “risk taker” is considered a positive attribute in our bank.

Our bank always foresees potential environmental changes and future demands ahead of the competitors.

Our bank employs the use of strategic alliances in its internationalization drive.

**Statement of Hypotheses**

In line with the objectives of the study the following hypotheses were formulated.

$H_1$: Proactiveness significantly affects the internationalization of Deposit Money Banks in Nigeria.

$H_2$: Risk taking significantly affects the internationalization of Deposit Money Banks in Nigeria.

$H_0$: Proactiveness and risk taking have significant combined effect on the internationalization of Deposit Money Banks in Nigeria.

The hypotheses were stated in the alternative hypothesis form and the level of significance is 5%. Therefore, if the p-value is less than 0.05, the hypothesis will be accepted, otherwise (p-value greater than 0.05) the hypothesis will be rejected.

**Model Specification**

The theory underpinning this model is the Benneth theory of corporate entrepreneurship; the theory postulates that corporate entrepreneurship elements (innovation, risk taking, proactiveness, strategic renewal and corporate venturing) positively and significantly affect the internationalization of firms and firms’
performance (Eze, 2017). The theory is relevant to this study because it captures the two independent variables (risk-taking and proactiveness) as well as the dependent variable (internationalization).

The model aggregated proactiveness and risk taking. It was estimated to examine how these variables individually and jointly affect the internationalization of Nigerian deposit money banks. The model addressed the main objective of the study, which is to examine the effect of proactiveness and risk taking on the internationalization of Nigerian deposit money banks.

The model specification is stated below:

\[ INT = f(PR, RT) \]

\[ INT = \beta_0 + \beta_1 PR + \beta_2 RT + \mu \]  

Where:

INT represents Internationalization.
\( \beta_0 \) is the constant term.
\( \beta_1, \beta_2 \) are the coefficients of the estimator.
\( \beta_1, \beta_2 > 0 \)
PR = Proactiveness.
RT = Risk Taking.
\( \mu \) is the error term.

The apriori expectation: it is expected that proactiveness and risk taking will both have positive effect on the internationalization of Nigerian deposit money banks; hence the parameters of proactiveness and risk taking should both have a positive sign.

3. Findings and Discussion

**Table 2**

**Summary of Regression Result (Dependent Variable – Internationalization)**

<table>
<thead>
<tr>
<th>Variable(s)</th>
<th>Coefficient</th>
<th>T-statistics</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>2.121887</td>
<td>1.39</td>
<td>0.046</td>
</tr>
<tr>
<td>Proactiveness</td>
<td>.2608626*</td>
<td>4.06</td>
<td>0.000</td>
</tr>
<tr>
<td>Risk taking</td>
<td>.1503511*</td>
<td>3.05</td>
<td>0.003</td>
</tr>
</tbody>
</table>

**F-Statistics = 31.57 (0.0000)**

N.B.**: Significant at 5 percent level

\[ INT = 2.12 + 0.26PR + 0.15RT \]

(1.39)* (4.06)* (3.05)*

R-Square =0.3804  Adj R-Square= 0.3752

*Author’s computation from STATA 14

*Source: Field survey (2017).*
The result summary on Table 4.1 above revealed that proactiveness and risk taking have positive and significant combined effect on the internationalization of Nigerian deposit money banks (F-stat = 31.57 *0.000). The adjusted coefficient of determination (adjusted $R^2$) suggested that 37.5% variation in internationalization is accounted for by proactiveness and risk taking, while the F-value 31.57 (0.0000) suggested that all the parameter estimates are significant. However, the t-value revealed that, proactiveness has the greatest effect on the internationalization of Nigerian deposit money banks.

The significance recorded for proactiveness is consistent with the study by Okpara (2009), who finds that firms that possess proactive inclination are more likely to make higher profit and international market growth compared to conservative organizations. In Uganda, Ngoma, Sudi and Nangoli (2017) also found that proactiveness positively and significantly affects the internationalization of SMEs. While the significance found for risk taking is consistent with the study by Basile (2012), who found that risk taking orientation positively affects a firms’ capacity to enter a foreign market. It is also consistent with the study by Ngoma, Sudi and Nangoli (2017), who found that risk taking has a positive and significant effect on SMEs internationalization.

4. Conclusion and Recommendation

This study examines the effect of risk taking and proactiveness on the internationalization of Nigerian deposit money banks. The study employs census survey and the findings revealed that both proactiveness and risk taking have individual and combined effect on the internationalization of Nigerian deposit money banks. Proactiveness and risk taking are not new concepts in management, entrepreneurship and international business, but a lot is yet to be known about the effect of proactiveness and risk taking on the international expansion of Nigerian deposit money banks.

This study expands the frontiers of knowledge, by contributing to the sparse literature examining the effect of proactiveness and risk taking on the internationalization of Nigerian deposit money banks. The study concludes that proactiveness and risk taking are the critical elements driving the internationalization of Nigerian deposit money banks. This is consistent with the study by Ngoma, Sudi and Nangoli (2017) who found that proactiveness and risk taking positively and significantly affect the internationalization of small and medium-size enterprises in (SMEs) Uganda.
It is recommended that deposit money banks’ seeking international presence should consider a futuristic and opportunity-seeking perspective typified by acting in anticipation of future service demand and going ahead of competitors which depicts proactiveness. Furthermore, banks should display a risk-tolerant position towards foreign market incursion. Lumpkin and Dess (1996) opine that the actions of managers focusing only on projects with anticipated return that are certain, negatively affects firms’ internationalization and performance as compared to taking bold actions by entering the uncertain business environment. Therefore, banks should be risk-tolerant and proactive towards the attainment of international expansion.

**Suggestions for Further Studies**

Further studies are required to develop new hypotheses as well as design new variables that affect banks’ internationalization. Proactiveness and risk taking only account for 37.5% variation in the internationalization of Nigerian deposit money banks (adjusted R²= 0.375), which implies that 62.5% variation in the internationalization of Nigerian deposit money banks is accounted for by factors other than proactiveness and risk taking; future studies can therefore explore other concepts affecting the internationalization of deposit money banks. Future studies can consider the use of key participant interviews and focus group discussions, as these data collection methods tend to yield more information.

**References**


HUMAN RESOURCE MANAGEMENT AND BANKS’ PERFORMANCE IN NIGERIA

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Abstract

This study sought to examine the effect of human resource management (measured by: Reward management, Employee performance management and Employee resourcing) on non-financial performance of banks in Nigeria (measured by: market share, employees’ satisfaction, efficiency, productivity and service quality). The study employed survey research design, by administering structured questionnaire to three hundred and ninety seven (397) purposefully selected members of staff of human resources, finance and strategy departments of eight deposit money banks in Nigeria. Ordinary least square (OLS) was employed to estimate the model, with the aid of STATA version 14. The findings revealed that human resource management significantly affects banks’ non-financial performance (F-value= 19.22 * 0.0000 at 5% level of significance). The findings further revealed that Reward management and Employee performance management both have significant effect on the non-financial performance of banks in Nigeria, while Employee Resourcing does not have a significant effect on the non-financial performance of banks in Nigeria. Therefore, banks should enhance their Reward management and Employee performance management strategies to improve their non-financial performance.

Keywords:
Human resource management, non-financial Performance, Bank.

Introduction

The nexus between human resources management (HRM) and firms’ performance has engendered significant research interest in the developed, emerging and developing economies. Scholars (Dimba, 2010; Lawler, Chen, Wu, Bae & Bai, 2011; Georgiadis & Pitelis, 2012; Ogunyomi & Bruning, 2015; Dahie & Mohamed, 2017; El-Ghalayini 2017; Gituma & Beyene, 2018) studied the effect of HRM on firms’ performance; they all found that HRM affects firms’ performance. However, most of the studies employed financial performance measures.
Kaplan and Norton (1996) opine that financial performance measures are based on accounting or financial data, which reflects a firm’s past financial performance as well as market based measures derived from stock market values (profit, earnings per share, revenue, among others). Watts and Zimmerman (1986) posit that financial performance measures are subject to manipulation by top executive, because bonuses are usually tied to financial performance measures, secondly financial measures focused on the present state of the firm. Going by these positions, it implies that other measures of performance, other than financial measures can be evaluated against human resources management.

The non-financial performance measures (workforce development, customer satisfaction, on time delivery, product quality, efficiency, productivity, market share, among others) tend to enhance the future financial performance of a firm. Non-financial performance measures propel management to take steps that will enhance the long term goals of the firm.

Scholars have studied the effect of HRM on firms’ performance, using financial performance measures (Onyinyechi & Ihendinihu, 2017; Ezejiofor, John-Akamela & Iyidiobi, 2017). Since most studies on HRM and firms’ performance in Nigeria focused on financial performance measures and scholars that employed non-financial measure mostly studied other sectors rather than the banking sector. In addressing this research gap, this study therefore seeks to examine the effect of HRM (measured by; Reward management, Employee performance management and Employee resourcing) on non-financial performance of banks in Nigeria (measured by: market share, employees’ satisfaction, efficiency, productivity and service quality). The specific objectives are to examine the effect of reward management on non-financial performance of banks in Nigeria, to investigate the effect of employee performance management on non-financial performance of banks in Nigeria, and finally, to examine the effect of employee resourcing on non-financial performance of banks in Nigeria.

1. Literature Review

1.1. Human Resource Management (HRM)

HRM is the technique of coordinating the entire human resource practices, which include: recruitment and selection, training and development, performance management system, employee participation, employee decision making and employee welfare measures (Dahie & Mohamed, 2017; Ezejiofor, John-Akamela & Iyidiobi, 2017). HRM ensures the maintenance of capable and performance-oriented personnel; an effective HRM system will lead to effective manpower planning, good
performance development plan for employees and effective compensation management system, which enables better staff retention (Alinno & Igwe, 2017; El-Ghalayini, 2017)

Human resource management constitutes an important area in attaining strategic goals by firms, employees being the most important asset to firms, and HRM coordinates other organizational resources, towards the attainment of organizational goals, which could be financial or non-financial or a combination of both.

Scholars (Fajana, 2002; Way, 2002; Kandula, 2006; Georgiadis & Pitelis, 2012; Ogunyomi & Brunning, 2015) employed some construct in capturing human resource management (HRM), namely; Reward management, employee performance management and employee resourcing. While some other scholars (Dahie & Mohamed, 2017; Alinno & Igwe, 2017; El-Ghalayini, 2017), employed human resource processes, like selection, recruitment, training, appraisal, among others in capturing HRM

1.2. Firms’ Performance

Firms’ performance measures can be divided into two types (financial and non-financial measures). Financial performance entails the actual results of a firm as measured against its intended objectives. Kaplan and Norton (1996) opine that financial performance measures reflect a firms’ accounting or financial data, which include company profit, earnings per share, revenue, sales growth or total shareholder return. Watts & Zimmerman (1986) posit that financial performance measures can propel top executives of firms to manipulate their financial results, since bonuses are usually tied to financial performance. Watts & Zimmerman (1986) in explaining this phenomenon used the bonus-maximization hypothesis which states that managers of firms with bonus plans are more likely to choose accounting procedures that shift reported earnings from future periods to current periods. When a manager’s earnings fall below the required target level, they are likely to manipulate earnings upwards. Another important disadvantage is that financial performance measures propel managers to focus on the short term.

Non-financial performance measures assess the non-financial aspect of the firm, which includes workforce development, customer satisfaction, on-time delivery, product quality, innovation measures, attainment of strategic objectives, market share, efficiency, productivity, leadership and employee satisfaction (Kaplan and Norton, 1996). Unlike the financial measures that focus on the past and present state of the firm, non-financial measures focus on the future survival of the firm. Ibrahim and Lloyd (2011) posit that high performance on non-financial performance measures are
positively related with future financial performance. In this way, non-financial performance measures can prompt the management to take steps that will enhance the long term goal of the organization.

### 1.3. Human Resource Management and firms’ performance

The link between human resource management and firms’ performance has been studied by various scholars, with varying outcomes. While most scholars found that HRM positively and significantly affects firm performance, few found an insignificant effect. For instance; Ogunyomi and Bruning (2015) found that HRM has a positive relationship with SMEs financial and non-financial performance. Similarly, in examining the effect of human resources management practices and telecommunication firms’ performance, Dahie & Mohamed (2017) found that a direct relationship exists between HRM and telecommunication firms performance in Somalia. El-Ghalayini (2017) found that HRM practices, especially training and development, enhance public institutions performance. Onyinyechi & Ihendinihu (2017) found that human resource accounting positively and significantly affects the profit after tax of firms quoted on the Nigerian stock exchange. Ezejiofor, John-Akamelu & Iyidiobi (2017) found that an increase in staff salary and retirement benefit directly and significantly affect organizational profitability.

In contrast, Alinno & Igwe (2017) found that human resource management, applied through recruitment and selection have not enhanced privatized firms performance, especially their capacity to get involved in international business competition.

### 1.4. Theoretical Review

Scholars have employed several theories that offer the conditions for the predictions of the relationships between HRM practices and firms’ performance. Some of these theories are discussed below:

The Resource-Based View (RBV) postulates that internal organizational factors, which include both human and material resources constitute the determinants of firms’ performance. The resource-based theorists posit that valuable firm resources, comprising tangible and intangible elements are usually scarce, imperfectly imitable, and lacking in direct substitutes (Brouthers & Hennart, 2007). The resource-based view of the firm (RBV) postulates that the firm is best viewed as a collection of resources or factors of production, including human resources that management must deploy methodically to add value and enhance their performance (Ogunyomi & Bruning, 2015)
The Ability-Motivation-Opportunity (AMO) model postulates that a firm needs to recruit and select quality human resource, motivate their workforce to use their initiative in the attainment of organizational goals, thereby enhancing performance and that firms should make available to the workforce the opportunity to become engaged in organizational decisions and processes (Appelbaum & Kamal, 2000). These three basic groups of factors are expected to aid high organizational performance, both through higher retention of employees and better performing workforce while performing work-related activities (Boxall & Macky, 2009; Gyensare & Asare, 2012).

The Human Capital Theory (HCT), postulates that human and material capital tend to enhance the economic prosperity of a nation. It proposes that human capital enhances economic development and firms’ productivity, through individual investment in themselves, geared towards self-development (Ogunyomi & Bruning, 2015). The theory highlights the link between knowledge enhancement through investment in education, abilities and skills, and human productive capacity. Based on the works of (Schultz, 1971; and Psacharopoulos & Woodhall, 1997), Human capital theory assumes that formal education influences the productive capacity of people. The theory emphasizes that the level of education of the labour force affects its productivity. This study adapts AMO and RBV.

Source: Authors (2018).

Fig. 1: Conceptual Framework
The figure above shows the interaction among the variables, the conceptual framework suggesting that employee performance management (EPM), employers’ resourcing (ER) and reward management (RM), which are all components of human resources management (HRM) will lead to non-financial performance (NONFIN) of banks.

1.5. Reward Management (RM)

Reward is the totality of financial and non-financial compensation that a worker receives in return for service provided (Fajana, 2002), whereas reward management is the design and implementation of a pay system that ensures that an organization attracts, retains and maintains capable and willing employees needed to accomplish organizational goals. Reward management is consistent with AMO model which proposes that HRM practices are expected to be related to employee motivation.

The firms’ strategic goals should be linked with individual goals through the reward systems (Fisher, Schoenfeldt & Shaw, 2007). The significance of job description, evaluation, specification, analysis, rotation, enlargement and enrichment should be highlighted in motivating the workforce through reward management, (Hornsby & Kuratko, 2003). King-Kauanui, Ngoc & Ashley-Cotleaur (2006) found that firms’ performance is determined by compensation incentive, among other human resources management in Vietnam. Georgiadis and Pitelis (2012) found that a good compensation policy enhances firms’ profits when incorporated with product differentiation strategy. These propositions guide us in formulating the first hypothesis:

\[ H_{01} \]: Reward management does not significantly affect the non-financial performance of banks in Nigeria.

1.6. Employee Performance Management (EPM)

Employee performance management refers to motivating and revitalizing of individuals as well as eliminating obstacles that prevent the conversion of potential into performance, in line with Ability-Motivation-Opportunity theory (Appelbaum & Kamal, 2000). It is a procedure of formulating and implementing motivational strategies, interventions and drivers, geared towards the transformation of the raw human resources potential into performance (Kandula, 2006).

EPM involves continuous evaluation to appraise the performance of the employees. EPM enables both the employee and the employer to know how well such an employee is performing, which could also influence the employee to perform better and highlight the potential for future career advancement and improved
individual performance (Mullins, 2002). These observations lead us to the second hypothesis:

\[ H_{02} \]: Employee performance management does not significantly affect the non-financial performance of banks in Nigeria.

1.7. Employee resourcing (ER)

ER entails recruiting the right personnel with suitable skills, knowledge and experience for the right task at the appropriate time. This is in line with ability-motivation-opportunity model, the attraction and retention of employees is a major source of organizational performance. Way (2002) posits that extensiveness of staffing and pay level may be the most important components of the use of resourcing among US companies.

Wanous and Colella (1989) opine that positive recruitment and selection practices generally include various sources of applicants, realistic job previews, reliable and valid selection criteria, and effective human resource planning. Ogunyomi and Bruning (2015) established the existence of positive relationship between ER and SMEs performance. These observations lead us to the third hypothesis:

\[ H_{03} \]: Employee resourcing does not significantly affect the non-financial performance of banks in Nigeria.

1.8. Human Resource Management

HRM is the technique of coordinating and appraising the entire human resource practices, which include the following: Reward management, employee performance management and employee resourcing as well as other HRM practice. Guest (1997) opines that recruitment and selection, training and development, performance management system, employee participation, employee decision making and employee welfare measures are all HRM practices. Gituma & Beyene (2018) posit that HRM is linked to firm performance. These observations lead us to examine the combined effect of HRM practice on banks’ non-financial performance. Hence, the fourth hypothesis is stated below:

\[ H_{04} \]: HRM practices do not have significant combined effect on the non-financial performance of banks in Nigeria.

It is important to state that all the hypotheses were stated in the null hypothesis form, this is to aid the acceptance and rejection of hypotheses based on the level of significance, 5% level of significance was used for the study. Therefore, if the p-value is less than 0.05 (5%) we reject the null hypothesis and accept the alternative
hypothesis and if the p-value is greater than 0.05 (5%) we accept the null hypothesis and reject the alternative hypothesis.

2. Research Methodology

Survey research design was employed to obtain primary data from respondents. The study was conducted by administering a structured questionnaire to the targeted respondents. The Yamane (1967) formula was employed to obtain a sample of 397 from the population of 55,597 permanent staff of commercial banks in Nigeria, obtained from the National Bureau of Statistics (2016) selected banking sector data. Purposeful sampling technique was employed to select 397 members of staff of human resources, finance and strategy departments of eight banks (three international banks, three national banks and two regional banks) in Nigeria. However, only 202 questionnaires were returned, which represents a 51% response rate. Part of the questionnaire that captured reward management, employee performance management and employee resourcing was adapted from Ogunyomi and Bruning (2015) while the section that captured non-financial development was developed by the authors.

Content Validity Index was used to ascertain the validity of the instrument (questionnaire), through the assessment of five independent assessors (HR and management experts), they assessed the instrument on a two-scale (relevant and not relevant). Content validity index (CVI) of 0.88 was obtained, which indicated that the instrument was valid. The Cronbach’s Alpha was employed to test the reliability of the instrument, through the test re-test method (pilot study), using 15 management staff of two banks. A Cronbach alpha of 0.72 was obtained, indicating that the instrument was reliable.

Model Specification

NONFIN = \beta_0 + \beta_1 RM_t + \beta_2 EPM_t + \beta_3 ER_t + \mu_t - - - - - - - (i)

Where:
NONFIN represents Non-financial performance
\beta_0 is the constant term
\beta_1, \beta_2, \beta_3 are the coefficient of the estimator.
RM is Reward Management
EPM is Employee Performance Management
ER is Employee Resourcing
\mu_t is the error term
The apriori expectation is such that Reward Management, Employee Performance Management and Employee Resourcing are expected to positively affect the Non-financial performance of banks in Nigeria, hence, the parameters of Reward Management, Employee Performance Management and Employee Resourcing should have a positive sign.

Ordinary least square (OLS) was employed to estimate the model, with the aid of STATA version 14.

4. Results and Discussion

Table 1

Regression result from STATA 14 Output

```
. regress NONFIN ER RM EPM

Source | SS       df       MS
--------|----------|----------|----------
Model   | 20.0102025  3  6.67006751
Residual| 68.7026688 198  .34693176
Total   | 88.7128713 201  .441357569

Number of obs = 202
F(  3,   198) = 19.22
Prob > F = 0.0000
R-squared = 0.2256
Adj R-squared = 0.2138
Root MSE = .58905

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Number of obs = 202
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Prob > F = 0.0000
R-squared = 0.2256
Adj R-squared = 0.2138
Root MSE = .58905

| NONFIN | Coef. | Std. Err. | t       | P>|t|    | [95% Conf. Interval] |
|--------|-------|-----------|---------|--------|---------------------|
| ER     | .042631 | .0680455  | 0.63    | 0.532  | -.091559 to .1768179 |
| RM     | .2147079 | .0426416  | 5.04    | 0.000  | .130618 to .2987979 |
| EPM    | .390757  | .0600114  | 6.51    | 0.000  | .2724136 to .5091005 |
| _cons  | 1.392151 | .3370435  | 4.13    | 0.000  | .7274956 to 2.056807 |

NONFIN= 1.39 + 0.04ER + 0.21RM + 0.39EPM (4.13)* (0.63) (5.04)* (6.51)*

The result from table 4.1 indicated that RM has a positive and significant effect on the non-financial performance of banks in Nigeria at 5% significant level (p-value=0.000, which is less than 0.05), therefore we reject hypothesis 1. Similarly, EPM have a positive and significant effect on the non-financial performance of banks in Nigeria at
5% significant level (p value= 0.000, which is less than 0.05), therefore we reject hypothesis2. In consonance with the statement of hypothesis3, ER does not have a significant effect on the non-financial performance of banks in Nigeria at 5% significant level (p value= 0.532, which is greater than 0.05), therefore we accept hypothesis3, this is inconsistent with the findings of ogunyomi and Bruning (2015), that found that ER significantly affect SMEs non-financial performance, this might be as a result of the differences that exist between a small and medium firm and a large firm, like a bank.

The table equally indicated that HRM elements have a positive and significant effect on the non-financial performance of banks in Nigeria at 95% confidence interval (p- value= 0.000, which is less than 0.05), therefore we reject hypothesis 4. The adjusted coefficient of determination (adj. R²) revealed that HRM elements accounts for 21% variation in the non-financial performance of banks in Nigeria. The implication is that there are other factors, not captured in this study, that influence non-financial performance of banks in Nigeria. This is evident from the significance of the B_0(constant) in the study.

4. Conclusion

The study examined the effect of HRM elements (RM, EPM and ER) on the non-financial performance of banks in Nigeria as well as examining the combined effect of HRM elements on the non-financial performance of banks in Nigeria. The study employed survey research method, through the administration of structured questionnaire to the targeted respondents. The findings revealed that RM and EPM both have a positive and significant effect on the non-financial performance of banks in Nigeria; therefore, an increase in RM and EPM will most likely enhance the non-financial performance of banks in Nigeria. However, ER does not have a significant effect on the non-financial performance of banks in Nigeria. This is inconsistent with the findings of Ogunyomi and Bruning (2015), that found that ER significantly affects SMEs non-financial performance, this might be as a result of the differences that exist between a small and medium-size firm and a large firm, like a bank. For instance, one of the questions that was used to capture ER (Employees are sourced using recommendations from existing employees and family members), this is not true for most Nigerian banks, as recruitment and selection processes are usually outsourced to consulting firms. It can therefore be concluded that RM and EPM are the major components of HRM driving non-financial performance of banks in Nigeria.

It can be recommended that Nigerian banks seeking improved performance should enhance their HRM practices. However, in applying HRM, banks’ executives should employ RM and EPM.
4.1. Research Contribution

The study expands the frontier of knowledge by contributing to the scanty literature on HRM and banks non-financial performance, particularly in Nigeria. Existing literature on human resources and firms performance concentrates mainly on firm accounting or financial performance measures like profit after tax, revenue, return on asset, return on equity, among others, with little focus on non-financial performance measures, like efficiency, effectiveness, employee satisfaction, customer satisfaction, market share, among others.

4.2. Research Implications

The study indicated that HRM elements have a positive and significant effect on the non-financial performance of banks in Nigeria. The adjusted coefficient of the determination (adj. $R^2$) revealed that HRM elements accounts for 21% variation in the non-financial performance of banks in Nigeria. Therefore an increase in HRM practices will enhance the non-financial performance of banks in Nigeria. Therefore, banks executives should utilize human resources management (especially Reward Management and Employee Performance Management) in enhancing their non-financial performance. The study focused on the banking sub-sector in Nigeria; as a result, the outcome might not be applicable to other sectors of the Nigeria economy as well as other countries. However, the low level of adjusted coefficient of determination (adj $R^2$=21%) implies that to obtain better non-financial performance, banks executives should combine HRM with other performance enhancement strategies. Furthermore, banks should avoid the use of employee resourcing, as it does not significantly affect their non-financial performance, rather than source new employees from existing employees, banks should employ the service of consulting firms to manage the recruitment process in collaboration with their human resources department.

4.3. Research Limitation and Suggestion for Further Studies

The findings of the study revealed that HRM practices account for 21% variation in bank non-financial performance, while other factors not captured in this study account for the remaining 79%. Therefore, other HRM practices or elements should be considered by other scholars. Further studies can equally be conducted by adapting other HR theories. Furthermore, the use of interviews can be considered by other researchers, as an interview tends to reveal more information.
References


ESTIMATION OF LABOUR PRODUCTIVITY AT INDUSTRY LEVEL – THEORETICAL ASPECTS AND PRACTICAL APPLICATION

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JEL E2, J3, J5

Abstract

The article presents a methodology for constructing an indicator for the estimation of labour productivity and its changes at industry level. It discusses the practical necessity of such an indicator as well as the characteristics it should possess in order to reflect as accurately as possible the performance of labour productivity in static and dynamic terms. Different alternatives are reviewed and the choice of certain statistical data and procedures on which to construct the desired measure is argued. The choice is based on theoretical considerations and the practical possibilities of the public information available at the moment in Bulgaria provided by the National Statistical Institute (NSI).

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Introduction

The measurement of productivity in static and dynamic aspect is important from many perspectives. It provides quantitative characteristics that help understand many processes in economic systems - from changes in the standard of living at the macroeconomic level to technological progress and changes in efficiency at the sectoral and micro levels. In addition, different economic studies have identified relationships between productivity and important indicators of the economy. For example, Stoevski (2014) identifies a long-term relationship between labour productivity growth on the one hand and on the other hand the attraction of foreign direct investment and exports for 10 EU Member States. Blalock and Gertler (2004) show evidences of dependence between export and firm level productivity.

Although the need to estimate productivity at different levels (macro level, industry level, micro level) is obvious, the actual application of such estimates may en-
counter a number of difficulties of a theoretical and practical nature. In addition, various possible productivity measures are presented in economic literature. It is therefore important to discuss the methodologies for constructing suitable measures as well as their advantages and disadvantages.

In this regard, the purpose of this article is to propose a methodology for estimating labour productivity and its growth over time at industry level. The particular disaggregation level is A 64 from the Statistical Classification of Economic Activities (NACE-2008). In this nomenclature, economic activities are codified by a letter (for the relevant sector) and a two-digit code. It is the most often used nomenclature for empirical studies at industry level and it is uniform for the EU countries based on Eurostat methodology, which allows for international comparisons.

The need to achieve such an objective comes in two lines. On the one hand, analytical research in this area for the Bulgarian economy is scarce. On the other hand, the problem also has a purely practical dimension. As is well known, the institutionalized labour income agreements in the country are negotiated by the social partners - employers' organizations and trade unions. Until now, negotiations on minimum wages, minimum social security thresholds and more generally on labour income are often carried out "in blind", without objective economic benchmarks, including without calculating and taking into account the productivity at industry level, which is supposed to be an important determinant of income for the relevant industry. Because of the lack of an objective basis, these negotiations prove to be difficult, full of unproductive emotions, often ending without agreements. The conceptual problems of the negotiation process, as well as possible solutions for its improvement can be seen in Petranov (2017).

At the same time, the National Statistical Institute (NSI) publishes data on labour productivity only at the macroeconomic level - total for the country and for three sectors with the highest possible level of aggregation - Agriculture, Industry, Services. But in terms of productivity, these sectors are very heterogeneous - for example, according to NSI data, the gross added value per employee at current prices for 2016 is BGN 5,631 in Agriculture and BGN 25,577 in the Industry. Because of these large differences (existing and possible in the future), these data cannot be used at a lower level of aggregation, where negotiations between the social partners - employers' associations and trade unions are taking place.

Taking into account the issues discussed above, the article is organized as follows. In Section 2 an overview of the problem is presented, then Section 3 describes the features that a useful indicator of labour productivity should possess.
Sections 4 and 5 discuss options for selecting proper variables for the output and for the labour input. Section 6 addresses the dynamics of labour productivity and explains how to measure productivity growth through indexes. Section 7 provides the main conclusions.

1. Layout of the problem

In economic theory, productivity is defined as the ratio between the volume of a particular output and the volume of the resource that is used to produce that output. Depending on the objectives of a given study and depending on the production and resource measures used, different productivity indicators can be constructed.

In general, the theory distinguishes between single-factor and multi-factor indicators, as well as indicators that use gross output or the value added in the production process. The choice between one or the other possible indicator is based on the objectives set for analysis as well as on the availability of the relevant statistical data.

This article aims to present a model for estimating labour productivity, which is theoretically well-founded and at the same time practical, so that it can be used in different analytical studies and in particular in the negotiation process between the social partners in Bulgaria. To achieve such a goal, the model should have certain properties:

a) The model should be with a solid and easy to understand theoretical basis, because it has to be widely accepted and not to be challenged as a concept by the social partners in the negotiation process.

b) The calculation of the model should be based on a unique and well-described procedure so that the results can be easily verified. At the same time, it should be based on publicly available statistics produced by organizations that are independent from the negotiating parties. This is necessary in order to achieve maximum objectivity.

c) The model should be able to track the dynamics (changes) of labour productivity. Productivity itself is an important indicator for static analyses. But for the negotiations on labour income it is important that the analysis could be performed in a dynamic plan as the economic logic for sustainable growth implies changes in labour income over time to go in line with changes in productivity.

(d) The model should not make use of the so-called parametric methods.

These methods are based on econometric estimations which have their advantages and disadvantages, but in the present case the latter prevail. The conditions under which they provide credible results are not always met in practice,
and the availability of new or revised data can often change econometric estimates significantly. Generally, the use of parametric methods requires certain mathematical training, specialized software is needed for their application, and they are mainly typical of academic studies with a particular profile. These features make them unpractical for negotiations between the social partners.

2. Possible measures of labour productivity

According to the required characteristics a) - d) outlined in the previous section, as suitable measures of labour productivity there can be considered the following:

- Labour productivity based on gross output
- Labour productivity based on value added

Both indicators are clear and can be easily interpreted. They are the most commonly used in international practice and should not cause distrust and controversy, at least as a concept. Labour productivity based on gross output is the amount of total output (as physical units), which is produced on average by one labour unit. It can serve as an indicator of the need for labour resources to produce a certain amount of total output. At the same time labour productivity based on value added shows the average amount of value that is added during the production process per unit of labour. Both metrics are easy to calculate, and both are non-parametric. Formulas (1) and (2) respectively present the necessary calculations:

\[
(1) \text{Productivity of labour based on gross output } P_Q = \frac{Q}{L}
\]

\[
(2) \text{Labour productivity based on value added: } P_V = \frac{V}{L}
\]

using the following notation:

- \(Q\) - total volume of gross output in the relevant industry;
- \(V\) - total volume of value added in the relevant industry;
- \(L\) - total volume of labour in the relevant industry.

Both indicators can be used to analyze changes over time of labour productivity. This can be done on the basis of the following indices - formula (3) for the case of gross output and formula (4) for the case of value added. Superscript indices 0 and 1 denote the base year and the present year respectively:
Formula (3) indicates that the growth of labour productivity based on gross output can be represented by an index, which in turn is calculated as the ratio of two indices – a quantity index of gross output and a quantity index of labour input. Similarly, it follows from formula (4) that the growth of labour productivity based on value added can be calculated by an index which in turn is a ratio of two indices - a quantity index of value added and a quantity index of labour input.

It is extremely important for the correct interpretation of these indicators to take into account the fact that they are partial indicators of productivity because they reflect the joint result of a number of factors that have impact on labour productivity. The change in these productivity indicators over time is due to the change in personnel’s intensity and quality of the work. But not only to this. The change in these indicators could also be the result of changes in the volume of physical capital, technical progress embodied in the means of production or in the intermediate products, organizational improvements, changes in the scale of production, changes in the degree of utilization of production capacities, and the inevitable measurement errors. Therefore, it will be more accurate to say that labour productivity as an indicator shows just to what extent labour is effectively combined with other factors of production.
3. Selection of an indicator for the output

In Section 3 of the present article two different indicators are proposed – one based on gross output and the other one based on value added. They both have the desirable characteristics a) - d) described in Section 2. They are theoretically well founded, they are not parametric and data for calculating them are published on a regular basis by a public authority - the NSI. In the economic literature there are different views on which of these two indicators should be preferred when calculating labour productivity. In order to be able to justify the choice of one of them, their economic meaning should first be taken into account. At the same time, the quality of the results obtained will depend on the availability and relevant characteristics of the statistical data, as well as the methods of their processing.

At the level of economic activity, gross output is conceptually a measure of the size of total production in a given sector or industry and includes both final products and intermediate products. In particular, it includes:

- sales of products (final and intermediate);
- increase or decrease in inventory of produced goods;
- produced fixed assets for own use;
- value of services when processing outsourced production;
- value of materials when processing outsourced production;
- value of capital repair for own use;
- changes in inventory of unfinished production and semi-manufactured production.

Sales by one enterprise in the relevant industry to another enterprise in the same industry should be eliminated and only sales outside the industry concerned should remain. Otherwise, such intra-industry deliveries will cause double counting (Gollop, (1979), Gullickson, Harper (1999)).

On the other hand, when the value of industrial consumption is subtracted from gross output, a gross value added measure is obtained. This is the value added by the industry. From the point of view of income gross value added is an indicator of the income generated by primary production factors. The latter, in turn, are those that according to static production analysis are considered exogenous - labour and capital.

Gross value added can, in principle, be valued in four different ways. If products are valued at the prices paid by final customers, gross value added is estimated at market prices. If wholesalers’ and retailers’ discounts are deducted, as well as value added tax, gross value added is then estimated at production prices. If subsidies are added to the output and output taxes deducted, gross value added is obtained at basic
prices. Finally, if output taxes are deducted and production subsidies are added, gross value added at factor costs is obtained.

From the point of view of labour productivity, the last two indicators are of the highest information value. The first two include value generated in trade, not in production, as well as taxes on production and value added tax. Apparently, increases in mark-ups for wholesalers and retailers or tax increases are not associated with an increase in labour productivity per se.

In principle, it would be better to measure gross value added at factor costs, but here a practical problem may arise. The data available from NSI for nomenclature A 64 provide value added at the level of economic activity at basic prices. While this is not the best option, however, this disadvantage is not very significant given that there is no substantial production subsidies for the relevant industry and production taxes do not change sharply over time.

As can be seen from the definitions, both gross output and gross value added include depreciation which measures the loss of market value of capital goods over time. In earlier economic literature, there are opinions that, when studying productivity, measurement of the result should not include depreciation (Denison (1974)). But at present the contemporary understanding which prevails is that in the result, be it output or value added, depreciation should be included. The main arguments for this view are based on the logic of production theory and can be seen in the publications of a number of economists - Jorgensen (1996, 1995), Jorgensen, Griliches (1967), Hulten (1996).

By comparing the two options, it can be concluded that the indicator based on value added would be in principle a better one. It should be used provided that there is data for both indicators. The reason for this conclusion is that this indicator avoids the impact of the degree of vertical integration in the production process.

When productivity is measured on a gross output basis, the result depends on the ratio between intermediate resources and labour resource that are used for production. When vertical integration deepens, labour productivity will increase, and if vertical integration is reduced, productivity will decrease without substantially altering personnel’s quality and intensity of work. For example, if an enterprise outsources production to another enterprise, it will replace primary resources, including labour, with intermediate products. In this case, the productivity in the particular enterprise will increase because the same gross output, as a final result, will be obtained with less labour input. Conversely, if an enterprise internalizes production of an intermediate product that has previously been purchased from another producer, productivity will fall automatically because the same gross output will be produced
with more labour. These are changes in the degree of vertical integration, which are related neither to the quality and intensity of work, nor to a change in physical capital or technology.

Value added based productivity is much less (or not at all) depending on the degree of vertical integration. In this case the integration does not play a significant role. When an item is outsourced, labour in the enterprise is replaced by a product of another producer. Correspondingly, the value added in the enterprise is reduced, but labour is reduced as well. The first automatically reduces labour productivity, the second automatically increases it, so they mutually compensate to some extent. The final result may be different from the initial productivity, but the differences (if any) are not drastically large and changes are not in the same direction, as is the case with gross output based productivity.

Moreover, productivity based on value added at industry level can be aggregated at the macroeconomic level to obtain productivity for the whole economy. As a result the average income per employee could be estimated, which is a measure of living standards in the country and is an indicator of great importance to macroeconomic policy. It also provides the opportunity for productivity at macroeconomic level to be decomposed to different components representing the productivity in different economic activities.

Beyond the logic of the indicators, it is also important that internationally, gross value added is more often used as a measure. Therefore, working with this indicator provides wider opportunities for international comparisons.

On the basis of the above arguments, labour productivity at the level of economic activity should be measured on the basis of added value. However, the final choice must also be consistent with the data available.

4. Selection of an indicator for the input

When calculating labour productivity, the amount of labour units is considered as input. This amount is in principle reported statistically on the basis of four categories:

- Number of hours worked;
- Number of full-time equivalent occupied persons;
- Number of occupied persons;
- Number of employed persons.

Data on all four indicators are available from the NSI. According to the work schedule of the NSI, the data for each year are prepared nine months after the end of the respective year.
In line with the theory of production, the amount of labour input is most accurately to be measured by the hours worked. In general, this indicator includes:

- actually worked hours as normal working hours;
- extra hours worked;
- time at work used for workplace preparation, maintenance and repair work, cleaning and preparation of tools, etc.;
- time corresponding to short rest periods at the workplace;
- time spent at work waiting or in standby due to temporary lack of work or damage to machinery and equipment.

It should be mentioned that the reporting of this indicator in the national practice of NSI, but also in the international practice as well, encounters certain technical difficulties. One set of problems is due to the fact that the data is collected from two sources - Labour Force Survey and Report on employees, working time, wages and other labour costs. This may lead to inaccuracies and inconsistencies and inevitably necessitate additional assessments and synchronization of the data from the two statistical sources.

The Labour Force Survey is conducted among households and proceeds from a socio-economic point of view in order to establish such characteristics of the workforce as education, age, second job, types of employment contracts, etc., whereas the Report on employees considers the workforce as a factor of production. The Report counts jobs rather than employees. For example, a worker who works in more than one place in this Report will be counted more than once. Also, data in the Report are typically collected from enterprises that are above a certain size, so there is no complete coverage of an economic activity. In addition, the very definition of economic activity may be inconsistent and inaccurate, because in the Labour Force Survey, it depends on the respondent’s responses and not on the rigid administrative classification, as in enterprises’ reports. Another difference between these two sources of data may also derive from the possible different treatment of the concept of "hours worked". In the Labour Force Survey, respondents often consider as normal working hours those working hours, which is more than standard but still regular. This is why in most cases, the normal work time from the Labour Force Survey turns out to be more than the normal working time taken from the enterprises’ reports.

Another possible inaccuracy of reporting "hours worked" is related to the fact that their precise measurement is only possible when it comes to labour working and paid on an hourly basis. The reporting of hours worked by employees on monthly salaries, administrative staff and enterprise management is more difficult because, in
In terms of production costs, it is assumed that they work within the agreed normal working hours, while the hours actually worked may be different.

The most significant differences between the amount of labour input, measured by the number of people and by hours worked, are due to holidays, sick leave and vacations. The amount of holidays and vacations can be assessed on the basis of the current legislation or on the basis of collective labour agreements (if any). Comparative analytical materials from the international practice show that the Labour Force Survey tends to overestimate hours worked and underestimate job absences due to sick days or holidays.

The listed inaccuracies in the reported hours worked give rise to statistical errors of measurement that are unavoidable. These could be a more significant issue only in the case of possible international comparisons of countries that work using different methodologies for estimating and reporting the above-mentioned specificities. But when it comes to data for a country where the statistical office systematically works with the same methodology, these inaccuracies are small and could only be more significant when changing the methodology. From this point of view, for the purpose of studying the labour productivity in Bulgaria, if possible, the "number of hours worked" should be preferred as an indicator compared to the other options for measuring the amount of labour input. This indicator is most closely related to the amount of services provided by the labour compared to the other possible indicators listed above.

The remaining indicators are generally less suitable, although they can be used in the absence of hours worked. The lowest information value has the number of employees and therefore it should only be used if for some reason other data is missing. This indicator takes into account neither the changes in average working hours, nor the possibility for people to have more than one workplace, nor the self-employed and the unpaid family workers (if any).

Higher information value has the number of occupied persons. However, it is inferior to the "number of hours worked" because the average working time can change when the number of paid days is changed or the number of public holidays changes or when the number of people working part-time changes.

The "number of full-time equivalent occupied persons" by definition is obtained as the number of man-hours worked divided by the average annual number of hours that correspond to full time employment. In this case, part-time workers are counted with a proportionately less weight than full-time workers and therefore this indicator overcomes the deficiency of the "number of occupied persons" and "number of employed persons" indicators. Therefore, it has a higher informational value than
these two indicators, but it is still inferior to the "number of hours worked" because it does not take into account the changes in the hours worked by full-time workers due to possible changes in the legislation or in collective agreements with employers.

5. Selection of an index

In order to accurately measure changes in labour productivity, it is necessary to eliminate the impact of the prices of output. Therefore, it is necessary to have the output indicators, whether gross output or gross value added, at constant prices.

As shown in Section 3, changes should be tracked on the basis of indices, each of which is calculated by dividing a quantity index for the output by quantity index for the input (formulas (3) and (4)). The reason for the need to use indices is the heterogeneity of the goods and services being produced. This heterogeneity does not allow for simple adding of physical units from a different nature. Therefore, it is important that a proper formula for calculating the necessary indices be chosen.

There is a need to make two choices here. One is related to the choice of which index has to eliminate the impact of prices. Possibilities include the usual Laspeyres and Paashe indexes. Their definitions and properties are widely known and can be seen in standard reference books and statistics textbooks – for example Kendall, Buckland (1982) or Diewert, A. Nakamura (1993). But it is also possible to use the Fischer index, which is a geometric mean of the Laspeyres and Paashe indices or the Törnqvist index. These indices are representatives of the so-called "superlative indices" which have certain advantages over the Laspeyres and Paashe indices (Diewert (1976)). Moreover, the Laspeyres and Paashe indices imply a production structure with fixed coefficients, whereas the Fisher and Törnqvist indices do not have this limitation and thus cover a wider range of possibilities (Caves et. al. (1982), Balk (1998)).

On the other hand, the comparison between Fisher and Törnqvist indices indicates that the Fisher index is preferable. The reason is that the Törnqvist index does not meet all axiomatic criteria and is less intuitive (Diewert (1992)).

The second choice one has to make, is between chain indices and indices with a constant base. In the first case the comparison of productivity is year by year. For example a zero and a second year are compared indirectly by estimating the change from year zero to year one and then from year one to year two. For every year the benchmark is the previous year and so the years are chained together. In the case of fixed-base indices, the comparison is direct, because the indices have common base. A comparison between a zero year and a second year can be made directly, with a benchmark either one of them.
In statistical theory there clearly dominates the view that dynamic comparisons are better studied with chain indices. The reasons are several. Above all, Coelli et al. (1998) show that, as chain indices compare consecutive years, they measure relatively small changes and as a result the approximations are better. There are also purely technical considerations. Chain indices minimize the distortion that can be derived from the presence of a substitution effect on indices using the Laspeyres formula. Another advantage is that the differences between indices using the Laspeyres formula and the Paashe formula are smaller in the case of chain indexes (Diewert,(1978)). A detailed discussion of the advantages and disadvantages of chain indexes versus fixed-base indices can be found in Szulc (1983) or Hill (1988).

**Conclusion**

From a conceptual point of view, labour productivity is a clear and very useful indicator for studying a number of processes in the economy. Nevertheless, its practical application at the level of economic activity may encounter a number of difficulties that need to be considered when working with this indicator and interpreting the obtained results.

Difficulties arise primarily from the fact that there are different options for choosing the variables which are needed for the indicator to be calculated. As a result, it is necessary to make a choice depending on the purpose of the study and the availability of relevant data. An additional difficulty arises when the growth of labour productivity over time is under study as it requires the construction of indices with relevant properties.

Based on the arguments set out in the article it is possible to conclude that under the current conditions in Bulgaria (availability and disaggregation of data) labour productivity at the level of economic activity is best estimated on the basis of gross value added at basic prices and number of hours worked. It can be also concluded that labour productivity growth is best estimated on the basis of chain indices using the Fisher formula.

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26. Statistics New Zealand, Tornqvist Index and Other Long-changing Index Numbers,
EMOTIONAL INTELLIGENCE’S IMPACT ON MANAGERS’ WORK PERFORMANCE IN BUSINESS ORGANIZATIONS (METHODOLOGICAL RESEARCH)

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JEL: J24, M12, M54

Abstract

The aim of the article is to present a developed conceptual model that allows to develop in a logical sequence the methodological aspects of the study of emotional intelligence’s impact on managers’ work performance in business organizations. This model describes methodological phases, stages, and steps, which could have practical application in conducting empirical investigations. This methodology includes three phases: identifying manager’s emotional intelligence level through questionnaire; work performance assessment through a rating scale; evaluation of emotional intelligence’s impact on managers’ work performance and the significance of this impact through χ2-method and the Kramer coefficient (V2).

Keywords: conceptual model; emotional intelligence; managers work performance.

Introduction

It is evident that in the last decade the academic interest in conceptualizing emotional intelligence is growing. Many researchers provide definitions and construct evidence for emotional intelligence’s essence and scale, models describing it and how its level influences employee behaviour in different business organizations.

The scientific evidence for emotional intelligence’s impact on managers’ behaviour at work is undoubtable. At the same time, browsing through some articles shows that there are no investigations (methodological and practical) which aim for establishing a model, which allows evaluation of emotional intelligence’s impact on managers’ work performance. The very fact that there is a research niche in this sphere is a methodological challenge for empirical researchers. This challenge has potential for methodological development in this field as well as for practical application in the business environment.
1. Emotional intelligence, managers’ work performance and its evaluation

Emotional intelligence

Emotional intelligence is a phrase that includes the complex nature of human abilities. Contemporary psychologists appreciate the complexity of emotional intelligence and describe it in conjunction with a wide range of abilities (Paunov, 2012, p. 35). According to Goleman, emotional intelligence is a unity of skills, some of which are self-motivation, perseverance in challenging situations, management of one’s impulses and being able to postpone potential reward for the effort put in a project or task, control over moods and not letting anxiety disrupt the process of thinking, demonstrating empathy and living with hope (Goleman, 2011, p. 57). Salovey and Mayer (1990) define emotional intelligence as the ability to observe and regulate one’s own feelings and those of others, ability to use emotions as means to guide thinking and actions (Salovey & Mayer, 1990). According to Petrides and Furnham (2000), emotional intelligence is interconnectivity of emotion-based subjective perceptions and convictions regarding the sustainability of a person’s competences to manage their emotions (Petrides & Furnham, 2000). Luke and Tarricone (2001) claim that emotional intelligence is a set of skills, needed in the context of successful collaboration. Both authors conduct a research, through which they prove the positive correlation between emotional intelligence and team performance (Luca and Tarricone, 2001). According to Matthews, Zeidner & Roberts (2004), emotional intelligence is the competence to identify and express emotions, to assimilate emotions and manage both positive and negative emotions – one’s own emotions as well as those of other people (Matthews, Zeidner & Roberts, 2004, p. 3).

Theoretical models for emotional intelligence

Models which aim to describe the essence and scope of emotional intelligence are developed on the basis of theoretical views, scientific researches and conceptions.

For the goals of the current work only Daniel Goleman's theoretical model is presented. Goleman's model is a system of five components, in which a combination of emotional processes, qualities, features and characteristics of a person is incorporated. According to Goleman components which describe emotional intelligence are: self-knowledge, self-control, empathy, social skills. The author classifies the first two elements as personal capacities, and the rest as social capacities. (Eketu & Ayondu, 2017).
Table 1

Daniel Goleman’s theoretical model

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>DESCRIPTION</th>
<th>KEY SPECIFICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-knowledge</td>
<td>The capacity to recognize and understand moods, feelings and motives, and their effect on other people.</td>
<td>Self-confidence; Realistic self-esteem, Self-irony</td>
</tr>
<tr>
<td>Self-control</td>
<td>The capacity to manage and control or redirect destructive impulses or moods. Inclination to wait before judgments (think first, then act attitude).</td>
<td>Reliability and honesty. Comfort in undetermined situations, sense of responsibility for occurring changes</td>
</tr>
<tr>
<td>Motivation</td>
<td>Passion to work independently regardless of social status and money; Goal-orientation and perseverance with energy and persistence.</td>
<td>Strong necessity of accomplishments; Optimistic attitude regardless of poor performance; loyalty to organization</td>
</tr>
<tr>
<td>Empathy</td>
<td>The capacity to understand emotional states; the ability to treat people based on their emotional state</td>
<td>Knowledgeable in developing and maintaining talents; Intercultural sensitivity, Account management.</td>
</tr>
<tr>
<td>Social skills</td>
<td>Professionalism in relationship management; developing a network of different contacts. Ability to find common topics and achieving mutual understanding with other people.</td>
<td>Efficiency in implementing changes, Convincing, Knowledge in building and managing a team.</td>
</tr>
</tbody>
</table>

Source: Goleman, 2004, p. 1

Two measuring instruments for emotional intelligence can be found in Goleman’s model. The first one, Emotional Competence Inventory (ECI), was created in 1998, and the second one, Emotional and Social Competency Inventory (ESCI), in 2007 (Chopraa & Kanjib, 2010).

Manager’s working performance and its assessment

Managers’ working performance is definitely one of the most important variables in human resources within organizations (Hosie & Sevastos, 2007). Hosie and Sevastos argue that „working performance is the pure value of managers’ contribution for the efficiency and goals of the organization, which are achieved by the people under the influence of managers in a concrete working environment.“ (Hosie & Nankervis, 2016).
According to Saghani (2012) firms strive for organizational growth through establishing a living culture, oriented towards results based on processes expansion of working performance assessment. The author emphasises that the process of working performance assessment in organizations should be effective and it should reach high results as well (Sangani, 2012). Grot (2002) claims that working performance assessment is an instrument for quality management of individual performance of employees in the organization. (Grote, 2002, p. 1).

Iliev (2016) approaches working performance and its assessment in the context of establishing human resources management systems in business organizations. He provides arguments that working performance assessment has the key role and place in human resources among other components of the system, and emphasises that “assessment of working performance which is accurately planned and well put into practice significantly influences education, professional development, career development, and payroll management“ (Iliev, 2016, p. 75).

Working performance assessment is an object of interest in Shopov, Atanasova, Harizanova and other Bulgarian authors. Shopov and Atanasova (2009) provide a wide understanding of the process of working performance assessment and they emphasise “correspondence between the process and the results of it for the organizational goals”. They pay close attention on the problem of subordination of goals on different levels of management and claim that their approach puts more stress on achieving the organizational goals than on employee skills and competences assessment. (Shopov&Atanasova, 2009, p. 228).

It is accurate to outline the current remark: the conception of working performance and its assessment is significant factor for successful human resources management in business organizations. It has also been widely developed.

It has rich research value since it provides approaches, mechanisms, methods, and indexes.

2. Goal and conceptual model of investigation

The current work’s goal is to present the author’s conceptual model of research on emotional intelligence influence on managers performances in business organizations. This model describes methodological phases, stages, and steps, which make it possible to determine emotional intelligence influence on managers working performance and the scope of this influence.
St. Masalzhyska. Emotional Intelligence’s Impact on Managers’ Work Performance in Business Organizations (Methodological Research)

**Fig. 1. Conceptual model of empirical research**

Source: The figure is created by the author.
Conceptual model of the research (1)

The necessity of conceptual model and its usefulness can be augmented in two dimensions:

- **first**, the model allows to portray and develop formal (logical) and content oriented approach to methodological investigation of emotional intelligence’s impact on managers’ work performance in business organizations.

- **second**, the model portrays this approach visually, as well as the phases, stages of empirical researches methodology, which has successful practical application.

3. Fundamental characteristics of this research approach

This conceptual research model (see. figure 1) is in the basis of the methodology for determining the influence emotional intelligence has on managers work performance and the scope of this influence. This methodology includes holding qualitative and quantitative research in the three fundamental methodological stages.

**The first methodical phase** includes determining the level of managers’ emotional intelligence in business organizations. It corresponds to the following two stages:

**First stage:** *Developing a questionnaire to measure managers emotional intelligence level in business organizations*

This questionnaire is proposed by the author and influenced by the book Test Your Emotional Intelligence (Testing) (Robert Wood & Harry Tolley, 2007). It includes 50 questions, which correspond to 5 components of the skill: self-knowledge, self-control, motivation, empathy, and social skills. These components are a compliance of aspects, some of which are present in Goleman's theoretical model, and others are described in Wood and Tolley’s book. These questions relate strictly to the managers work process in business organizations and situations, occurring in relation to it.(2) In table 2 the components and the aspects of these components are summarized based on Goleman and Wood and Tolley’s works.

**Table 2**

<table>
<thead>
<tr>
<th>Component</th>
<th>Aspects of the component according to Goleman</th>
<th>Aspects of the component according to Wood and Tolley</th>
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<tbody>
<tr>
<td>SELF-KNOWLEDGE</td>
<td>- emotional self-awareness;</td>
<td>- self-respect;</td>
</tr>
<tr>
<td></td>
<td>- accurate self-assessment.</td>
<td>- positivity;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- self-confidence;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- putting aside logic and rationality;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- listening to others;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- identifying the impact on others.</td>
</tr>
</tbody>
</table>
**Emotional Intelligence’s Impact on Managers’ Work Performance in Business Organizations (Methodological Research)**

<table>
<thead>
<tr>
<th>SELFCONTROL</th>
<th>- self-regulation; - trust; - faithfulness; - adaptability; - creativity.</th>
<th>- holding over judgments; - governing impulses; - sharing opinion - insistently, but not aggressively; - flexibility; - governing non-verbal communication and body language - keeping distance from the problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOTIVATION</td>
<td>- result-orientation; - engagement.</td>
<td>- striving to achieve highstandards; - dedication in achieving goals; - taking initiative and opportunities; - optimism.</td>
</tr>
<tr>
<td>EMPATHY</td>
<td>- involvement in the organization; - accountability and reliability when needed.</td>
<td>- understanding others; - formulating needs and interests as individual criteria for evaluation; - providing support and guidance in the process of development.</td>
</tr>
<tr>
<td>SOCIAL SKILLS</td>
<td>- leadership; - ability to impact others; - ability to accelerate changes; - ability to manage conflicts; - building contacts network; - collaboration and teamwork; - team experiences and opportunities.</td>
<td>- developing and maintaining interpersonal relationships; - communicative skills.</td>
</tr>
</tbody>
</table>

**Source:** The table is created by the author.

**Second stage:** Reckoning the questionnaire results and determining the level of managers’ emotional intelligence.

Every question has three probable answers, marked with A, B and C. One of the answers presupposes the most emotionally intelligent behaviour, another presupposes the least emotionally intelligent behaviour, and the third one presupposes the middle level of emotional intelligence.

Holding this step of the first methodical phase of empirical study two contiguous steps are to be taken.

**Step I:** Determination of managers’ emotional intelligence level taking into account each and every each component. The answers he has given are marked in a table created by the author of this work(3), which combines all the components (self-knowledge, self-control, motivation, empathy, and social skills). The correspondence between the answers (A, B, C) and the level of emotional intelligence are also marked. The sum of the number of answers which the respondents have given for each of the three emotional intelligence levels (high, average, and low).
Step II: After the answers are calculated for all the five components of emotional intelligence, the emotional intelligence level is determined by summing the results for each component (n) for the three emotional intelligence levels. The highest level (in numbers) shows which emotional intelligence level (high, average, low) is the assessed respondent. The process of determining the emotional intelligence level is summarized in the following table.

Table 3

<table>
<thead>
<tr>
<th>Emotional Intelligence (EI) level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competence</td>
</tr>
<tr>
<td>Self-knowledge</td>
</tr>
<tr>
<td>Self-control</td>
</tr>
<tr>
<td>Motivation</td>
</tr>
<tr>
<td>Empathy</td>
</tr>
<tr>
<td>Social Skills</td>
</tr>
<tr>
<td>SUM:</td>
</tr>
</tbody>
</table>

Source: The table is created by the author.

The qualitative and quantitative data in conducting empirical studies are to be filled and analyzed with Microsoft Excel 2010.

The second methodical phase consists of assessing managers work performance in business organizations by applying the analytical approach. It is based on quantitative evaluation of managers work performance for all the indexes and overall assessment of this performance with a scale. (Shopov, D. Atanasova, M. Shopov, T. & Peycheva, M.2003, p. 288 - 359).(4)

Step I: Determining the suitable indexes for work performance assessment for managers in business organizations. The author proposes 12 indexes in table 4 (see below).
Table 4

Managers Work Performance Assessment Indexes

<table>
<thead>
<tr>
<th>Indexes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Result driven orientation</td>
</tr>
<tr>
<td>2. Professional knowledge and skills</td>
</tr>
<tr>
<td>3. Execution of all responsibilities described in the job description</td>
</tr>
<tr>
<td>4. Decision making skills</td>
</tr>
<tr>
<td>5. Motivating team members</td>
</tr>
<tr>
<td>6. Conflict management</td>
</tr>
<tr>
<td>7. Communication skills</td>
</tr>
<tr>
<td>8. Building relationships</td>
</tr>
<tr>
<td>9. Self-control level</td>
</tr>
<tr>
<td>10. Personal motivation</td>
</tr>
<tr>
<td>11. Empathy</td>
</tr>
<tr>
<td>12. Leadership potential</td>
</tr>
</tbody>
</table>

Source: The table is created by the author.

The first three indexes are hard (technical). Their fundamental role in the process of work performance assessment is self-evident, and it will not be further discussed in this work.

The other nine work performance assessment indices (see table 4, index 4 - index 12) are soft (related to behaviour). One of the major arguments why managers work performance assessment should include bigger number of soft indices is their key role in managers behavior and consequently in their work performance, which depends to great extend on their emotional intelligence.

These work performance assessment indices can be encoded through attributes accompanying each of these indices, and these attributes show the content of each index.

Both the indices and the attributes are placed in a Microsoft Excel 2010 table in Windows, created by the author.

**Step II:** Determining levels of assessment per indexes and requirements for assigning each level.

This work proposes a four level scale of evaluation, and level characteristics and requirements for each level can be found in in additional tables.
Step III: Determining coefficient of significance for work performance assessment indexes. This forms the basis of separate indexes in the overall managers work performance assessment. It is methodologically recommended that three coefficients of significance of the indexes are used.

Step IV: Assigning individual work performance results for each of the indices.

A table and a work performance assessment form by the author can be found in this study. The table contains the indexes; the corresponding levels and all requirements to assess each level. There are two columns which include: coefficients of significance, and index marks. Based on the index marks and their significance, the overall mark is calculated for each person evaluated. The table of work performance assessment is in Microsoft Excel 2010.

Step V(5): Determining the highest possible mark for each of the work performance assessment indices. The highest mark for all indexes is the optimal. It is calculated in the following way: number of points, determined for the level “Excellent work performance for the current index” multiplied by the coefficient of significance for each of the indexes.

Step VI: Determining the overall work performance assessment for all indexes.

Step VII: Calculating the sum of the highest possible marks for all indexes, which are accepted.

Step VIII: Determining the extent to which managers work performance for all indexes approximates the highest possible mark for all indices.

Step IX: Determining the number of levels for the final assessment of managers work performance.

To execute steps V, VI, VII, VIII and IX the author has used a table in Microsoft Excel 2010, which includes all the indices, individual marks for each index, coefficient of significance for each index, and overall managers work performance mark for all indexes, the highest possible mark for all indexes, and the extent to which managers work performance for all indexes approximates the highest possible mark for all indices.

The conditions which determine if the overall work performance is characterized as very good, good, or inadequate are described in a matrix.

This managers work performance assessment mechanism is based on the rating scale method, which is in the group of individual methods. It is very suitable in terms of indices content, which is used to evaluate work performance, its attributes and the corresponding levels for each index. The biggest advantage of this method is in the
possibility to use not only hard indexes for work performance, but also soft (related to behavior) (Slavyanska, 2015, p. 161 - 163).

The third methodical phase emphasises on emotional intelligence’s impact on managers work performance and the impact strength.

In this phase the \( \chi^2 \)-method to study the individual single connections (Ordinary Chi-square method). Its choice is augmented by the fact that these two phenomena and the first one’s impact of the second one are introduced through measures, connected to scales of measurement. In order to identify the impact strength, the Cramer coefficient (\( V^2 \)) is used.

The \( \chi^2 \)-method and more precisely its studied characteristics and limiting conditions outline it as suitable choice to identify:

- the Impact emotional intelligence has on managers work performance in business organizations
- the Impact emotional intelligence has on hard indexes and part of the soft indexes, included in the work performance assessment.
- The individual impact of each of the five emotional intelligence components (self-knowledge, self-control, motivation, empathy, and social skills) on managers work performance taking part in empirical studies in business organizations.

Using this statistical method, it is possible to prove that the above mentioned impact has objective by character. (Saykova, I. Stoykova – Kanalieva, A. & Saykova, S. 2002, p. 113; Tosheva, E. 2012, p. 101).

Emotional intelligence level’s impact of of managers and part of the soft indexes is not necessarily identified with statistical method. There are indices in this case, which are part of managers emotional intelligence components. On one hand we have manager’s self-evaluation, derived from the questionnaire, and on the other hand we have the index marks. These two separate marks are independent of the subject, who gives them and this why we do not need to use statistical method in this case.

Chi-square (\( \chi^2 \)) method application to identify emotional intelligence’s impact of managers work performance in business organizations can be found below.

The empirical studies include number of managers mandatorily over fifty, studied in relation to two characteristics. The first one is emotional intelligence, which is a factor, and the second one (regulative), is the managers work performance, which is also the result. The starting data of this study of the impact the factor has on the regulative characteristic, can be found (in symbols) in table 5 below.
Table 5

List of managers by level of emotional intelligence and work performance

<table>
<thead>
<tr>
<th>Attribute/Characteristic B (result)</th>
<th>Attribute/Characteristic A (factor) Level of EI (number of managers) ((f_{ij}))</th>
<th>SUM ((\sum f_{ij}))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work performance</td>
<td>Low</td>
<td>Avarage</td>
</tr>
<tr>
<td>Inadequate</td>
<td>(f_{11})</td>
<td>(f_{12})</td>
</tr>
<tr>
<td>Good</td>
<td>(f_{21})</td>
<td>(f_{22})</td>
</tr>
<tr>
<td>Very good</td>
<td>(f_{31})</td>
<td>(f_{32})</td>
</tr>
<tr>
<td>SUM ((\sum f_{i\cdot}))</td>
<td>(\sum f_{1i}) (\sum f_{2i}) (\sum f_{3i})</td>
<td>(\sum f_{ij})</td>
</tr>
</tbody>
</table>

Source: The table is created by the author.

In this table attribute A and attribute B are indicator for the studied phenomena. Attribute A has values \(i = 1, 2, 3\). Attribute B has values \(j = 1, 2, 3\). The table includes real distribution of the studied managers. The number of the cases is marked with \(f_{ij}\).

It is presupposed that between the emotional intelligence level (Attribute A), and managers work performance (Attribute B) a real and objective impact is present. To make sure that this is true the ordinary \(\chi^2\)-method, classically used to statistically check a hypothesis, is used.

The first step, is defining the zero \((H_0)\) and alternative \((H_1)\) hypothesis. The zero hypothesis is the presumption that no objective impact exists between managers emotional intelligence and work performance. And the alternative hypothesis is the assumption that managers emotional intelligence level impacts objectively their work performance.

Second stage, determining the error risk \((\alpha)\). This study is socially oriented the first order error risk is estimated to \(\alpha = 0,05\).

Third stage, determining the check method. Chi-square method is a method of the nonparametric hypothesis check methods, and the formule which is used to evaluate the empirical characteristics is:

\[
\hat{\chi}^2_{em} = \sum_i \sum_j \frac{(f_{ij} - \hat{f}_{ij})^2}{\hat{f}_{ij}}
\]  

(1)
where:
\( \chi_{em}^2 \) – Marked empirical characteristic of the hypothesis;
\( f_{ij} \) – Number of observed cases in reality according to the exit table;
\( \hat{f}_{ij} \) – Theoretical number of anticipated cases in separate cells of the exit table, as it was, if there is no connection between the phenomena which are being studied;
\( \sum_i \sum_j \) – Double sum, showing that summing must be consequently executed by rows and columns, or vice versa.

**Fourth stage**, supplying the necessary information, through pre-research. This way the empirical characteristic of the hypothesis will have traits of a random value, and this type of model check will be applied.

**Fifth stage**, calculating the empirical characteristic of the hypothesis. This stage is reduced to purely technical calculations. To achieve this, the empirical characteristics assessment goes through steps, which will not be discussed in this work.

**Sixth stage**, Determining the character of the critical scope of the hypothesis.

**Seventh stage**, determining the theoretical hypothesis characteristic \(-\chi^2_t\).

**Eighth stage**, decision-making based on comparison of empirical and theoretical characteristics.

Proving the objective influence or impact which emotional intelligence has on managers work performance goes on in further showing how the factor attribute impacts the regulative attribute. Among the coefficients, which could measure this impact, of the goals of this study the **Cramer coefficient (V^2)** is used.

**Cramer coefficient (V^2)** is based on the \( \chi^2 \) empirical characteristic and it is a measure of the impact strength between the phenomena. The coefficient can only have positive values and theoretically it changes in the following limits: \( 0 \leq V^2 \leq 1 \). It shows what part of the differences in one of the phenomena are predetermined by the differences in the other phenomena. The closer the coefficient is to 1, the greater the impact strength will be, and vice versa. The closer the coefficient is to 0, the weaker the impact will be. The Cramer coefficient is calculated with this formula:

\[
V^2 = \frac{\chi_{em}^2}{\sum \sum f_{ij} \left[ \min(p-1) \text{or}(k-1) \right]} (2)
\]

where:
\( \left[ \min(p-1) \text{или}(k-1) \right] \) is the smallest of the two differences (p - 1) or (k - 1).
To find the impact of each managers emotional intelligence component on their work performance and managers emotional intelligence on hard indexes and part of the soft indexes, included in the work performance assessment, it is once more necessary to go through the eight stages of statistically checking a hypothesis (this means that the $\chi^2$-method is applied). The analysis is extended to using the Cramer’s coefficient ($V^2$) to determine the strength of the above mentioned impacts.

**Conclusion**

The basis on the current study, which analyzes emotional intelligence’s impact on managers work performance from a methodological perspective, lies in the proposed conceptual research model, founded on author’s theoretical research, which consists of **three phases**. The methodological development and specification achieved conforms to the study’s goal. This conceptual model is a good foundation to further achieve a better quality methodology to continue the study of emotional intelligence’s impact on managers’ work performance. At the same time it is important first step before conducting empirical studies in this recently very attractive field.

**End Notes**

1. The visualization and content of the conceptual model are a personal action of the author of the article. In the article there are no presented research questions and hypotheses, since in each empirical study they are defined in a specific plan.
2. For obvious reasons the author's questionnaire is not presented in the article. Here is just briefly accentuated on the components introduced in it.
3. For understandable reasons, the tables that are mentioned in the article are not represented in it.
5. Steps VI, VII, VIII and IX are presented in the article only as a name and logical sequence.

**References**

3. PAUNOV, M. (2012). Emotsitite na choveshkiya resursi (Za rolyata na emotsionalnostta v upravlenieto i rabotata s hora), Sofiya: IK-UNSS, r. 35.

BENEFITS FOR RAISING YOUNG CHILDREN – PREVENTION OF POVERTY

Ivelina DIMITROVA

Abstract

The article presents the different types of leave and the accompanying social benefits from which parents can benefit while raising their children. The purpose of the study is to identify problematic fields in the social support of parenting that can lead to both children and households falling into poverty for a shorter or longer period of time. One of the main findings is the overriding need for an update in the existing EU documents governing the minimum rights of parents in the care of young children. The article also reaffirms the need for policies to reconcile child-care leave and work activity.

Introduction

In the light of deepening demographic crisis, the place of children in the social policies of the EU countries is of particular importance. Actions aimed at ensuring the normal growth of future generations and their protection from the risks of poverty are of paramount interest. For the measures in this direction to be successful poverty should be seen as a multidimensional issue. On this basis, the EU enforces three different indicators. If a person is affected by at least one of the indicators, he is perceived to be at risk of poverty or social exclusion. The three indicators are severe material deprivation; living in a household with very low work intensity; at risk of poverty at 60% of the national median equivalised disposable income after social transfers (income poverty). By 2016 about 7.5 million children under the age of six are at risk of poverty or social exclusion within the EU according to Eurostat.

The subject of research in the following text is the instruments of social policy in support of maternity and paternity. There has been made an attempt to explore the measures supporting birth rate as well as the necessary income for normal childcare.
The main goal is to identify the problematic fields of social support for parenting which can lead to poverty for a shorter or longer period of time. The primary task for achieving the stated objective is to study the types of leave related to childcare and the benefits linked to them. An additional task is the examination of the legislative basis governing the rights of parents during the first years of their children’s life.

The focus of the article is on Bulgaria in a comparative aspect with the EU countries. From the point of view of the European context, the time span covers the period from 2007 to 2016 or the years after the accession of Bulgaria to the EU. The text analyzes two of the sub-indicators of the headline indicator at risk of poverty or social exclusion - living in a household with low intensity of work activity and monetary poverty.

1. The discussion on the measures in support of motherhood in the economic literature

Maternity leave benefits are an example of government intervention affecting women at a critical stage in their lives and having the potential to generate external effects on their health, social and material well-being. From the point of view of social security, maternity protection includes protection against interruption or loss of income during maternity leave as well as facilitated access to healthcare for them and their children (ILO, 2010).

Maternity, supported by cash benefits that replace in whole or in part prior income, is crucial for the welfare of pregnant women, new mothers and their families. The availability of benefits protects mothers and their children from social exclusion and potential poverty. The lack of security in terms of income during the final stages of pregnancy and after childbirth can prompt women to return to work prematurely and thus put their health as well as that of their own children at risk.

Ruhm and Teague (1998) present a brief history of the legislation on maternity leave in Europe. Since World War II most high-income countries have introduced comprehensive legislation on maternity leave, which extends women's rights. The initial motivation behind these programs is the concerns about the health of the child and the mother. Moreover, the programs are often perceived as a restriction on the employment of pregnant women, while at the same time these women should be guaranteed income support or protection of their job positions. However, since the late 1960s, policies on maternity leave develop from prohibition to the possibility of interruption of work in order to take care of newborns and children.

The impact of maternity support measures is subject of broad discussion - in terms of length of absence from work, wage level, job retention, career prospects, etc.
(Brugiavini et al., 2012; Dahl et al., 2013, Klerman and Leibowitz, 1999, Klerman and Leibowitz, 2000). It is still debatable whether these measures contribute to improving women's overall income. Some researches (Avendano et al., 2014) prove that in Europe paid maternity leave with an intermediate duration may increase long-term employment. More controversial are the opinions on policies that require long-term leave entitlement. Some studies even reject the possibility of a positive impact on women's income as the benefits of keeping the workplace are offset by a devaluation of the human capital of mothers who have stayed away from work for a long period of time. A study of the political reforms in Norway leading to an extension of paid leave (Dahl et al., 2013) concludes that these reforms increase the time spent at home but have little or no effect on the household income and participation of women on the labour market.

The lack of consensus on the ultimate effects of social measures in support of maternity is a challenge for scientists to continue their research in search of optimal options, depending on country specifics. Moreover, maternity protection is placed as one of the foundations of sustainable development in the Agenda for Sustainable Development by 2030, adopted by the 193 UN member states in 2015 (UN, 2015).

2. Adequacy of maternity and paternity measures?

Social security is an active policy aimed at protecting the individual by replacing previous income with benefits linked to a preceding labour and financial contribution to the social security system. Among the reasons for granting protection from the Social Security system is the temporary incapacity as a result of which the individual is unable to perform work (Andreeva, Yolova, 2018, p. 22-24, p. 31-32). The result is a limitation of the acquired income from economic activities; hence the incapacity to work is of an economic nature. Relevant to the study is only the temporary incapacity occurring as a result of motherhood.

The proposed protection of the mother and the newborn child, considered to be a specific risk group, is a prerequisite for their normal development, but the focus of attention is not so much the woman as the newborn child.

In Bulgaria, the insured persons for maternity leave in the General Sickness and Maternity Fund are entitled to cash benefits for:

- temporary incapacity for work due to removal from work by prescription of health authorities, sick or quarantined care, care of a healthy child returned from a childcare facility due to quarantine in the establishment;
- reassignment due to pregnancy or breastfeeding, and from January 1, 2017, and therefore an advanced stage of IVF treatment;
pregnancy and birth;
raising a child;
adoption of a child from 2 to 5 years of age.

The benefits received from the state social security system in Bulgaria can generally be divided into two large groups: in a period of maternity and in a period related to raising a small child. The emphasis is placed on the length of benefits and their amount related to previous labour income. In addition, Art. 34 of the Charter of Fundamental Rights of the European Union provides for the right to “maternity benefits”.

Under Directive 92/85/EEC, it is of vital importance to grant a right to maternity leave. It is recommended that the leave be at least 14 weeks and may not be shorter than 2 weeks. It is not only the length of time a woman can take advantage of that matters, but also the financial security for the period when she cannot work and receive work income. In Bulgaria, the right to compensation is granted to persons who under Art. 48a of the Social Security Code (SSC) have 12 months of an insured period for this risk. The monetary compensation amounts to 90 per cent of the gross salary or insurance income (see Figure 1) on which contributions have been paid or are payable. For self-employed individuals there are considered paid contributions for the risk over a period of 24 calendar months preceding the month in which occurs the temporary incapacity due to pregnancy and childbirth.

Fig. 1. Paid maternity leave in percentage of the previous earnings

The figure excludes Belgium, Finland, the United Kingdom, Ireland, Malta and Poland, as they offer different compensation in the various stages of maternity. Com-
Compensation in these countries varies from 100% of the previously earned income to a minimum amount set at the same rate for all insured people. The last 13 to 16 weeks in the UK and Ireland, respectively, need not be paid.

Only 13 of the EU countries provide 100% of the woman's previous income, often indicating a maximum amount the benefit should not exceed. In addition, it can be hypothesized that the longer the period of maternity leave is, the lower the probability for the benefit to be the full amount of the previous income. This is precisely the situation in the countries with longest maternity leave, including Bulgaria (over 58 weeks), the United Kingdom (51), Ireland (42) and Slovakia (34). However, Bulgaria can also be viewed as an exception, given the long maternity period coupled with a high replacement of labour income. Conversely, in twelve of the thirteen countries where benefits equal 100% of previous earnings, maternity leave does not exceed 20 weeks as the average duration is just over 16 weeks. The exception is Croatia, where women are entitled to leave up to 30 weeks, of which 10 are compulsory.

The European Parliament proposes a full substitution of women's previous labour income for the period of maternity. Behind this idea is the well-recognized need to support the family income during its expansion, which also increases the current expenses. This type of support is particularly important for low-income households, for whom the additional costs are a severe financial shock. The latter can be considered stronger, given the practice in Bulgaria for persons to be insured on the minimum state wage or minimum wage for the industry. Subsequently, insurance on income lower than the one earned leads to a more limited amount of compensation and thus to a further decrease in household income. The most severe situation is observed in families consisting of one parent and dependent children. According to Eurostat data in 2016, 34% of these households are at risk of poverty at 60% of median disposable income.

To minimize the effects of the financial shock, together with the instruments of social security there are used those of social welfare, namely social benefits of a financial nature. Of a particular importance is the one-time assistance provided at childbirth, which in Bulgaria and in most EU countries is universal, i.e. shall be granted regardless of the income of the household. This aid does not particularly alleviate the family expenses given its one-off nature, and in some countries not particularly substantial size.

The lack of full replacement of previous earnings combined with increased household expenses, especially if the household is located in the lower income deciles may result in the family falling off into poverty or further deterioration of its situation. Poverty can have transit or prolonged nature. The longer the period of poverty is,
or the more often it occurs in a certain household, the more difficult it will be to recover from it. This will inevitably affect the normal growth of children. The latter statement is confirmed, given that, according to Eurostat data for 2016, poverty rates are highest amongst those under the age of 18, exceeding 21% or almost 20 million children. In the same year, just fewer than 6 million children under the age of six are poor, of those 114 thousand live in Bulgaria. These data only reflect the risk of poverty, therefore, only the income (including social transfers) of the household in which children live is taken into account. For the same period, poverty in the EU among those aged 18-64 and those over 65 is 17% and 14.6%, respectively. In order to gain further insight into the situation of children, we can look at how many of them fall below the conditionally selected threshold of 60%.

**Table 1**

<table>
<thead>
<tr>
<th>At risk of poverty by age group and poverty line of 40% of the median equivalised disposable income for 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age Group</strong></td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>EU</td>
</tr>
<tr>
<td>Bulgaria</td>
</tr>
</tbody>
</table>

*Source: Eurostat.*

Despite the worrying fact that over 10% of the Bulgarian population lives with an income below 40% of median income, the situation is further complicated when the group of children is considered. Persons under the age of 6 are at the greatest risk with just under 21% or 74 thousand children in Bulgaria at risk of poverty.

Therefore, on the one hand, the desire to provide higher benefits comes in response to the effort to support the development of children from the earliest age in order to increase human capital and, on the other, to promote equality in society. The latter is of a particular importance given that inequality manifests itself from the outset and logically the children of poor parents (especially mothers) are more prone to grow up as poor parents themselves (Currie, 2009; Currie and Stabile, 2003).

In Bulgaria, the Social Security Code and the Labour Code provide for the right of the father to use paid leave for the birth or adoption of a child. Unlike the minimum maternity and parental leave periods, there is no European law or standard for paternity leave. It should be noted that the European Commission made a proposal for paternity leave with a minimum duration of two weeks.
The duration of paternity leave varies considerably across countries and is even absent in some of them (see Figure 2). In Bulgaria, men can benefit from 15 days or just over two weeks.

Malta and Austria are excluded from the figure, as the leave provided in the countries is different for the public and private sectors. From 2017 men in Austria have the right to paternity leave up to 4 weeks.

![Fig. 2. Paternity leave in weeks](image)

The financial benefits for paternity leave, for the most part, overlap with those paid during maternity leave. Using the data listed in Appendix 1, we can estimate that men receive on average up to 90.48% of their labour income during the paternity period compared to 90.06% for women. The compensation received by men is up to 96.5% if we exclude Austria from the calculation, where until 2017 only men employed in the public sector are entitled to paternity leave. But the exclusion of a country would mean ignoring a situation in which the household income is significantly reduced, albeit for a shorter period of time if a man chooses to take advantage of his right to full leave of four weeks.

In Bulgaria, men can receive compensation of 90% of their earned income. The amount of the benefit is defined in Art. 49 (1) of Social Security Code and is equal for both sexes. Considering the simultaneous effect of reduced household income during maternity and increased current expenditures, the lack of full substitution in paternity benefits may lead to an additional constraint on the household's financial income.
3. Organization of the measures in relation to parental leave

After the child reaches one year of age, mothers in Bulgaria can use leave that lasts until the child turns 2 years. The latter, as well as the unpaid leave for taking care of a child up to 8 years old (up to six months), can be considered a parental leave. The right to a parental leave is individual, therefore, it can also benefit men (Torremocha, 2002).

The main idea behind this type of leave is its non-transferability, which allows the man an active involvement in parenting, on the one hand, and on the other hand, enables a woman's realization on the labour market (Pronzato, 2009). In actuality, the principle of non-transferability has a limited effect. Thus, in the revised Framework Agreement on parental leave, at least one of the minimum set months cannot be transferred to the other parent.

Under Directive 2010/18/EU, the minimum period of parental leave parents are entitled to should not be shorter than four months, but no minimum income protection should be provided. As a result of the latter, benefits are not granted during the leave in countries such as Cyprus, Ireland, Malta, etc. These benefits show the same trend as in the case of maternity leave - the longer the period of leave, the lower the compensation. Thus, in Lithuania, for example, parents can receive up to 100% of previous wages until the child reaches one year of age. However, it is possible that the benefits are paid until the child is two years of age, with the compensation being 70% in the first year and 40% in the second year.

An important opportunity to increase household income is part-time employment, as "parents should be able to successfully combine the care of their children with successful professional development" (Blagoycheva, 2011, p. 241). This option is particularly relevant for countries that do not offer full replacement of previous labour income, as well as for those who lack financial compensation during any of the stages related to raising a child. This type of employment would be successful if there is availability of affordable centres for young children that allow compliance with the specific employment of parents. In support of the latter Uunk et al. (2005) and Stier & Lewin-Epstein (2001) indicate that the hours worked by the mothers largely depend on institutions for children, nurseries and kindergartens. According to Eurostat, more than 50% of households with income below 60% of median equivalised disposable income in Ireland, Spain, Cyprus, Slovakia and Romania are unable to bear the financial costs related to childcare facility in 2016. These levels increase if a family type restriction is additionally applied. Over 70% of households consisting of a single parent and dependent children cannot meet the costs of attending a nursery or kindergarten in Slovakia and Spain. In addition, in 2016 only 32.9% of children under 3 years of age attend any kind of childcare facility. Logically attendance is lowest in countries where the main issue is lack of financial resources.
The possibility of part–time employment to a large extent depends also on the existing social policy. In some countries, including Germany, Luxembourg, France and the Netherlands, there is flexibility in the system that allows the parent taking parental leave to return to work by reducing working hours or days a week, without leading to discontinuation of the benefit. Part–time employment is most common among women living in a household with at least one child (see Figure 3). Bulgaria is excluded from this figure because there is no data for all categories considered.

Source: Eurostat.

Fig. 3. Part–time employment among women and men aged between 25 and 49 years by household type in the EU in 2016
According to Booth and Van Ours (2010), women whose children are between the ages of 0 and 4 years traditionally reduce their employment. Based on the data shown in Figure 3, it is found that the difference between women with and without children who are part-time employees is 18% on average for the Union in 2016. The most significant difference is observed in Germany (44.9%), Austria (42.7%), the United Kingdom (37.9%), the Netherlands (31.5%) and Luxembourg (28.7%). To confirm the presence of children is the cause of part-time employment, we can explore the most commonly given responses for this choice (see Figure 4). The main response (48.9%) given by men is the lack of suitable full-time work. As expected, women on the territory of the EU state that their decisions are dictated by the need to look after a child or other incapacitated household member.

![Fig. 4. Reasons for part-time employment among women and men aged between 25 and 49 years in the EU in 2016](image)

Source: Eurostat.

Despite the pros of facilitating a return to the labour market and maintaining working habits, part-time employment further reinforces the already established traditional roles in the household. However, it should be taken into account that part-time employment also has a certain weight when considering the work intensity of a household. With the increase of this indicator, the chances of improving the situation of both the household and the children in it rise. For 2016, only 6.6% of children in the EU living in families with very high intensity of economic activity are at risk of poverty at 60% of the median equivalised disposable income after social transfers. For the same period, 55% and 70.4% of children coming from families with low and
very low work intensity are at risk of poverty according to Eurostat. Bulgaria reports significantly higher levels than the EU average with 72.7% of all poor children living in low work intensity families and 86.4% in very low work intensity households.

In addition, the possibility of different wages by gender and field of activity should be taken into account. According to NSI data for Bulgaria, the gender pay gap is in the range of 13.2% for 2016, therefore the gross hourly wage of employed women is on average 13.2% lower than that of men. Therefore, a longer unpaid or paid only partially parental leave used by a man would result in higher household losses if such difference exists.

Although in recent years some EU countries have extended their paternity leave, the trend is an increase in the proportion of men using parental leave instead of relinquishing it. Another tendency is the application of more flexible working hours for parents with young children. However, if the paternity or parental leave is not tied to 100% compensation, there should not be a significant increase in time off work. While maintaining the current conditions, an increase in take-up will be observed only if the use of leave becomes mandatory for men.

Conclusion

It can be summed up that poverty is most prevalent in the children's age group, with some of the highest levels among children under the age of 6, the earliest age group on which data is available. Adding a supplementary reporting group for children under the age of three would help to determine the levels of poverty among the youngest and this would shed more light on the efficiency of the social policies supporting households with young children. One of the factors influencing the child poverty rate is the benefits parents receive during the various types of childcare leave. The longer the leave is, the lower the compensation that should replace the previous earnings. Taking into account the continuing demographic collapse in Bulgaria, it is advisable to keep the current duration of the various types of leave unchanged, but they should be combined with higher benefits. In addition, there are no requirements at the EU level for parents to receive compensation during parental leave, as a result of which benefits are not provided in part of the countries. Establishing minimum income protection during parental leave should be considered a primary task. Last but not least is the role of the father. It is imperative to introduce standards defining the rights of men in childcare, which should address both the potential periods of staying at home and the financial protection they and their families can benefit from. The benefits received by men in Bulgaria should also be in full amount of labour income as an additional measure to support households. At the centre of these changes should be the child, ensuring its peaceful
growth and development without the risks of poverty. Therefore, the provided social protection is an attempt to strike a balance between work and family life.

**End Notes**

1. Data are accumulated through research on country-specific social policy sites and/or the relevant official documents.
2. The data are accumulated by examining the country-specific social policy sites and/or the relevant official documents.
3. The calculation excludes countries offering different benefits for different stages of maternity/paternity leave.
4. Data are accumulated through research on country-specific social policy sites and/or the relevant official documents.

**References**


### Appendix 1

#### Maternity and paternity leave

<table>
<thead>
<tr>
<th>Countries</th>
<th>Maternity leave</th>
<th>Paternity leave</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Leave in weeks</td>
<td>Benefits in %</td>
</tr>
<tr>
<td>Belgium</td>
<td>15</td>
<td>Varies</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>58.6 (410 days)</td>
<td>90</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>28</td>
<td>70</td>
</tr>
<tr>
<td>Denmark</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>Germany</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>Estonia</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>Ireland</td>
<td>42</td>
<td>Varies. The last 16 weeks are unpaid leave</td>
</tr>
<tr>
<td>Greece</td>
<td>17 (Special maternity leave up to 6 months)</td>
<td>66.67 (minimum wage)</td>
</tr>
<tr>
<td>Spain</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>France</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>Croatia</td>
<td>30</td>
<td>100</td>
</tr>
<tr>
<td>Country</td>
<td>Weeks</td>
<td>%</td>
</tr>
<tr>
<td>--------------</td>
<td>-------</td>
<td>----</td>
</tr>
<tr>
<td>Italy</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>Cyprus</td>
<td>18</td>
<td>72</td>
</tr>
<tr>
<td>Latvia</td>
<td>16</td>
<td>80</td>
</tr>
<tr>
<td>Lithuania</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>Hungary</td>
<td>24</td>
<td>70</td>
</tr>
<tr>
<td>Malta</td>
<td>18</td>
<td>100%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>Austria</td>
<td>16</td>
<td>100</td>
</tr>
<tr>
<td>Poland</td>
<td>20</td>
<td>From 80 to 100%</td>
</tr>
<tr>
<td>Portugal</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Romania</td>
<td>18</td>
<td>85</td>
</tr>
<tr>
<td>Slovenia</td>
<td>15</td>
<td>100</td>
</tr>
<tr>
<td>Slovakia</td>
<td>34</td>
<td>70</td>
</tr>
<tr>
<td>Finland</td>
<td>17</td>
<td>90% for the first 56 days, 70% for the rest or a minimum amount</td>
</tr>
<tr>
<td>Sweden</td>
<td>14</td>
<td>77.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>52</td>
<td>It varies, but the lower amount is always selected. The last 13 weeks are unpaid leave</td>
</tr>
</tbody>
</table>
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