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THEORETICAL FOUNDATIONS OF THE DEPENDENT MONETARY REGIMES

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Abstract

The purpose of the present article is to present a comprehensive framework to analyse main characteristics and institutional forms of the dependent monetary regimes. A country’s monetary regime is an extension of its geopolitical and geo-economic place in the international system. The dynamic monetary dependence/independence of a particular country is a direct continuation of, as well as ‘serving’, the (geo) political and economic dependence/independence of that country. That dependence does not mean that small countries do not benefit from this type of monetary and political regimes; on the contrary – in most cases it is the most appropriate, so to speak, “optimal” form which, if skilfully managed, minimises losses under a given external structural constraint.

As a rule, in dependent countries, external sources of money supply dominate domestic sources. Peripheral and dependent countries cannot borrow on international markets in their own national currencies. They borrow in major world currencies and become vulnerable to currency (exchange rate) risk. The inflow of external capital, in turn, requires a corresponding stable institutional and political environment. Therefore, the external equilibrium (external stability), i.e., the state of the balance of payments and especially its financial (capital) account, as well as the dynamics of the exchange rate, become central parameters for the development of the peripheral countries. It is interesting to add that the imposition of a dependent regime in small and peripheral countries is accompanied by the imposition and dissemination of economic views, theories and ideas (“economic narrative”), which legitimise this new monetary regime and prepare the imposition of a certain economic development model.

Key words:
monetary system, monetary regime, dependent monetary regimes, monetary history

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Monetary Dependence: General Perspective

For the purpose of reflecting on the subject, we will define monetary regime as a ‘set of formal rules of monetary behaviour, as well as mechanisms of their enforcement’ (Magnin and Nenovsky, 2020). Within the monetary regime, two components (sub-regimes) can be distinguished – internal and external – which often conflict with each other (as we will see further below).

The first, external component (external rules) we can call ‘exchange rate regime’ (ERR). It covers the legal rules of exchange rate formation (through the market or through monetary authorities’ interventions), as well as the mechanisms of convertibility of national currency into foreign currency (from full convertibility to full control). Albeit often overlooked in the analysis of the exchange rate mechanism, convertibility is an essential component of it (Guillaumont-Jeanneney, 2015). The degree of convertibility can be linked to the ‘quality’ of national currency. Higher convertibility means higher currency ‘quality’ (Schuler, 1999).

The second, internal component of the monetary regime (internal monetary rules), can be referred to as ‘monetary policy regime’ (MPR). Monetary policy is related to the influence on the monetary base, and on money supply in general (this includes domestic credit), on liquidity and generally on GDP domestic components. Monetary policy is associated with the interest rate policy (i.e. with the different channels of transmission mechanisms), and nowadays with quantitative and qualitative easing and the active management of the yield curve. Monetary policy can be discretionnal or conducted according to pre-set rules (rule of full coverage of the monetary base with foreign exchange assets, rule of monetary aggregate growth, Taylor’s rule, ‘Central Bank (CB) loss function’ and CB response function’, and so on, and so forth). Some configurations incorporate rules whereby the internal component of the monetary regime – monetary policy – is completely eliminated, such as the Currency Board and dollarization.

If we add to the monetary regime (consisting of these two components) the informal rules of monetary behaviour (those arising from the traditions and monetary practices of the population and economic agents), we come to the definition of the ‘monetary system’ of a given country (Figure 1).

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1 We follow the familiar definition of institution made by D. North (1990 a, b), for details see Desquilbet and Nenovsky (2004), Nenovsky and Rizopoulos (2003).

2 Schuler defines “type of exchange rate” and “type of monetary authority”. With regard to the type of exchange rate, a distinction is made between: fixed, controlled and floating, and with the type of monetary authority: discretionary authority and rule-bound authority. The rule-bound authority in turn falls into: currency boards, quasi-currency boards, private central banks, absence of national monetary authority, temporary monetary authority, etc. (Schuler, 1999). Convertibility is often cited as a major advantage of Currency Boards (Coats, 2007).
We will clarify that monetary behaviour encompasses the economic agents participating in a given monetary payment community (in this case the nation state), and is linked to the processes of measurement, calculation, accounting, payment and saving (the enumeration follows the familiar functions of money).

Monetary regime, i.e., the formal, codified monetary relations (such as, *inter alia*, informal monetary relations) reflect the power relationships, economic interests, and strategies of the key political and economic actors or groups of actors. Power relationships are manifested both within monetary communities and among communities. Actors can be grouped in different ways subject to the needs of the analysis and the research context (external/internal, debtors/creditors, by sector, etc.). History has shown it many times: the change of the monetary regime goes hand in hand with the change of the political regime, the monetary crisis is also a political crisis. Deep, systemic political changes are accompanied by radical, systemic monetary changes. Such was, for example, the transition from a communist planning system to a market capitalist one in the former Eastern European countries, including the Balkans.

From the standpoint of the study, i.e., of the “dependent monetary regime (DMR)“, it is particularly important to distinguish between national and foreign actors, including national and foreign monetary authorities (Central Banks). This analytical differentiation is important because, most generally, a country’s monetary regime is an extension of

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3 See for example Aglietta and Orléan (1982).
its geopolitical and geo-economic place in the international system. Structurally, the political, military and economic power hierarchy, the relationship of dominance among individual nation-states within the world economy, determine and actively interact with the hierarchy of national money. Political and economic sovereignty go hand in hand with monetary sovereignty. The literature and the press often feature the existence of a “monetary pyramid” and a “hierarchical and de-territorial monetary geography” (B. Cohen’s research, 1998 and 2015, is especially important in this regard). The monetary pyramid actually reflects the hierarchy, the relations of dominance in the pyramid of economic power of individual countries. In a similar vein, de Bernis writes:

“The money of the dominant production system is not only dominant money, it is presented as ‘world money’. […] There is dominant money, that of the dominant production system in a world of heterogeneous money” (de Bernis, 1987, 925, 934)

Furthermore, ever since its birth the world capitalist economy has developed as a dynamic, i.e. changing, hierarchical system, displaying cyclical phases of different periodicity and character. The pyramid changes its structure, especially at its top layers – those of the leading currencies. The monetary system and monetary regime of smaller countries follow these cyclical patterns. Of particular importance are the alternating phases of globalisation and de-globalisation (national or regional), which are accompanied by the alteration of international monetary regimes with national (regional) ones (more specifically ‘monetary nationalism’). In the modern monetary world, the place of national money in the hierarchy of money and credit is manifested also through their suitability to be used in different swap lines (Mehrling, 2015). Swap lines within G6 are the second most important liquidity instrument today (after the dollar), and bilateral swaps among other CBs, where the Chinese CB is particularly active, come right after them.

It follows from the foregoing that the dynamic monetary dependence/independence of a particular country is a direct continuation of, as well as ‘serving’, the (geo)political and economic dependence/independence of that country. We will see further these relations manifesting in the modern monetary systems of the Balkan countries, i.e., in the post-communist period, after 1990 (Chapter 5), just as in the long-term historical perspective from 1870 to 1990 (Chapter 6). The historical perspective is particularly

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5 ‘Monetary space’ and the concepts of “dominance“, “monetary dominance“ including, are concepts introduced by François Perroux and D. de Bernis (B. Cohen notes the pioneering role of Perroux).
6 The Digital Dollar Project writes: “If payment systems could bypass Western banks heavily linked economically and geopolitically to US dollar reserves, the effectiveness of economic sanctions as a central and unifying tool of our foreign policy would be at serious risk.” (White, 2020).
interesting. It shows how the alteration of the leading centres of attraction (geopolitical and economic) also determines the nature of the Balkan monetary regimes.

How is the subordination, the dependence of the monetary regime explained on a more specific level? From the onset we should emphasise that a dependent monetary regime, like dependent capitalism in general, can be successful systems (under certain conditions), and overall the practice shows that they are such because they take into account the structural realities of the international order. In this sense, our analysis is not normative in nature and “dependence” does not carry a negative connotation to us. It is an analytical concept7.

Small and peripheral countries are catching up in their economic development (by different quantitative and qualitative criteria). As a rule, they are geopolitically dependent, of low economic and military ‘weight’; their elites are unable to unite around a common goal, and they have no effective internal governance mechanisms in place (Cohen, 2015). Their general domestic institutional and political instability is crucial, and it makes the monetary regime highly vulnerable to fluctuations in the political cycle and conflicts of interest, power struggles, corruption, etc. The monetary regime is dominated by fiscal policy. Often DMR are born after military conflicts, or after financial and monetary crises, after a severe crisis of statehood. The political instability is even more pronounced in systemic changes (such as those experienced by former communist countries)8.

To overcome falling behind economically, these countries need specific institutions and mechanisms.9 These institutions and factors are not many. Apart from the central role of the state, the ‘role of external capital’ is also present, be it in direct investments or in the form of debt. The need for external capital is dictated by insufficient domestic savings, and the generally low technological level and limited competitive export opportunities. Peripheral and dependent countries cannot borrow on international markets

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7 Monetary dependence has been interpreted and can be interpreted within the framework of various theoretical approaches to economic development (see for Africa, Dixon-Fyle, 1978). Without providing an overview, we will note the different contemporary approaches of Marxism (A. Emmanuel, S. Amin, G. Arrighi), of the ‘world-economy’ (O. Cox, E. Wallerstein), of the Latin American structuralists (R. Prebisch, C. Furtado, D. Prates, R. Lo Vuolo, JM. Pereira), of F. Perroux and the school in Grenoble (G. de Bernis), of modern international political economy, etc. Most approaches ‘condemn’ this dependency, but it can be viewed in a purely positive light, for example by supporters of ‘realism’ in international political economy, the monetarists (M. Friedman, R. Mandel, H. Johnson, S. Hanke, among others), etc. In our text we have followed our own generalisations, in particular observations of real monetary processes.

8 See overview of the theoretical approaches to monetary regimes in “economies in transition” (Grittersová, 2014).

9 Interesting in this respect are, for instance, the contributions of A. Gerschenkron (1962) on the role of catching-up institutions and the ‘theory of import institutions’, to name a few.
debt denominated in their own national currencies ("original sin hypothesis"). They borrow in major world currencies and become vulnerable to currency (exchange rate) risk. The inflow of external capital, in turn, requires a corresponding stable institutional and political environment. A leading condition for foreign capital, as well as for the involvement of foreign financial institutions, in addition to favourable tax conditions, is the introduction of a monetary regime that could ensure the return on this capital and its predictability. This implies a low level of risk (currency and political). It follows that the monetary regimes of the peripheral and catching-up countries are built in a way that suits the political and geopolitical interests of the leading capital centres. The political regimes in the dependent countries can be viewed in a way similar to that of the monetary regime (they must be stable and loyal to the geopolitical centre and their financial institutions).

We should note once again that dependence does not mean that small countries do not benefit from this type of monetary and political regimes; on the contrary — in most cases it is the most appropriate, so to speak, “optimal” form which, if skilfully managed, minimises losses under a given external structural constraint. Whenever attempts were made to introduce a stand-alone independent monetary regime (floating or pegged), in the presence of geopolitical dependence, they were unsuccessful and generally ended in a financial and political crisis.

Therefore, the external equilibrium (external stability), i.e., the state of the balance of payments and especially its financial (capital) account, as well as the dynamics of the exchange rate, become central parameters for the development of the peripheral countries. Also, we know from national accounting that the balance of payments is linked to the monetary sector and is a source of money supply. As a rule, in dependent countries, external sources of money supply dominate domestic sources (domestic credit, for example). The monetary regime of the small, peripheral and catching-up economies is directed outwards. It is international in nature and in most cases its definition and management are delegated to the lead centre. The dependent monetary regime includes a strict (rigorous) monetary policy (rule-bound), which follows that of the centre, as well as the pegging of the national currency to that of the leading centre (or the complete abandonment of the national currency\textsuperscript{10}). Milton Friedman calls them “unified currency” regimes (Friedman, 1973).

Here it is appropriate to add that when considering the diversity of capitalism, Drahokoupil and Myant (2011) define the ways of financing the current account of the countries from Eastern Europe, i.e., their integration into the world economy as

\textsuperscript{10} Fixed exchange rates, free convertibility, and the observance of externally set rules are considered manifestation of “monetary internationalism”, while floating and controlled exchange rates and discretionary policy, pursuing domestic economic targets, are considered “monetary nationalism”. This principled distinction is presented in the pioneering book of M. Heilperin (Heilperin, 1939). Similar ideas were developed in Schuler (1999).
a key criterion for determining the differences in the trajectories of post-communist
capitalisms (the authors define a total of six such trajectories). However, the authors
do not elaborate the topic of the monetary regime, which, in our opinion, is closely
linked to the international integration of these countries.

Furthermore, the restrictive monetary regime can exist in a comprehensive
institutional matrix, encompassing rules on public finances (fiscal conservatism
and low disproportionate taxes), on the labour market (its flexibility, weak unions,
etc.), on the industrial structure (dependence on Transnational corporation located
in Western countries), on the financial system (the presence of branches of foreign
banks, dependent on their Western parent banks), etc. (see Magnin, 2020 and Magnin
and Nenovsky, 2020). The concept of institutional complementarity is most relevant
here. A simplified graphic representation of the institutional matrix, i.e., institutional
complementarity, is given in Figure 2.

Figure 2: Dependent Capitalism: Institutional Matrix and Interconnections

Source: Magnin and Nenovsky, 2020, p. *, plus an update

11 It is worth noting that as early as 1979, A. Thirnwall linked the specifics of the monetary regime
with the nature of the current account.

Finally, it is interesting to add that the imposition of a dependent regime in small and peripheral countries is accompanied by the imposition and dissemination of economic views, theories and ideas (“economic narrative”), which legitimise this new monetary regime and prepare the imposition of a certain economic development model. Moreover, as a rule, the development of economic thought in dependent countries follows that in the centre where the country gravitates (Marinova and Nenovsky, 2019). In this sense, one can speak of the existence of a certain “intellectual dependence” (a kind of “soft power”). For example, in the 1930s, “corporatist ideas” and “clearing payment theories” were popular among Bulgarians due to the influence of Germany and Italy. After World War II, these were the socialist ideas and Soviet “anti-monetary theories” due to the influence of the USSR. The following chapters 5 and 6 present a number of examples from the monetary history of the Balkan countries, which is a series of such cycles of monetary dependence, going hand in hand with the dominance of certain economic and monetary ideas.

Elements of dependent monetary regimes

If we limit ourselves to the purely economic dimensions (as far as they can be separated from the (geo)political ones), the dependent monetary regime is characterised by the following main characteristics.

First, with regard to the exchange rate regime (ERR), a passive and liberal exchange rate policy is followed. By their nature, these regimes are international. Most often, a fixed exchange rate is resorted to, or pegged to a foreign anchor currency (the currency of a leading country, primarily the dollar, or a basket of leading currencies). This is accompanied by free convertibility. This choice is accompanied by the accumulation of significant foreign reserves, which guarantee the chosen level of the exchange rate. Foreign exchange reserves are invested in highly liquid assets, gold and most often debt securities of the country whose currency is chosen as an anchor. The aim is to ensure the convertibility of the national currency, as well as to reduce currency risk. Within passive exchange rate regimes (as we will see below), a legally fixed coverage of the monetary base with highly liquid foreign assets (currency board regime) is often added.

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13 See also Nenovsky and Penchev (2015), and Nenovsky and Mihaylova-Borisova (2015).
14 This way, a specific mechanism is reached, whereby national resources are transferred to the centre, as the resources that could be used in a national economy are invested in foreign financial assets (Schwartz, 1993, 170).
15 Or of the quasi-currency board, depending on the percentage of coverage and the percentage of domestic assets on the balance sheet.
In another configuration, the national currency is completely abandoned as legal tender, i.e., a foreign currency is accepted as such (Schobert, 2003). In this case we are talking about unilateral dollarization, or euroization. In this configuration, foreign exchange reserves are significantly lower (they only serve to pay off debt and finance imports), but are initially spent on the purchase of dollar (or euro) banknotes. Participation in a common monetary union can also be seen as a passive and dependent regime, in so far as a small country does not have a serious influence on the common monetary policy.

In any case, although to a different degree, the monetary sovereignty of the dependent country is limited or completely abolished: it is delegated to foreign monetary authorities. This abandonment of monetary sovereignty is manifested in the basic functions of money, first abandoning the national unit of saving, then the function of payment, and finally the unit of measurement.

Secondly, in the above connection we can also note the consequences of the dependent regime in terms of *competitiveness*, often identified with the dynamics of the real exchange rate. It is true that the tendency is for the national currency to appreciate, which, when productivity increases insufficiently, leads to a reduced competitiveness of exports, to an increase in imports, and as a result to deterioration of the current account. The appreciation of national money comes along different lines, but mostly due to higher growth rates of national prices and wages compared to those in the anchor country (catching-up effect known as Balasa-Samuelson). The appreciation of the exchange rate causes an inflow of capital, which generally compensates for the current account deficit. However, they make the system unsustainable, which in turn requires conservative public finances (balanced budget and low domestic debt), as well as a restriction on domestic credit. Of course, this appreciation of the national currency depends on the geographical structure of exports, and there are mechanisms that work in the opposite direction, deterring the appreciation. Among them, for example, is the “discipline effect”, which, in the absence of devaluation, forces economic agents to become more productive (Nenovsky et al., 2001).

Third, where it exists, the internal component of the monetary regime, that of monetary policy (MPR) (mostly interest rate policy), is also forced to passively follow the monetary policy movement of the anchor CB. The monetary base and the money supply in general are determined endogenously by the demand for money, and the money supply passively adapts to demand. Thus, the monetary authorities of the small country find it difficult to also control the domestic sources of money supply. This passivity is expressed not only by the automatic following of the anchor-CB interest rate, but also by the fact that foreign banks dominate the banking system, i.e., they determine the dynamics and conditions of the money and credit market (and its possible vulnerability
due to the movement of speculative capital within these banking groups, between the headquarters and branches of these banks, credit bubbles, etc., Nenovský and Villieu, 2011). The interbank market and liquidity in dependent countries also reflect the dynamics of international markets. This is a further constraint on national sovereignty, because systemic banks have foreign capital and can be a tool for promoting foreign strategic interests. The payment system is also closely linked to the leading economies (in some cases it is outside the country, such as at the beginning in Estonia)\(^\text{16}\).

Fourth, from what has been said, it follows that the financial stability network has obvious limitations. The LLR (lender of last resort) function is either minimised (Currency Board) or completely eliminated (dollarization). Of course, it can be assumed that, under certain conditions, in a liquidity crisis, foreign banks will be refinanced from outside, through their ‘parent banks’ (and respectively from the foreign CB). Practice shows that most often this does not happen. A system of deposit insurance and banking supervision remains in the hands of the national monetary authorities (often banking regulations can be used as a monetary policy instrument)\(^\text{17}\). It is important to add here that various mechanisms can possibly fulfil the role of LLR, such as the Banking Department in Bulgaria, protection swaps, formal or informal arrangements with anchor CBs, agreement with the IMF, as well as ad hoc mechanisms such as the Vienna Initiatives of 2009 and 2012 (where 15 Western banks, with the participation of a number of MFIs, pledged support to their subsidiaries in Emerging Europe)\(^\text{18}\), etc.

Fifth, as a general result of the above characteristics, a country with a dependent monetary regime partially or completely loses control over its internal adjustments (at the expense of external adjustments and stability), it can neither “postpone them” nor “pass them onto other countries” and actors. It can “postpone” them at the expense of the IMF, but against certain reforms. And to “postpone and pass on adjustments” according to Cohen (2015) are the main manifestations of “monetary power”. The opposite takes place: foreign disequilibria are transferred to the dependent countries, and these countries are forced to react with internal, national mechanisms (for example, the policy of austerity). As already mentioned, within the banking groups, resources can be transferred from the dependent countries towards the banking centres. Furthermore, it can be assumed that when the response in a peripheral country is by way of restrictiveness, an authoritarian, and generally forceful, political regime becomes most effective.

\(^{16}\) The payment system is particularly important in dependent regimes, the example of the crisis in dollarized Panama is illustrative. Some countries in the former Yugoslavia (Bosnia and Herzegovina, for example), whose payment systems were in Belgrade, had similar problems.

\(^{17}\) However, under certain conditions, they may also be limited. For example, from October 1, 2020, Bulgaria and Croatia join the EU Banking Union without being part of the euro area. Thus, the national central banks of both countries lose control over the leading and systemic banks.

\(^{18}\) http://vienna-initiative.com/
Generally speaking, the monetary power of small countries is extremely limited: they have neither power resources (political, military, financial, etc.), nor can they influence the behaviour or shape the preferences of other countries ("monetary power as a relation") (Nenovsky, 2007). The asymmetry in the international power space of money, in fact, is not new – it has been a characteristic feature since the time of the international gold mine; it existed in the late 19th century until WWI, where creditor countries dominated (Simmons, 1996).

Sixth, we can add that under the dependent monetary regime, the sources of monetary income (seigniorage) shrink because a large part of the money supply is in foreign currency. We will recall that the seigniorage can be divided into two components: (i) monetary seigniorage (income of the Central Bank received from the issue of banknotes and coins) and (ii) bank seigniorage (income of the Central Bank received from the transformation of maturities). With banking seigniorage, the Central Bank performs the functions of a normal financial intermediary (it profits from a positive difference between the return on financial assets and its non-monetary liabilities). Under dependent monetary regimes, bank seigniorage is practically very limited, a zero, and may even be negative (in attempts to pursue an active monetary policy).

Finally, in a regime of dollarization and euroization, when the dollar and the euro circulate as official currency, we can also speak of leaving the "symbolic" sovereignty. Money is part of the symbols of any sovereign national government (Heilleiner, 1996). As we have known since the time of the "father" of the sovereignty theory, Jean Boden, the right to mint coins and receive income from it is an inalienable part of the rights of every sovereign, be it a monarch in the past or the people (nation today) (in the face of the state and CB). However, we must make the proviso that the classical monetary sovereignty is becoming increasingly difficult to implement in today's global and interdependent world. It becomes necessary for the monetary sovereignty to become cooperative and shared. The subsidiarity principle is even more frequently applied in the monetary sphere (Zimmermann, 2013). According to some authors, the monetary sovereignty however can be regarded also as a continuously developing system of values as regards money and the monetary system, marked by the historical context and national specificities.

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19 For discussion see Fischer (1982), Schobert (2003), and a number of articles of the latter.
20 The case of Lebanon is similar, as are the losses of the Central Bank in the financial crisis of 2019 (see Nenovsky and Chobanov, 2020.) Under the dependent regime, the inflation tax is also eliminated (Hanke, 2002, Hanke speaks of an inflationary component of seigniorage).
21 See Heilleiner (2003). The issue of monetary sovereignty and seigniorage is disputed during the choice between a currency board or euroisation in Kosovo and Bosnia and Herzegovina (Coats, 2007).
22 Also, Zimmermann (2013).
Institutional forms of the dependent monetary regime

We have already mentioned that monetary dependence is manifested primarily in relation to the monetary regime (although it also has a place in informal monetary practices, the familiar process of “monetary, currency substitution”). In an order of increasing dependence we can distinguish the following forms of monetary regimes.

(i) **Fixed (pegged) exchange rate** regime (various configurations are possible here)\(^{23}\). Convertibility can vary in degree, but in general dependent regimes have wide convertibility. The elements of monetary policy (especially sterilisation) are minimised, and if there is such, it closely follows the course of the monetary policy of the leading country. Monetary policy has a pre-set framework due to the relationship between the balance of payments and the monetary sector. In this configuration there is, albeit limited, a space for LLR. What remains is deposit insurance and a scope for banking supervision. Any active monetary policy in a fixed exchange rate regime, regardless of the degree of convertibility, sooner or later leads to imbalances (disequilibria), and this results in crises and devaluations, or control and a parallel foreign exchange market. There is a contradiction between the two components of the monetary regime – internal (ERR) and external (MPR), see Figure 1. According to Kurt Schuler and Steve Hanke:

“Discretionary monetary authorities such as central banks have generally been unsuccessful at maintaining rigid exchange rates because they have done so in an inconsistent way. An analysis of the supply and demand for money shows the contradiction in using sterilised intervention to simultaneously target the exchange rate and the nominal supply of money, as almost all central banks do sometimes and many do most of the time.“ (Schuler, 1999, 85)

“Pegged rates invariably result in conflicts between exchange rate policies and monetary policies. […] Balance-of-payments crises erupt as a monetary authority increasingly offsets the reduction in the foreign component of the monetary base with domestically created base money.” (Hanke, 2002, 91)

(ii) **Currency Board**, which is a comprehensive system of rules both in terms of exchange rate (ERR) and in terms of domestic money supply (MPR). In addition to legally fixing the exchange rate to a stable major currency, there is also a legal 100% (or less) coverage of the monetary base and of the main liabilities of the Central Bank, with highly liquid foreign exchange assets. Convertibility is complete\(^{24}\). In this

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\(^{23}\) According to the IMF, pegged rates are: conventional peg, stabilized arrangements, crawling peg, crawl-like arrangements, pegged with horizontal bands (IMF, 2020).

\(^{24}\) According to Guillaumont-Jeanneney (2015, 34-36), the Currency Board is an administratively set exchange rate, unlike other fixed exchange rate regimes, where the central bank intervenes. The Currency Board is generally well received by the IMF because it helps implement its stabilization programs. The currency board is often run by a foreigner (eg Bosnia and Herzegovina).
Nikolay Nenovsky
Theoretical foundations of the dependent monetary regimes

case, the balance sheet of the Central Bank, as a rule, eliminates domestic sources of monetary base, and completely abandons the active monetary policy. The monetary base is determined endogenously by the demand for money25 (Hanke, 2002). In this configuration, the CB cannot influence the liquidity in the system, just as it cannot perform open market operations or act as a LLR (i.e., the moral hazard and the “principal-agent” problem are limited), etc. The balance sheet of the Central Bank or of the Currency Board (Issue Department within the Central Bank) is published weekly or monthly. In each particular national case, residual liquidity impact options may be found, but these are rather exceptions. The Currency Board is considered sustainable (viable) due to the strong “credibility / trust effect” (carried by the anchor currency) and as a consequence of the “discipline effect” and the systemic nature of tight budgetary constraints (see for details Desquilbet and Nenovsky, 2004). Theoretically, unlike controlled exchange rates, there is no contradiction between the two components of the monetary regime in the Currency Board (Schuler, 1999). It is interesting to note that M. Friedman, who is often considered the guru of floating exchange rates, actually preferred currency boards (or as he calls them “unified currency”) for small and peripheral economies26.

“[A] unified currency assures a maximum degree of integration of the country in question with the greater world. […] So I believe there is no conflict between wholehearted advocacy of floating rates for major countries and the existence of currency blocs of smaller countries attached to the major countries.” (Edwards, 2020, pp. 14-15)

According to an in-depth study by S. Edwards, Friedman was the progenitor of the bipolar model of monetary regimes, which was later adopted by the IMF (Fischer, 2001).

“Friedman’s had two preferred monetary and exchange rate arrangements for the poorer countries: flexible exchange rates, where market forces determined the value of the currency at every moment in time, and a unified currency regime, where the exchange rate is irrevocably fixed and the central bank is abolished”(Edwards, 2020, 18).

In practice, there are various institutional departures from the classical principles of a currency board (mostly 100% coverage of the monetary base, etc.) (Camillieri Gilson, 2002, Nenovsky et al., 2001). These departures from the principles, and especially attempts to carry out sterilisation operations, inevitably lead to a financial crisis27 (Hanke, 2002a). However, it should be noted that unlike the colonial versions of Currency Boards (often called first generation CB), today the movement of capital

25 The demand for quasi-money, in principle, i.e., not only under a Currency Board, is endogenous.
26 Friedman also proposed this model during his visit to socialist Yugoslavia in March 1973 (see chapter 6).
27 The case of Argentina.
is leading and creates certain instability, both in the direction of speculative credit growth and rapid withdrawal in a crisis (see Box 1) This also applies to the next form – dollarization. This instability can occur both through the banking system (Gedeon, 2013) and through other types of external capital inflows, such as EU funds (Nenovsky and Villieu, 2011, Nenovsky and all, 2013).

(iii) **Dollarization, euroization**, i.e., systems where a foreign currency is officially adopted as legal tender, and the national currency is completely abolished (with certain exceptions where small-value national coins circulate) (Schobert, 2003). In this extremely dependent monetary form, monetary authorities do exist, however they can only provisionally be called Central Bank (e.g., the Central Bank of Montenegro, Fabris et al., 2004). Convertibility is complete. There is no monetary policy. It is necessary to put foreign currency banknotes into circulation, which is done by a one-time conversion of foreign reserves into banknotes, or their purchase. This regime completely links the dynamics of monetary processes with those of the leading centres, and is extremely disciplining for public finances. Most often, this regime is imposed from outside, by external economic and political forces.

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**Box 1**

**Price level determination under the Gold Standard (GS) and Modern Currency Board (CB)**

If we extend Kydland and Wynne (2002) presentation of the GS, we could present the GS and CB price level determination as follow. First assume that the supply of money $M^S$ is given by: $M^S = \frac{1}{\lambda} eF$, where $0 < \lambda \leq 1$ is the degree of coverage of the inside money by outside money, $e$ is the nominal price at which the monetary authority stands willing to buy and sell the outside money, $F$ is the stock of outside money which evolves according to the difference between exportations $X$ and importations $IMP$: $\Delta F = X - IMP$. The demand for money is given by: $M^D = f(\pi^e, z) Py$, where $\pi^e$ is expected inflation, $z$ is a vector of other variables determined demand for money, $P$ is general price level and $y$ is real income.

If we suppose money market equilibrium ($M^D = M^S$) we can obtain the price level under GS as:

$$P = \frac{eF}{\lambda f(\pi^e,x)y} = \frac{e \Sigma (X-IMP)}{\lambda f(\pi^e,x)y}$$

Under the CB (especially second generation) there are some important structural changes: (i) the coverage exist only for the base money, not the all monetary stock (ii) with the development of the bank money, nowadays the monetary stock is far
(ii) with the development of the bank money, nowadays the monetary stock is far bigger that the money in circulation (this stresses the role of the banking system and the role of money multiplier), (iii) nowadays the capital account presents a key part of the balance of payments, when in the previous time the balance of payment was closer to the trade account. Let $M^S = \mu H$, where $H$ is monetary base, and $\mu$ is the money multiplier, assume that only $H$ is covered by $F$. Taking into account the role of capital flows in the determination of the stock of outside money, let $\Delta F = X - IMP + \Delta K$, where $\Delta K$ represents net capital flows. In turn $\Delta K = \Delta K_{FDI} + \Delta K_{FDIS} + \Delta K_{DEBT}$, where $\Delta K_{FDI}$ is a sustainable FDI, $\Delta K_{FDIS}$ is FDI in speculative sectors and $\Delta K_{DEBT}$ is debt capital.

We obtain the price level under CB:

$$P = \frac{\mu e \sum (X - IMP + \Delta K_{FDI} + \Delta K_{FDIS} + \Delta K_{DEBT})}{f(\pi, x) y}$$

Comparing (1) and (2) it is obvious that the price level determination is much more instable under CB because of the two behavioural variables such as money multiplier $\mu$ and net capital flows $\Delta K$, especially $\Delta K_{FDIS}$ and $\Delta K_{DEBT}$.

**Source:** Desquilbet and Nenovsky (2004, 22) and update

(iv) Finally, *membership in a Monetary Union*. At first glance, this monetary form differs from those already enumerated in that it allows national “participation” in a common active monetary policy. There is a talk of “shared monetary sovereignty”, where the small country is involved in monetary policy decisions. Formally, the small country owns the LLR, and receives part of the monetary income, seigniorage. It must be said that these advantages are illusory. An important condition for successful participation in a common area is the synchronous movement of the cycle of the dependent country with the cycle of the anchor country, which is rarely achieved, as well as symmetry of shocks. The common monetary policy is pursued in the interests of the leading countries, which dominate politically and economically that union. It follows the objectives and interests of the major countries in the monetary union or of the group interests associated with those countries. The experience of the few monetary unions of the past, as well as of those existing today, demonstrates this. An important feature, often left out of the field of analysis, is the choice of ERR for the whole area. For example, the euro area chooses a floating exchange rate, the CFA zone a fixed one, and the Caribbean Monetary Union operates as a Currency Board.

With all conditionalities, within the summary of dependent configurations (Figure 3), we can outline two groups: depending on whether there is a contradiction between...
the two components of monetary policy or if they are in sync, the former being highly volatile whereas the latter are relatively more sustainable and longer lasting. The former includes various types of pegged arrangements, the latter – currency boards and dollarization. The monetary union is somewhere midway.

**Diagram: Dependent Monetary Regimes**

This list of institutional configurations is most often viewed from the standpoint of conventional monetary “theory of optimal monetary zones” and “the choice of optimal exchange rate regime” (for arbitrage “costs/benefits”, “credibility/ flexibility”, etc.)\(^{28}\). Without denying their benefits, the above approaches cannot explain the emergence of dependent monetary regimes. Political and geopolitical factors are leading and this has been shown many times. For example, the choice of currency board regimes in the Baltic countries in the early 1990s, and later the German mark as official legal tender in Montenegro, was a visible manifestation of the desire of the national elites, as well as the external centres, to replace the geopolitical anchor: in the first case to replace Russia with Germany and the EU, and in the second – Yugoslavia (Serbia) with Germany\(^{29}\). International political economy is trying to conceptualise these issues.

We must add the consideration that for small countries, the political cycle leads to extreme instability of their monetary regimes, which become hostage to the political struggle, and most often leads to inflation, devaluation and financial crisis (often referred to as “financial and inflationary trauma”). That is, in small countries, the dependence of the monetary regime on domestic factors is relatively greater and more harmful than their external dependence (that of the external monetary centres). The history of monetary regimes in the Balkans shows this.

\(^{28}\) Mongelli (2002).

Finally, in addition to monetary regimes, dependence can also occur in informal monetary practices that are also part of a country’s monetary system. The most common form is that of “currency substitution”. It is expressed in the preferences of the economic agents of the small and peripheral country to pay, measure and save in a stable foreign currency, chosen by consumers and producers.

Basically, these processes are dictated by the rate of inflation and the depreciation of the exchange rate. The fact is that the Balkan countries are an area with a strong currency substitution, which is closely monitored and regularly studied (for example, by the Austrian Central Bank\textsuperscript{30}. Currency substitution can be observed both in the official sector – in the balance sheets of banks (loans and deposits in foreign currency) and in the informal (undeclared) economy. In the grey sector, in general, payments in foreign banknotes and in large denominations are extremely common. These substitution processes further shrink the fiscal base (as well as the sources of seigniorage) of the peripheral countries, which, as we have pointed out, are forced to comply with a conservative financial policy.

As an appendage, we will recall that in the synopsis of monetary hierarchy within the monetary pyramid, B. Cohen lists the following types of national money (in an order of increasing dependence and abandonment of monetary sovereignty) - (i) top currency, (ii) patrician currency, (iii) elite currency, (iv) plebeian currency (v) permeated currency, (vi) quasi currency and (vii) pseudo currency (Cohen, 1998, 113-118, and Cohen, 2015, 15-19). In our opinion, in this ranking the Balkan currencies, with very few exceptions (and in certain periods), represent the last three types of currency (permeated currency, quasi currency and pseudo currency\textsuperscript{31}).

As a whole, however, the (formal or informal) monetary hierarchy and monetary dependency cannot be eradicated. It needs to be managed successfully. Strong and weak currencies have always existed in history (Asselain and Plessis, 2003). From a historical perspective, this hierarchical nature has always existed, either within the colonial monetary systems, or the international monetary system – i.e. between individual colonial monetary systems and other areas. The historical dependence and hierarchical subordination of monetary regimes in the Balkan countries have also been a well-documented fact since the time of the Latin Monetary Union.

In the fifth chapter we will present illustrations of the presented theoretical constructs, focusing on the modern dependent regimes on the Balkans (Currency Boards and Euroization), and in the sixth chapter we will make a “long” historical excursion into the evolution of the monetary regimes of the Balkan countries from the end of the 19\textsuperscript{th} century to the present day.

\textsuperscript{30} See also ECB, Windischbauer (2016)

\textsuperscript{31} We will also note a number of new studies regarding the monetary pyramid from the positions of the Modern Monetary Theory (Bonizzi et al., 1999). In general, they say nothing new.
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MARKETING ETHICS ON THE MARKET OF MOBILE AND BANKING SERVICES IN BULGARIA

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JEL: M31, M21

Abstract

The main purpose of this paper was to present part of the results of a survey of end consumers’ perceptions regarding ethical marketing behaviour on the market of mobile and banking services in Bulgaria. Some of the most important findings of the survey were that the banking sector demonstrated better performance in terms of the marketing ethics applied to clients compared to the telecommunication sector; the instances of unethical marketing behaviour ranked among the top three reasons for consumers’ decisions to change their mobile operators or terminate their relations with a banking institution; the respondents’ age affected their level of agreement with the statements related to marketing ethics. Furthermore, a brief analytical review was made of the situation in the two sectors studied.

Key words:
Marketing Ethics, Banking Sector, Mobile Service Sector

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Introduction

Nowadays, the presence of unethical business practices in all areas of marketing makes ‘marketing ethics’ a substantial area for researchers (Yıldırım, Mert and Cebeci, 2021). This interest is natural in view of the assumption that marketing ethics plays an essential role in the formation, maintenance and restoration of trust in business and in building long-term relations with clients. To some authors, it is one of the organisational drivers enhancing Customer Lifetime Value (Madhani, 2016). At the same time, to other authors, it is one of the most misunderstood and controversial concepts in marketing (Marinova, 2013). Naturally, a partial explanation of this fact could be sought in the complexity of the marketing ethics phenomenon and the impossibility of suggesting a universal approach to its investigation.

Marketing ethics refers to “the moral challenges that marketing practitioners face when they engage in their daily jobs and must determine which decisions or actions are morally right/good or wrong/bad” (Vanhamme, 2017). The non-ethical practices related to marketing are displayed in the forms of: bribery, unjustified price increasing, excessive advertisement, sexual discrimination (Kim and Chun, 2003); false advertising, forced selling, unsafe or harmful products, deceptive or dubious prices, deceptive communications, deceptive distribution, and the promotion of materialism (Al Hadi, Cahyo, Budi, 2021); counterfeit products, label misleading, deceptive packaging, misleading pricing, fake news (Yıldırım, Mert and Cebeci, 2021). More particularly, specific issues in marketing ethics include: market research (invasion of privacy, stereotyping); market audience (targeting the vulnerable, excluding potential customers from the market); marketing strategy and marketing mix (Majtán and Dubcová, 2008).

The historic origins of marketing ethics can be traced to the time when concerns surfaced about antitrust and consumer protection in the early 20th century (Al Hadi, Cahyo, Budi, 2021). Currently the ethics in marketing is an international trait that can be applied across different cultures (Saleh, Azmin, Saraih, 2021). Good marketing ethics practices are determining for sustainable marketing. Unethical marketing is detrimental to customers and society, as it ultimately damages the reputation, effectiveness, and possibly the viability of the corporation (Sukhawatthanakun, 2022). Therefore, the current paper is an attempt to enrich the existing knowledge in the field of marketing ethics. As objects of research were chosen the banking system and electronic messages market in Bulgaria. Those two sectors are of interest with regards to the adopted directives and the urge from the European Union to its member states to implement effective penalties in relation to the protection of European users. In the following lines we will analyse the two researched sectors and continue to present results from a conducted survey among the users of mobile and banking services in the country.
1. The banking system in the Republic of Bulgaria: an overview

During the first half of 2022, the domestic banking sector in the country operated under the direct influence of the conditions formed by two external factors: (1) the restrictive measures applied due to the COVID-19 virus infection; and (2) the military conflict in Ukraine. As a result of these objective circumstances, there has been a trend towards a decrease in the foreign demand for bank resources for consumer and investment loans that, in the context of Bulgarian economy (strongly dependent on commodity import and commodity demand on the European single market that accounts for around 60% of local export), has quite expectedly led to limited domestic demand. This, in turn, has affected bank balances in four main directions (Association of Commercial Banks, 2020):

• **First.** The average nominal interest rates on bank deposits have remained close to 0%, whereas the real ones are negative.
• **Second.** There has been a growth in the impairment figures for current credit exposures.
• **Third.** The fee and commission income of banks has been decreasing.
• **Fourth.** The bank credit financing rate has been slowing down in all its segments: business financing, mortgage and consumer financing.

The comparison of data for the assets in the banking system in 2021 to those in 2020 shows an increase by 11.4 billion leva annually (Figure 1) (Association of Commercial Banks, 2022).

![Figure 1. Dynamics of the changes in the bank assets in the Republic of Bulgaria, 2017 – 2021 (billion BGN)](image)

*Source: Association of Commercial Banks.*

By 30 June 2022 60.74% of all assets in the banking system are in the form of credits and gatherings which sum up to 86.31 billion leva. The monies which come up to 28.03 billion leva form 19.73% of the assets of the commercial banks while the share
of securities wallets is 15.22% (21.63 billion leva). As a comparison, at the end of the first quarter in 2022 the share of credits and gatherings was 59.9%, of monies – 20.8%, and of securities wallets – 15.2% (Association of Commercial Banks, 2022).

At present, 25 commercial banks have been positioned on the Bulgarian market, 7 of which are branches of foreign banks. Table 1 presents a classification of the banks in Bulgaria into groups according to the size of their bank assets as at the moment of preparation of this study.

Table 1

<table>
<thead>
<tr>
<th>FIRST GROUP</th>
<th>SECOND GROUP</th>
<th>THIRD GROUP</th>
</tr>
</thead>
<tbody>
<tr>
<td>UniCredit Bulbank AD</td>
<td>Raiffeisenbank (Bulgaria) EAD</td>
<td>ING Bank N.V. – Sofia Branch</td>
</tr>
<tr>
<td>DSK Bank AD</td>
<td>Central Cooperative Bank AD</td>
<td>Citibank Europe Plc., Bulgaria Branch</td>
</tr>
<tr>
<td>United Bulgarian Bank AD</td>
<td>Bulgarian Development Bank EAD</td>
<td>BNP Paribas S.A. – Sofia Branch</td>
</tr>
<tr>
<td>Eurobank Bulgaria AD</td>
<td>Allianz Bank Bulgaria AD</td>
<td>BNP Paribas Personal Finance S.A. - Bulgaria Branch</td>
</tr>
<tr>
<td>First Investment Bank AD</td>
<td>ProCredit Bank (Bulgaria) EAD</td>
<td>T.C. Ziraat Bankasi – Sofia Branch</td>
</tr>
<tr>
<td></td>
<td>Investbank AD</td>
<td>Varengold Bank AG, Sofia Branch</td>
</tr>
<tr>
<td></td>
<td>Municipal Bank AD</td>
<td>Bigbank AS – Bulgaria Branch</td>
</tr>
<tr>
<td></td>
<td>Bulgarian – American Credit Bank AD</td>
<td></td>
</tr>
<tr>
<td></td>
<td>International Asset Bank AD</td>
<td></td>
</tr>
<tr>
<td></td>
<td>D Commerce Bank AD</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TBI Bank EAD</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tezip Bank AD</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tokuda Bank AD</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bulgarian National Bank.

The five largest banks that fall within the first group of banks according to the classification made by the Bank Supervision Department of the Bulgarian National Bank (BNB) account for nearly 2/3 of the total assets in the bank system. By the end of June 2022, the market share of the first group of banks had reached to 66.7%; it had fallen from 34.7% to 30.0% in the second group; and the third group, which includes branches of foreign banks, reaches 3.3%. The data have been presented in graphic form in Figure 2.
Against the background of continuing economic stagnation both internationally and domestically, the economic efficiency of the products offered within the Bulgarian bank system is a focus of interest. Figure 3 presents data on the banks’ net profit for the past five years, which could be regarded as the actual reflection of the objective realities specified above that characterised the period under consideration.

The efficiency of the bank system under conditions of a turbulent environment depends on the degree of its adaptation to the changed circumstances and on client work based on transparency and trust. The banks’ capacities to adjust to market realities by making full use of the information channels for communication with the bank audience, including offer of easier, promotional conditions for their bank credit products, are the factors that will underlie their successful functioning under
the recessive development of the Bulgarian economy, which is expected to occur at the end of 2022.

1.1. Bank credit market: analysis of the general price conditions

Regardless of the expected difficulties for the banking sector in the country, the data indicate that these forecasts do not correspond to the real situation. For instance, it is worth mentioning that the number of new loans given between 2017 and 2021 increased by almost 25% (cf. Figure 4). The reasons may be sought in two main directions: (1) throughout that period, there was a trend towards lower annual percentage rates (APR) of charge of consumer loans and lower average interest rates of new business loans both in Euro and in BGN; (2) the demand for credit resources, even under conditions of uncertainty, remained higher as a percentage, which could be attributed mainly to the increased investments in real estate purchase financed by bank loans.

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (thousand BGN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>275596193</td>
</tr>
<tr>
<td>2020</td>
<td>258179982</td>
</tr>
<tr>
<td>2019</td>
<td>228773558</td>
</tr>
<tr>
<td>2018</td>
<td>213883664</td>
</tr>
<tr>
<td>2017</td>
<td>201817522</td>
</tr>
</tbody>
</table>

Figure 4. Dynamics of the changes in new loans in the Republic of Bulgaria in the 2017 – 2021 period (thousand BGN)

Source: Bulgarian National Bank.

The interest rate dynamics regarding the annual percentage rate of charge of household loans between March 2019 and the end of 2022 cannot be considered a reflection of the processes related to the COVID-19-induced restrictive measures or the sanctions applied after the start of the military conflict in Ukraine. This concerns consumer loans and mortgage loans through new bank financing in BGN. Figure 5 present data on the interest rate dynamics in these two directions, taking into consideration the fact that the interest rates on home loans include all annual expenses added to the interest expense, i.e. bank fees and commissions payable by the client (APR).
The analysis made showed two clear trends: (1) the positive growth of the bank credits was maintained throughout 2021; (2) as regards consumer and mortgage bank loans, the banks in the country (this applies mainly to the first and second group banks) were inclined to respond to the market demand for lending resources. Moreover, the interest rate dynamics in the second half of 2021 clearly demonstrated that under the conditions of inter-bank competition and a high degree of liquidity and capital adequacy, the banks in the country had the potential to pass through the expected world economy recession without significant cuts on the business and household financing volumes.

2. The electronic communication market in Bulgaria

According to the register of the Communication Regulation Commission (CRC), a total of 1135 companies had a registration for their intentions to perform activities related to the provision of public electronic communication as at 31 December 2021 (i.e. 9 fewer than 2020).

In 2021, the total volume of the electronic communication market amounted to 3,148 billion BGN, or 10% more than the preceding year and 22.2% more than 2018, the year when the market volume was characterised by significant growth after a long period of decline (CRC, 2018, 2019). Figure 6 presents data on the dynamics of the electronic communication market volume in Bulgaria from 2016 to 2021 expressed through the growth rate indicator.
Figure 6. Dynamics of the electronic message market in Bulgaria, 2016 – 2021 (%)

Sources: Communications Regulation Commission, 2021.

The structure of the public electronic messages provided in Bulgaria comprises the following five types: voice telephone services, leased line provision services, data transfer and/or Internet access services, radio and/or television programme transfer and/or distribution services, other services (channel network provision, services for access to satellite systems, shared use, including provision of towers, masts, etc.). According to Communications Regulation Committee data, the total volume of the electronic communications market is composed mainly of voice services and data transfer and/or Internet access services, which accounted for a total of 82.6% of the revenues from electronic message services in 2021. The most in-demand products were the double packages including two electronic message services. The mobile voice and mobile Internet access package service was the most preferred one with a relative share of 83.6%, or 5.566 million consumers (figure 7). The relative share of the television and fixed Internet access package service, which was second in popularity, formed 9.9%, or 661 thousand subscribers for 2021. The fixed voice service and mobile voice service package ranked third with 364 thousand subscribers, equal to 5.5% of the total number of package subscribers (CRC, 2021).
From 2019 to 2021, the main market participants providing a mobile telephone service, a fixed telephone service, and mobile Internet access for end consumers (retail services) were the Bulgarian Telecommunication Company (BTC with its trade mark Vivacom registered at the Bulgarian Patent Office), A1 Bulgaria EAD (A1) and Yettel Bulgaria EAD (the name of Telenor Bulgaria EAD was changed into Yettel Bulgaria EAD, or Yettel as of 01 March 2022). These three companies controlled a total of 95% of the revenue of the retail market for voice telephone services and mobile Internet access in Bulgaria (CRC, 2021).

On the basis of the review we made of the secondary data and different publications on these topics with regard to the two sectors, a conclusion could be drawn that the supply of bank and mobile services shared at least three similar features: (1) the establishment of the main players’ competitive positions was mainly due to the intervention of the entrepreneurial capital of transnational companies; (2) the companies functioned under conditions of increased competition in the branch and in compliance with a strict regulatory framework effective in the country; (3) over 50% of the mobile and banking service market in Bulgaria was occupied by a limited number of participants.

Against this background, the research interest was attracted to consumers’ opinion of the ethical marketing practices used on the mobile and banking service market in Bulgaria.

3. Results of the survey made among mobile and banking service consumers in Bulgaria

This paper presents part of the results of a survey made among end consumers of mobile and banking services in Bulgaria between May and June 2022 as included in the
tasks of the Effects of Globalisation: Hyper consumption and (Non-) Environmentally Sustainable Behaviour project funded by the Scientific Research Fund of Paisii Hilendarski University of Plovdiv. The main aim of the study was to investigate the perceptions of certain instances of ethical marketing behaviour in the telecommunication and banking sector. The market of mobile operators and banking institutions operating on the territory of the country constituted the object of the study. The subject of the study was made up by ethical marketing practices as part of the organisations’ overall corporate social responsibility. The main aim presented above was further specified in the following questions:

1. What are consumers’ perceptions regarding the ethical marketing practices applied by the telecommunication companies and banking institutions in Bulgaria?
2. Which of the two sectors studied has stronger representation (in consumers’ minds) in terms of its ethical marketing behaviour?

The hypotheses to be verified (using the data from the survey) were as follows:

H1: The top three reasons for consumers’ willingness to change their mobile operator are: “a better tariff plan”, “I want a device provided with a contract by another telecom operator”, “instances of unethical behaviour”.

H2: The top three reasons for consumers’ willingness to change their servicing bank are: “more favourable conditions of another bank”, “increase in fees”, “instances of unethical behaviour”.

H3: The bank sector has stronger general representation in terms of the marketing ethics applied to clients compared to the telecommunication sector.

H4: Age has an impact on the perception of the mobile sector’s marketing ethics.

H5: Age has an impact on the perception of the bank sector’s marketing ethics.

Specific issues in marketing ethics such as conducting marketing research and violation of respondents’ privacy, market audience (excluding potential customers from the market), ethics in advertising, ethics of product marketing, and ethics in delivery channels, remained beyond the scope of the study.

The scholarly discussion from a business ethics-centric perspective has intensified over the past years. However, there is a huge gap regarding the physical manifestations of ethical marketing behaviour. In this sense, the preparation and organisation of a study of this type were prompted by the authors’ desire to stimulate a discussion on the socially responsible behaviour in marketing (using two sectors of importance to the Bulgarian economy as an example) among all parties concerned.

A sample survey was conducted with mobile and banking service consumers, including 226 respondents (250 people living on the territory of Bulgaria were canvassed
but 226 of them were considered valid). The nonrandom sample was formed on the basis of people who volunteers. The sociodemographic profile of the participants has been presented in Table 2. An online questionnaire was developed to include the statistical units using Google Forms, and the link was published in the researchers’ personal profiles in the Facebook social network and distributed through the network of the official university mails of the teaching staff at Paisii Hilendarski University of Plovdiv.

Table 2

<table>
<thead>
<tr>
<th>Variable</th>
<th>Categories</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>27.7%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>72.3%</td>
</tr>
<tr>
<td>Age</td>
<td>18 – 25</td>
<td>43.36%</td>
</tr>
<tr>
<td></td>
<td>26 – 41</td>
<td>23.45%</td>
</tr>
<tr>
<td></td>
<td>42 – 57</td>
<td>33.19%</td>
</tr>
<tr>
<td>Financial situation</td>
<td>Very good</td>
<td>9.2%</td>
</tr>
<tr>
<td></td>
<td>Good</td>
<td>52.0%</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>37.0%</td>
</tr>
<tr>
<td></td>
<td>Bad</td>
<td>1.8%</td>
</tr>
<tr>
<td>Place of living</td>
<td>Capital city</td>
<td>15.20%</td>
</tr>
<tr>
<td></td>
<td>City above 100 thousand</td>
<td>43.40%</td>
</tr>
<tr>
<td></td>
<td>Town from 50 thousand to 100 thousand</td>
<td>26.10%</td>
</tr>
<tr>
<td></td>
<td>Town from 25 thousand to 50 thousand</td>
<td>11.30%</td>
</tr>
<tr>
<td></td>
<td>Town up to 25 thousand</td>
<td>4.00%</td>
</tr>
</tbody>
</table>

Similarly to the situation in the country (as outlined in paragraph 2 of this text), the “mobile voice and mobile Internet double package” ranked first in popularity among the mobile service consumers (Figure 8), followed by “fixed voice and mobile voice double package” and “fixed telephony”.

![Figure 8. Which one/s of the mobile services are you using at the moment?](image-url)
The bank product most widely used by the respondents was the “transaction account and debit card” package, followed by “consumer loan” and the “transaction account, debit card and online banking” package (Figure 9). Here, it needs mentioning that over half of the respondents (51.4%) declared that they would choose cashless payments for the main banking operations rather than cash payments. Hence, the study outlined the existence of positive attitudes to this type of banking in spite of recent Eurostat data indicating that only 15% of Bulgarians used Internet banking in 2021 compared to an average of 58% for the European Union (EU) (Eurostat, 2022).

![Figure 9. Which one/s of the bank products are you using at the moment?](image)

The top three reasons for the respondents’ willingness to change their mobile operator included: “a better tariff plan” (25.30%), “instances of unethical marketing behaviour” (12.30%), and “level of desk service” (9.30%) (Figure 10). This result partly confirmed the first hypothesis of the study. It was interesting to note that over half of the participants in the study (55.5%) were not satisfied but did not file a complaint with their telecommunication company. Also, 69.90% of the respondents did not intend to change their mobile operator. Therefore, consumer dissatisfaction did not rank among the strong motives for switching to another telecommunication company.
In the banking sector, the top three reasons for the consumers’ intention to terminate their relations with the banking institution were: “more favourable conditions of another bank” (13.8%), “increase in fees” (13.1%), and “instances of unethical behaviour” (9.6%) (Figure 11).

This result practically confirms the second formulated hypothesis of the study. The reasons for any worsened relations with a banking institution could be the subject
of future research that would make an in-depth study of factors such as ignoring problems, neglect of customer feedback, irresponsiveness towards financial debts, etc. (Mahapatra and Kumar, 2017). These areas fall beyond the scope of the present study.

It was interesting to note that, similarly to the mobile sector, almost half of the participants in the study (49.8%) stated that they were not satisfied with their servicing bank but did not file a written complaint. Besides, 75.9% of the respondents did not intend to terminate their relations with it. Therefore, a conclusion that consumer dissatisfaction was not one of the strong motives for switching to another banking institution could be drawn for this sector as well.

Figure 12 presents the analogous statements about specific issues in marketing ethics for the two sectors studied.

<table>
<thead>
<tr>
<th>Banking services</th>
<th>Mobile service</th>
</tr>
</thead>
<tbody>
<tr>
<td>The banks in Bulgaria use ethical marketing practices with their clients.</td>
<td>The mobile operators in Bulgaria use ethical marketing practices with…</td>
</tr>
<tr>
<td>The banks in Bulgaria use transparent pricing for the loans they offer.</td>
<td>The mobile operators in Bulgaria use transparent pricing for the…</td>
</tr>
<tr>
<td>The fees for the main banking services in Bulgaria are uniform.</td>
<td>The fees for mobile services in Bulgaria are uniform.</td>
</tr>
<tr>
<td>My bank’s site contains information presented in accessible language.</td>
<td>My mobile operator’s site contains information presented in accessible…</td>
</tr>
<tr>
<td>The information published on my bank’s site is trustworthy.</td>
<td>The information published on my mobile operator’s site is trustworthy.</td>
</tr>
</tbody>
</table>

58% 43%
48% 36%
71% 50%
93% 85%
95% 82%

Figure 12. Marketing ethics: a comparison between the banking sector and the telecommunication sector

Considering that marketing ethics is one of the most misunderstood and controversial concepts in marketing (Marinova, 2013) and assuming that the scope of marketing ethics problems is strongly dependent on each consumer’s individual values (Murphy, Laczniak, Harris, 2017), we constructed our survey questionnaire so that it would not forward the respondents’ answers to “the right direction”. Besides, relying on the respondents’ subjective perceptions, we deliberately failed to include a definition or clarifications regarding the nature of marketing ethics.

A total of twenty questions in the questionnaire were related to two of the marketing ethics aspects, i.e. communication ethics and pricing ethics. As regards
information assurance (as a main communicative function of organisations), what needed to be verified was the reliability and accessibility of the information provided by mobile and banking institutions through their own channels of communication. The mobile operators’/banks’ corporate sites proved to be the most informative channels. The relative shares of respondents who claimed that the information published on the site of their servicing bank was trustworthy and had been presented in accessible language exceeded 90%. These results indicated progress in the efforts directed to improving the access to bank services in relation to the European Commission’s observation made ten years ago that the bank information made available to EU citizens lacked clarity (European Commission, 2013). Mobile operators also demonstrated very good performance for consumers in terms of the reliability and accessibility of the information they published on their corporate sites. An interesting observation was also made with regard to the fees for banking services, which turned out to be more uniform (71%) than those for mobile services (50%). Consumers demonstrated a certain lack of interest in the changes in the interest rate, fee and commission tariffs applied by banks for their services: only 23% declared that they always kept in touch with these changes. Nearly half of the survey participants (48%) believed that banking institutions applied transparent pricing to their operations. As regards mobile operators, the analogous statement was considered true by 36% of the respondents. Perhaps, transparency in the telecommunication companies’ pricing can be viewed as an area where improvement will be needed in the future. Besides, 65% of the survey participants stated that the indexation of the subscription plan prices for mobile services by the average annual consumer price index (CPI) was fair. On the whole, a conclusion could be drawn that the banking sector showed better overall performance in terms of the marketing ethics applied in relation to its clients compared to the telecommunication sector, i.e. the third hypothesis of the research was fully confirmed.

In order to verify the fourth and fifth hypotheses formulated, a Kruskal-Wallis H test was conducted to determine if there were differences in the degree of agreement with the statements provided between three age groups presented in three generations. The generations in the sample were distinguished on the basis of the classification suggested by Dhanapal, Vashu and Subramaniam (2015), where Baby Boomers were said to be born between 1946 to 1964, Generation X between 1965 to 1980 and Generation Y between 1981 and 2000. The results of the test showed that age exerted an impact on all statements (Table 3, 4), which confirmed the fourth and fifth hypotheses.
### Table 3

**Results of Kruskal-Wallis Test – age and average score for banking services**

<table>
<thead>
<tr>
<th>Statements/Generation</th>
<th>Generation Z (18 – 25)</th>
<th>Generation Y (26 – 41)</th>
<th>Generation X (42 - 57)</th>
<th>p - value</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1. The information published on my bank’s site is trustworthy.</td>
<td>1.85</td>
<td>2.89</td>
<td>3.59</td>
<td>0.000***</td>
</tr>
<tr>
<td>S2. My bank’s site contains information presented in accessible language.</td>
<td>1.94</td>
<td>1.36</td>
<td>1.89</td>
<td>0.008**</td>
</tr>
<tr>
<td>S3. I am aware of the mechanism of formation of the fees and commissions for the services performed by my bank.</td>
<td>1.59</td>
<td>3.45</td>
<td>4.03</td>
<td>0.000***</td>
</tr>
<tr>
<td>S4. I always keep in touch with the changes in the interest rate, fee and commission tariffs applied by my bank to the services provided.</td>
<td>3.31</td>
<td>4.32</td>
<td>4.05</td>
<td>0.001**</td>
</tr>
<tr>
<td>S5. I believe the fees for the main banking services in Bulgaria are uniform.</td>
<td>2.63</td>
<td>2.79</td>
<td>4.19</td>
<td>0.000***</td>
</tr>
<tr>
<td>S6. I believe the banks in Bulgaria apply ethical marketing practices to their clients.</td>
<td>2.86</td>
<td>3.02</td>
<td>3.51</td>
<td>0.022*</td>
</tr>
<tr>
<td>S7. I believe the banks in Bulgaria use transparent pricing for the loans they provide.</td>
<td>2.38</td>
<td>3.43</td>
<td>3.79</td>
<td>0.000***</td>
</tr>
<tr>
<td>S8. I suppose the banks in Bulgaria play a certain socially responsible role.</td>
<td>2.33</td>
<td>2.96</td>
<td>2.88</td>
<td>0.038*</td>
</tr>
</tbody>
</table>

* p < 0.05 - there is a statistically significant relationship, ** p < 0.01 - there is a highly statistically significant relationship, *** p < 0.001 - there is a very highly statistically significant relationship.

### Table 4

**Results of Kruskal-Wallis Test – age and average score for Mobile services**

<table>
<thead>
<tr>
<th>Statements/Generation</th>
<th>Generation Z (18 – 25)</th>
<th>Generation Y (26 – 41)</th>
<th>Generation X (42 - 57)</th>
<th>p - value</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1. The information published on my mobile operator’s site is trustworthy.</td>
<td>2.38</td>
<td>2.72</td>
<td>3.37</td>
<td>0.001**</td>
</tr>
<tr>
<td>S2. My mobile operator’s site contains information presented in accessible language.</td>
<td>2.60</td>
<td>2.13</td>
<td>2.83</td>
<td>0.044*</td>
</tr>
</tbody>
</table>
S3. I am aware of the mechanism of formation of the fees in my subscription plan.  
2.45 1.83 2.81 0.014*

S4. I believe the mobile operators in Bulgaria use transparent pricing for the subscription plans they provide  
3.03 3.75 3.55 0.024*

S5. I believe the indexation of the prices is fair.  
3.76 4.49 3.56 0.001**

S6. I believe the fees for mobile services in Bulgaria are uniform.  
2.03 3.26 3.15 0.000***

S7. I believe the mobile operators in Bulgaria apply ethical marketing practices to their clients.  
3.13 3.36 3.63 0.038*

* p < 0.05 - there is a statistically significant relationship, ** p < 0.01 - there is a highly statistically significant relationship, *** p < 0.001 - there is a very highly statistically significant relationship.

Subsequently, pairwise comparisons were performed using Dunn’s (1964) procedure with a Bonferroni correction for multiple comparisons. Significantly different age groups revealed by this post hoc analysis among the considered statements are presented in Table 5 and Table 6.

### Table 5

<table>
<thead>
<tr>
<th>Statements</th>
<th>Generations that differ significantly</th>
<th>Adjusted p-values*</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1.</td>
<td>“Generation Z” – “Generation Y”</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>“Generation Z” – “Generation X”</td>
<td>0.000</td>
</tr>
<tr>
<td>S2.</td>
<td>“Generation Z” – “Generation Y”</td>
<td>0.006</td>
</tr>
<tr>
<td>S3.</td>
<td>“Generation Z” – “Generation Y”</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>“Generation Z” – “Generation X”</td>
<td>0.000</td>
</tr>
<tr>
<td>S4.</td>
<td>“Generation Z” – “Generation Y”</td>
<td>0.006</td>
</tr>
<tr>
<td></td>
<td>“Generation Z” – “Generation X”</td>
<td>0.011</td>
</tr>
<tr>
<td>S5.</td>
<td>“Generation Z” – “Generation X”</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>“Generation Y” – “Generation X”</td>
<td>0.000</td>
</tr>
<tr>
<td>S6.</td>
<td>“Generation Z” – “Generation X”</td>
<td>0.020</td>
</tr>
<tr>
<td>S7.</td>
<td>“Generation Z” – “Generation Y”</td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>“Generation Z” – “Generation X”</td>
<td>0.000</td>
</tr>
<tr>
<td>S8.</td>
<td>“Generation Z” – “Generation Y”</td>
<td>0.049</td>
</tr>
<tr>
<td></td>
<td>“Generation Z” – “Generation X”</td>
<td>0.039</td>
</tr>
</tbody>
</table>

*Significance values have been adjusted by the Bonferroni correction for multiple tests.
It turns out that in five of the statements for the banking sector (S1, S3, S4, S7 and S8 in Table 5) there are differences between “Generation X” and the other two generations (“Generation Z” and “Generation Y”). Regarding statement S2 differences are identified only “Generation X” and “Generation Y”, and in statement S5 there are differences in the respondents’ agreement between the first age group (“Generation Z”) and the other two groups (“Generation Y” and “Generation X”). In statement S6 the difference in degree of agreement is only between the third and first age groups (“Generation X” and “Generation Z”).

Table 6
Pairwise comparisons for Mobile services

<table>
<thead>
<tr>
<th>Statements</th>
<th>Generations that differ significantly</th>
<th>Adjusted p-values*</th>
</tr>
</thead>
<tbody>
<tr>
<td>S1.</td>
<td>“Generation Z” – “Generation X”</td>
<td>0.001</td>
</tr>
<tr>
<td>S2.</td>
<td>“Generation Y” – “Generation X”</td>
<td>0.038</td>
</tr>
<tr>
<td>S3.</td>
<td>“Generation Y” – “Generation X”</td>
<td>0.011</td>
</tr>
<tr>
<td>S4.</td>
<td>“Generation Z” – “Generation Y”</td>
<td>0.020</td>
</tr>
<tr>
<td>S5.</td>
<td>“Generation Z” – “Generation Y”</td>
<td>0.003</td>
</tr>
<tr>
<td></td>
<td>“Generation Z” – “Generation X”</td>
<td>0.002</td>
</tr>
<tr>
<td>S6.</td>
<td>“Generation Z” – “Generation Y”</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>“Generation Z” – “Generation X”</td>
<td>0.000</td>
</tr>
<tr>
<td>S7.</td>
<td>“Generation Z” – “Generation X”</td>
<td>0.032</td>
</tr>
</tbody>
</table>

*Significance values have been adjusted by the Bonferroni correction for multiple tests.

From Table 6 it can be seen that in the mobile services sector there are differences in the respondents’ degree of agreement mostly between “Generation Z” and the other two age groups (“Generation Y” and “Generation X”). Differences between the first and third groups exist in statements S1 and S7, and further in S6 between the second and third group. In statements S2 and S3 the differences are between “Generation Z” and “Generation Y”, and in statement S5 between the second and third age groups. The differences in the respondents’ opinions regarding statement S4 is only between “Generation Y” and “Generation X”.

**Conclusion**

The study we conducted of the market of mobile and banking services in Bulgaria made it possible to draw three main conclusions as follows:

- **Firstly.** The two sectors examined had a number of similar features in terms
of the practices applied for the purpose of market coverage, the increased competition in the branch, the strict regulatory framework (governing the companies’ operation) and the high market power concentration (a small number of market participants account for over 50% of the mobile and banking service market). Inevitably, this has an impact on the overall marketing policies of the telecommunication companies and banks in Bulgaria.

- **Secondly.** Most of the respondents did not intend to change their mobile operator or servicing bank. Still, the instances of unethical marketing behaviour ranked among the top three reasons for such a decision.
- **Thirdly.** Over half of the survey participants thought that the banking sector showed better marketing ethics towards its clients than the telecommunication sector. In this respect, transparency in the mobile operators’ pricing can be considered an area that needs to be improved in the future.

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**References**


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DOES DISCRETIONARY SPENDING AND ETHICAL RESPONSIBILITY GUARANTEE CUSTOMER LOYALTY?

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Abstract

Customer loyalty is still a major concern to organizations despite the various activities of manufacturing firms in their various host communities. Given this, this paper examines the relationship between discretionary spending, ethical responsibility and customer loyalty. The descriptive survey research design was adopted in the study. The unit of analysis was International Breweries and a purposive sampling technique was used to select sample for the study from the target population. The stakeholder theory was the underpinning theory. The result revealed that there exists a strong significant positive relationship between discretionary spending, ethical responsibility and customer loyalty. Based on the findings, it was recommended that organizations should have a standing committee to oversee the proper implementation, monitoring, control, and evaluation of their discretionary spending and ethical responsibility activities.

Key words: customer loyalty, discretionary spending, ethical responsibility, ethical business

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1. Introduction

In Nigeria, the manufacturing industry area is overwhelmed by multinational companies. To make up for the public authority’s administration disappointments and to secure their financial matters, the organizations frequently take part in corporate social responsibility (CSR). The main facets of CSR are economic - efforts by the organization to make a profit, legal - organizational activities geared towards obeying the law, ethical - pursuance of the organization in ensuring the right things are done when no one is there to ensure compliance, and ethical - organizational activities of being a good corporate citizen (Pirsch, Gupta and Grau, 2007). Historically, the ethical responsibility can be traced back to the CSR rehearsals in the Nigerian oil and gas firms and multinational companies (MNC) which zeroed in on reducing the impacts of crude oil extraction exercises and activities on the neighborhood of their host communities. The organizations give pipe-borne waters, clinics, and schools. Commonly, these drives are impromptu and not dependably supported (Amaeshi et al., 2006). This unplanned and unprepared ethical responsibility and discretionary spending had been noted and criticized as an act of intentional cheating on the host communities by the MNCs (Amusan and Ajibola, 2017; Amusan, 2018).

Tsang (1998) portrays the strategy and approaches connected with ethical responsibility. They characterize the law and practice to maintain the business in a superior manner as organizations that engaged with social responsibility to keep and clean the climate (Tsang, 1998). It is the responsibility of the organization to control the natural contamination and remember its partners.

The foundation of Economic Cooperation (EC) was molded to empower corporate social exercises in the nineteenth century. They begin to produce separate spending plans for corporate social/ethical responsibility and exercises. The United Nations Environment Programs are coordinated by gatherings to secure the public climate by the assurance offices. They took on the CSR strategy for the nation’s progression. Pirsch et al., (2007) perceive the emergence of CSR exercises for Stakeholder theory, which proposed that the organizations’ presence and accomplishment are reported by the acknowledgment of its monetary and non-monetary destinations to the partner’s greatest advantage. It is the organization’s commitment to characterize and choose where to work. This happens when organizations spur and tell about their works and advantages connected with their capacities.

Ethical responsibility has turned into an arising issue in the new business world. The fundamental justification behind an association’s presence indeed is that of benefit augmentation. In a bid to accomplish this objective, the company’s cycles
have not had the option to try not to prompt the degeneration of the climate inside and around it. The outcome has been undesirable work environments and the general climate through the discharge of poisonous substances and other comparable issues (Fooks et al., 2013). This has not saved such firms from sharp reactions to their activities. CSR is an idea by which firms concede to further develop their natural and social performance past legitimate responsibility (Yoon and Lam, 2013). CSR has arisen and grown quickly as a field of study. It has a significant methodology and system for tending to the job of business in the public arena, setting norms of conduct to which an organization must work to affect society while simultaneously maintaining values that bar benefit looking for at any expense. Experimental proof proposes that ethical activities lead to unrivaled market performance (Orlitzky and Benjamin, 2001; Dabas, 2011). The ethical practices can affect consumer loyalty, worker fulfillment, more grounded brand value, and good perspectives toward firms (Brown & Dacin, 2017; Maignan, Ferrell and Hult, 1997; Valentine & Fleischman, 2018). These social advantages increase a firm’s standing and financial performance (Luo & Bhattacharya, 2018; Maignan, Ferrell and Hult, 1997).

The ethical responsibility portrays an organization’s commitment to secure and further develop social government assistance now just as later on, by producing maintainable advantages for partners (Lin, Yang and Liou, 2009). Ethical turned into a basic piece of business procedure for some associations to tend to the social and ecological effects of organizational exercises (Lin, Yang and Liou, 2009; Dabas, 2011). Albeit, many firms use philanthropy, numerous others believe the general public and climate to be the more modest space inside the economy circle (Berete, 2011) while some do not.

Moreover, partners and financial backers request that organizations become all the more socially and ecologically capable. The top administration observe that they were compelled to take on social responsibility to draw in such partners and financial backers (Amusan and Ajibola, 2017; Berete, 2011). Looking at the connection between friendly government assistance and friends’ productivity is over and again being the focal point of study and examination in the space of social responsibility. Meanwhile, it has been argued that a firm could enjoy an extraordinary cutthroat benefit in acquiring monetary or social advantages or both when it utilizes the CSR process abilities that help the association’s essential drives. The connection between ethical responsibility practices and organizational performance has been the focal point of a few investigations in different settings. It is a pledge to further develop the prosperity of a local area through optional strategic policies and commitments of corporate resources (Maya, Lardín-zambudio and López-lópez, 2016).
1.1. Statement of the Problem

Organizations are surrounded by conditions that impact the business environment as a whole. For that purpose organizations focus on their development yet neglect to think about stakeholders’ advantages and the stakeholders are the supporting keys to business growth (Khan, Ahmad and Gee, 2016). Modern organizations are confronted with the challenges of development, innovations increment, and geographical extension across business sectors. As the competitive environment progressively becomes fierce, the main issue the vendors face is no longer to give phenomenal, great quality items or administrations, but in addition to keeping faithful clients who will contribute long haul benefit to organizations (Babor and Robaina, 2013), hence, the burden of this research effort.

1.2 Objective of the Study

The main objective of this study is to evaluate the relationship between ethical responsibility and organizational performance in International Breweries. The specific objectives are to:

i. examine the relationship between discretionary spending responsibility and customers’ loyalty in International Breweries

ii. evaluate the relationship between ethical responsibility and customers’ loyalty in International Breweries

2. Literature Review

Ethical responsibility is a way for an organization to deal with every one of the partners in the association. Ethical responsibility is the organizational effort and activity geared towards acting morally and adding to monetary advancement while working on the personal satisfaction of the labour force. Khan et al. (2016) characterize ethical responsibility as the friendly responsibility of a business that incorporates the monetary, lawful, moral, and optional (humanitarian) assumptions that society has of the association at a given moment.

The ethical responsibility programs have grown tremendously in importance and are now being considered as a prescription for ‘ethical business.’ The reason for the vastness of the subject is that reporting of the firm’s actions has become all the more dominant because investors, customers, and other stakeholders demand greater transparency about the business. It has been claimed that ethical responsibility is now a necessity for all kinds of businesses and is no longer a domain of only large corporations (Kim, Park and Wier, 2012).
A firm cannot, therefore, operate in an environment, reap every fruit from their environment, and not reinvest back in that same environment. The impact of organizations in their environments today is sometimes glaring and sometimes not quite open but quite destructive. For instance, the use of the landed property for factories displacing farmlands and sources of income to the community, having to cause pollution in the case of some food and chemical manufacturing industries. Some firms implement unfair salary or remuneration policies and difficult working conditions/hours, dump waste materials close to residential areas (Amusan, 2018; Kalu and Ott, 2019).

Some engage in gas flaring daily, produce substandard products while some firms hardly maintain good health-care facilities. All these unethical practices impede the image of the organization which is what ethical responsibility tends to regulate and correct within a business environment. Ethical responsibility, which in order words is “economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Carroll, 2021) is proxy in this study by discretionary spending responsibility and ethical responsibility.

2.1.1. Discretionary Spending Responsibility

The organization’s optional spending liabilities involve intentional social inclusion, including exercises like charitable commitments. These exercises are simply intentional, directed exclusively by businesses that want to take part in friendly exercises that are not ordered, not legally necessary, and not by and large expected of business. They give a daycare focus to working moms and give beneficent gifts (Maignan, Ferrell and Hult, 1997).

The contending climate has required the organization to proceed in an arrangement of better items as well as to exceed everyone’s expectations in acting in an altruistic way to charm clients. This involves working in schools, medical clinics, taking part in cultural undertakings, and commitment to brandishing exercises. These demonstrations of offering more than the lawful spending assumption to the general public have expanded value-based impact by clients consistently sought after for the items or potentially administrations of the organization. Magnanimous commitments are related to making mental discernments in the psyche of the clients by positively reviewing the organization (Baskentli et al., 2019). This demonstration of the organization makes clients to be joined even glued mentally to the organization and its items or potential benefits.

For administrators to act capably, they might have made that culture through contributions to some culture. This culture includes the organization and its directors joining a given affiliation which prompts its individuals to act in a socially dependable
way by making appropriate arrangements of impetuses for such conduct (Galaskiewicz, 1991). At the point when supervisors or companies having a place with proficient affiliations are devoted to magnanimous giving, it will support those organizations in generosity giving. Enrollment in such is seen as the main impetus for administrators or partnerships to act in a more moral spending way. The courses given by such enrollments impart in individuals the excellence and advantages of corporate giving. This is reinforced by the friend pressure accumulating from how others are adding to the general public in different territories.

2.1.2 Ethical Responsibility

Ethics “refers to fundamental principles of right and wrong” (Noe et al., 2016, p. 18). Ethics has been defined severally by many authors. Schoeman (2014) said it is “doing what is good and right relative to oneself, the organization and its stakeholders and abiding by the organization’s values and by applicable laws and rules” (Schoeman, 2014; Ajibola, 2018, p. 276). It has been submitted that “business decisions including Human Resource decisions should be ethical, but the evidence suggests that is not always what happens” (Noe et al., 2016, p. 18).

Ethical responsibility, therefore, is “recognizing when the company’s actions might be having an adverse effect on people or the environment, and taking steps to reduce the harm” (Fredman, 2022). Arnett (2016) in Gardiner (2018) argue that “within a corporate environment when I ignore another person’s plight because I do not want to get involved insofar as doing so might hurt my reputation, we are putting our ethical responsibility at risk. In doing so, we not only act irresponsibly but also weaken our humanity” (Gardiner, 2018, p. 36). From the foregoing, concern for others is a result of ethics as proposed by Emmanuel Levinas whose work centers on an ethical approach to interpersonal relationships (Gardiner, 2018, pp. 32–33). Another school of thought believes that it is the ethical responsibility of social workers educators to instill, cultivate, and reinforce self-care skills (Demarchis, Friedman and Garg, 2021).

In leadership, it takes a higher focused individual who relies more on their perception to make ethical decisions in helping the organization to be responsible ethically (Riyanto, Endri and Hamid, 2021). The organization’s leaders are also seen as being ethically responsible for “managing the truth in organizations as Chief Truth Officers (Bouilloud, Deslandes and Mercier, 2017). Ethical responsibility also includes ethical treatment of employees and diversity management (Rabl et al., 2018).

It has been argued that ethical treatment of employees improves recruitment and selection practices of organizations thereby helping customer loyalty and ultimately
organizational growth (Egan, 2006; Ajibola, 2019). Conclusively, ethical responsibility is an antecedent of the organization’s customer loyalty. Though, a study reported that ethical behavior does not have significant role in increasing customer loyalty (Riana, 2021).

2.1.3. Customer Loyalty

The positive impact of customer loyalty has been established empirically in some studies (Lake, 1995; Hallowell, 1996; Jenneboer, Herrando and Constantinides, 2022). Customer loyalty can be viewed under two main classifications: managerial and theoretical (Pirsch, Gupta and Grau, 2007). According to Pirsch et al. (2007), the managerial view of customer loyalty focuses on what customers have to offer the organization which will translate to the organization having a competitive advantage and customer retention, which invariably improves the level of the organization’s profitability. Conversely, the theorists’ view is broader in scope. It focuses more on what the customer do to become and remain loyal to the course of the organization, such as repeat purchase (Pirsch, Gupta and Grau, 2007).

Oliver (1997) surmises that client unwaveringness as a “profoundly held responsibility to rebury or re-belittle a favored item or administration reliably later on, along these lines causing redundant same-brand or same brand-set buying, despite situational impacts and promoting endeavors can cause exchanging conduct”. Client unwaveringness is characterized by Oliver (1999) as a profoundly held responsibility to re-purchase or re-belittle a favored item or administration in the future. According to Oliver (1999), customer loyalty is:

“a deeply held commitment to rebuy or patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior” (Oliver, 1999, p. 34).

Customer loyalty has three main drivers which are customer satisfaction, customer trust, and customer commitment. According to Jenneboer et al. (2022), customers satisfaction is measured by the customers’ past experiences with the organization, trust is about the customers’ expectations about the future and customer commitment is about the investment in the relationship that the customer is willing to engage in. This is represented in Figure 1.
A steadfast client has the resilience to support for some time additionally badly arranged circumstances, for instance, terrible value quality relations.

For a client, reliability is an inspirational perspective and conduct connected with the degree of re-buying responsibility to a brand later on (Pir and Karaduman, 2017). Faithful clients are more averse to changing to a contender exclusively due to cost and they even make a larger number of buys than non-steadfast clients (Bowen and Mccain, 2015). Faithful clients are likewise viewed as the main resources and it is fundamental for organizations to keep steadfast clients who will contribute long-haul benefits to the business associations (Jenneboer, Herrando and Constantinides, 2022). Endeavoring to make existing clients increase their buys is one method for reinforcing the organizations’ monetary development and growth (Nguyen, Quach and Thaichon, 2021).

Previous studies have found significant relationships between customer satisfaction and customer loyalty (Lake, 1995; Hallowell, 1996; Jenneboer, Herrando and Constantinides, 2022).

2.2. Theoretical Review

The underpinning theory for this study is the stakeholder theory. The quest to make riches for stakeholders is the motivating factor in the Stakeholder theory. It is about changing over their stakes into labor and products. The theory was explicated by R. E. Freeman in his book titled: Strategic Management – Stakeholders approach in 1984.
(Freeman, 2018). The theory was introduced as an administrative theory at first and is now a popular theory of organizational management and ethics. As needs are, the organization should be overseen to help its partners both internal and external stakeholders. Internal stakeholders are employees, managers, and owners. The external stakeholders are customers, creditors, suppliers, society, government, and shareholders who keep up with the endurance of the firm (Soldan and Nankervis, 2014; Freeman, 2018).

The dynamic design depends on the attentiveness of the top administration and corporate administration, and regularly it is expressed that such administration should fuse partner agents. The theory is connected with the conviction that organizations commit to constituent gatherings in the public eye other than investors and past that recommended by law or association contact (Jones, 1980). Hence, stakeholder theory considers people with a stake in the organization including investors, representatives, clients, providers, and the nearby local area.

As per Freeman (2018), the partner idea gives a better approach for contemplating key administration. By focusing on essential administration, leaders can start to return an organization to making progress toward progress. Be that as it may, it is additionally a regulating theory that expects the board to have an ethical responsibility to ensure the partnership overall and, associated with this point, the genuine interests of all partners (Freeman, 2018).

From a thin perspective, the term investor incorporates those gatherings that are imperative to the endurance and accomplishment of the partnership (Freeman, 2018). The base authenticity of the stakeholder theory is on two moral standards; guidelines of corporate privileges and rules of corporate impacts (Freeman, 2018). The two standards consider Kant’s announcement regard for people. The previous build-up that the partnership and its supervisors may not disregard the genuine freedoms of others to decide their future (Encyclopedia.com, 2022). The last option zeroed in on the responsibility regarding results by expressing that the partnership and its supervisors are answerable for the impacts of their activities on others. There is the issue of tackling clashing interests between partners (Kipruto, 2014). A few creators, tolerating the essential partner system, have utilized distinctive moral hypotheses to expound on various ways to deal with the stakeholder theory, and explicitly to settle clashing partner requests. The Stakeholder theory underpinned this research work notwithstanding the highlighted criticisms.

3. Methodology

The study used a descriptive research design. For this study, the focus was on the top-level management, middle-level management, and low-level management at the
International Brewery. The population of the study was 174 employees. A sample of 159 was selected for the study using the purposive sampling technique. The data for this study were collected primarily using a questionnaire as the research instrument. It was divided into two parts, namely: the ethical responsibility scale and the customer loyalty scale. Discretionary spending responsibility and ethical responsibility were used as indicators of ethical responsibility while organizational reputation and firm growth were used as indicators of customer loyalty. The data collected were analyzed using Statistical Package for Social Sciences (SPSS version 23). The hypotheses were tested at a 5% level of significance.

4. Results

The first hypothesis formulated stated that: there is no significant relationship between discretionary spending responsibility and customer loyalty. The Pearson correlation coefficient was employed to ascertain the level and direction of the relationship between the criterion and predictor variables. The result of the findings is presented in Table 1.

Table 1

<table>
<thead>
<tr>
<th>Relationship between discretionary spending responsibility and Customer Loyalty</th>
<th>Discretionary spending responsibility</th>
<th>Customer Loyalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discretionary spending responsibility</td>
<td>Pearson Correlation</td>
<td>.582**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>Pearson Correlation</td>
<td>.582**</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.000</td>
</tr>
</tbody>
</table>

Correlation is significant at the 0.01 level (2-tailed)

4.1. Interpretation

Table 1 shows the result of the test of the relationship between discretionary spending responsibility and customer loyalty. It shows a strong positive relationship between discretionary spending responsibility and customer loyalty. The Pearson correlation coefficient, \( r = 0.582 \) indicates moderate relationship. The relationship is statistically significant with a p-value < 0.001 at a 0.05 level of significance. Given this result, the null hypothesis one which states that there is no significant relationship between discretionary spending responsibility and corporate loyalty is rejected. The study, therefore, concludes that there is a significant relationship between discretionary
spending responsibility and customer loyalty. Since the relationship is positive, it implies that an increase in discretionary spending responsibility will result in an increase in customer loyalty.

The second hypothesis formulated stated that there is no significant relationship between ethical responsibility and customer loyalty. The Pearson correlation coefficient was employed to ascertain the level and direction of the relationship between the criterion and predictor variables. The result is presented in Table 2.

Table 2 shows that there is a positive relationship between ethical responsibility and customer loyalty with a Pearson correlation coefficient, $r = 0.508$. The relationship between ethical responsibility and customer loyalty is statistically significant at $p$-value $< 0.001$. Therefore, null hypothesis two which states that there is no significant relationship between ethical responsibility and customer loyalty is hereby rejected. The study, therefore, concludes that an increase in ethical responsibility will lead to the growth of the organization thereby improving the organizations’ customer loyalty.

5. Conclusion

From the study carried out on the selected case study, it was discovered that there is a significant relationship between ethical responsibility and customers’ loyalty. Likewise, also, there exists a significant relationship between ethical responsibility and customer loyalty. Based on the findings, the study concludes that if the organization improves on its ethical responsibilities, there will be an increase in customer loyalty which will then improve the level of the organizations’ general performance in the market.
Recommendations

Consequent to the findings and the conclusion reached, the study recommends that organizations should have a standing committee to oversee the proper implementation, monitoring, control, and evaluation of their ethical responsibility activities. Furthermore, organizations should improve their partnership with the government and its agencies to ensure effectiveness in running their ethical responsibility programs in a well-coordinated manner.

References


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CUSTOMERS’ SERVICE SKILLS AND CUSTOMERS LOYALTY: EVIDENCE FROM SELECTED DEPOSIT MONEY BANKS

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Abstract

The study examines the impact of customers’ service skills on deposit money banks’ customer loyalty in the Abeokuta metropolis, Ogun State, Nigeria. The study specifically examines the effect of problem-solving, verbal and non-verbal communication skills on customers’ loyalty. A survey research design was adopted for the study with an infinite population from three leading deposit money banks. A sample size of 384 was determined using Cochran’s (1977) sample size formula, and the convenient sampling technique was used to select 128 respondents from the designated banks. A self-administered questionnaire was used to collect information from the respondents, which was analysed using descriptive statistics and Covariance-Based Structural Equation Modelling (CB-SEM). The result revealed that problem-solving skills and verbal communication skills had a significant effect on customer loyalty. Non-verbal communication skills had an insignificant effect on customer loyalty. The study concluded that customer service skills significantly influenced banks’ customer loyalty. It was recommended that the banks’ management intensify effort towards building customers’ trust, train staff on how to deal with different customer types and ensure they are committed to doing whatever it takes to satisfy customers.

Key words:
Customer loyalty; Customers’ service skills; CB-SEM; Deposit money banks; Ogun State.

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1] Introduction

Customer loyalty has attracted the attention of many marketing experts because it is essential for modern firms to do their business in a competitive business environment (Abu-Alhaija, Yusof, Hashim, & Jaharuddin, 2017). It is a lifetime asset and a crucial business result because it is necessary for organisations, like deposit money banks, to have devoted consumers since it allows them to obtain a competitive edge (Ali, Kim, Li, & Jeon, 2016). Therefore, every company’s objective is to ensure customers are satisfied with their goods and services. Customers with a great experience with a service provider are likelier to recommend the same to others, enabling such a company to experience an increased market share.

Numerous financial advantages result from customer loyalty, including price premiums, cost savings, and increased sales (Abu-Alhaija et al., 2017). Ofori, Boateng, Okoe, and Gvozdanovic (2017) maintained that gaining and keeping customers’ loyalty in the banking sector is five times costlier than keeping existing ones while attracting lost ones might cost anywhere between 50 and 100 times more. In order to foster long-term client loyalty through effective customer service techniques, deposit money bank management must work to comprehend their customers’ demands and establish a mutually beneficial connection.

One of the most crucial strategies to increase customer loyalty in the banking sector is to improve employee customer service abilities (Williams, Ogege, & Ideji, 2014). Deposit money banks in Nigeria have recognised the necessity to differentiate their goods and services and have come to the conclusion that the best approach to stand out from the competition is to offer exceptional customer service. Hence, offering excellent service that will win consumers’ hearts is one tactical weapon to maintain client loyalty (Abu-EL Samen, Akroush, Al-Khawaldeh, & Al-Shibly, 2011).

Furthermore, deposit money banks must develop staff abilities in customer service since this involves encouraging workers to act in ways that benefit consumers. The bank staff’s responsibility is to foster client loyalty by offering high-quality service that satisfies customers’ needs (Moon & Quelch, 2016). In order to gain the trust of consumers, deposit money bank staff in Nigeria must possess more potent customer service abilities. Therefore, it is advantageous for bank workers to have the requisite customer service abilities to foster client loyalty in a cutthroat industry (Kotler, 2015).

1.2] Statement of the Problem

Customer expectations in the Nigerian banking sector’s post-consolidation era are very high. Regrettably, the hope of many bank customers had been dashed
concerning better customer service skills (Farayibi, 2016). Bank customers have experienced challenges of experienced staff attending to their problems (problem-solving skills), rude behaviours by staff (poor verbal communication skills), and the inability of bank employees to understand their body gestures, facial expressions, etc., (non-verbal communication skills). These problems led to customers switching from one bank to another due to poor customer service skills (Dube & Chari, 2019).

A cursory review of prior studies revealed that limited studies had been conducted in Nigeria regarding customer service skills and client loyalty. The few ones are studies by Ebimobowei and Ekankumo (2012), Ogunnaike and Ogbari (2011), Okoye et al. (2019), and Oyeniyi and Abiodun (2008). As a result, the study continued from where these studies stopped by going a step further using a validated survey scale and multivariate statistical analysis to examine the effect of bank customer service skills on customer loyalty to merge with and validate existing results.

2] Literature Review

2.1] Conceptual Review

2.1.1] Concept of Customers’ Service Skills

Anything a bank’s employees do for customers to improve their interaction with that bank is considered part of their customer service skills. Additionally, the entirety of what an organisation’s workers accomplish to enhance the value of its products and services is what consumers see as excellent skills (Machando & Diggines, 2013). The authors argued further that this is how an organisation adds value to its products and services from a customer’s perspective, resulting in positive word-of-mouth advertising and repeat purchase intention.

2.1.2] The Conceptualisation of the Components of Customers’ Service Skills

Problem-Solving Skills

Customers’ multi-skills, such as recognising, finding, and picking solutions for customers’ problems, are required for problem-solving skills. According to Ali, Iraqi, Rawat, and Mohammad (2018), customers’ problem-solving abilities are critical to keeping consumers in any organisation. Problem-solving is the active resolution of a problematic issue by bank employees. The needs of a service and those of a
customer’s may differ, and they may even be at odds. The ideal way is to develop a creative solution that benefits both parties.

**Verbal Communication Skills**

Information, ideas, and understanding are transmitted amongst individuals or groups through conversation. Words, a collection of symbols, syntax, the rules for mixing words, politeness, being positive, utilising names and titles, and corporate etiquette are all examples of oral conversation abilities. Furthermore, customer-oriented spoken conversation skills include listening abilities such as letting the other individual feel heard, respecting consumer queries, and being responsive and courteous with customers while discussing their difficulties. Therefore, employees’ oral communication abilities influence customers’ views and satisfaction.

**Non-verbal Communication Skills**

Non-oral conversation abilities are vital aspects of customers’ service experience showcased by bank employees. It’s everything, but not words, such as the staff’s ability to read customers’ body language, motions, signals, personality, attire, eye movements, and honesty in servicing the client. Furthermore, the empirical investigation revealed that non-oral conversation accounts for two-thirds of customer messages. In contrast, oral exchange accounts for one-third of customers’ messages (Abu-ELSamen et al., 2011).

### 2.2 Concept of Customer Loyalty

Customer loyalty is defined as the extent to which clients prioritise a producer’s or service provider’s goods and services and choose to use them whenever required (Ali-Zaree, 2014). In the banking sector, loyalty is a sign that customers are more satisfied with a company’s goods and services than competitors (Makudza, 2020). Consumer loyalty behaviour promotes customers to continue supporting manufacturers and service providers over the following five years, claim Zeithaml, Parasuraman, and Berry (1990). According to Sriram (2014), client loyalty includes behaviours including favourable word-of-mouth marketing, plans to make further purchases, price sensitivity, and dissatisfaction. In this regard, customer loyalty is a bank customer’s commitment to remain with their preferred bank rather than switching to alternatives. According to Zhong and Moon (2020), customer loyalty is related to customer satisfaction over time. In this regard, customer loyalty is a commitment to keep a particular bank rather than switching from it to another one.
2.3] Theoretical Review

Assimilation-Contrast Theory

According to the assimilation-contrast model, the gap between expected and actual performance determines whether a person remains loyal to a specific organisation (Peyton, Pitts, & Kamery, 2003). Consumers generally have a level of acceptance or rejection regarding their impressions of any product or service. The user will often modify disparities in views of customer service skills to match past expectations only if the distinctions are minor. According to Peyton et al. (2003), contrast effects emerge, and the customer tends to exaggerate the perceived difference when there is a “big disparity between expectations and perceived organisational serviceability.”

However, it is worth noting that most discrepancies with a given customer’s service skills are accurate evaluations of the product and service based on what customers have experienced, not just magnified or exaggerated differences. Therefore, the user’s assessment of the effectiveness of customer service skills may be expressed emotionally in some instances. The theory is appropriate for this study because it suggests that customer service skills are excellent for permanently preserving customer loyalty. Hence, the following hypotheses guided the study;

\[ H_{01}: \] Problem-solving skills do not significantly affect customers’ loyalty in deposit money banks.

\[ H_{02}: \] Verbal communication skills do not significantly affect customers’ loyalty in deposit money banks.

\[ H_{03}: \] Non-verbal communication skills do not significantly affect customers’ loyalty in deposit money banks.

3] Methodology

The survey research design was adopted in this study. The target population consisted of all the customers with an active account of Guaranty Trust Bank, First bank Nigeria and Access Bank located in Abeokuta South Local Government Area. These banks were chosen because they were the top-ranking deposit money banks with net income of $194.96 billion, $104.68, and $87.99, respectively (Annual Report and Statement of Accounts, 2021). Also, these banks have a more massive customer base than other banks in the Abeokuta metropolis. The choice of considering Abeokuta metropolis was because all the deposit money banks are situated there. Cochran’s (1977) formula was used to calculate 384 samples, as shown below, because the population under study was large, coupled with difficulty accessing the sample frame.
\[ n_0 = \frac{z^2 pq}{e^2} \]

Where;
- \( p \) is the maximum variability, which is equal to 0.5
- \( q \) is the desired level of precision, which is equivalent to 0.5
- \( z \) is the selected critical value of desired confidence level, which is 1.96
- \( e \) is the desired level of accuracy, which is equal to 0.05.

\[ n_0 = \frac{(1.96)^2 (0.5)(0.5)}{(0.05)^2} \]

\[ n_0 = \frac{0.9604}{0.0025} \]

\[ n_0 = 384 \]

Furthermore, the convenient sampling technique was used to select 128 respondents from these banks. However, due to the sensitive nature of the banking business, which could hinder data collection inside the banking halls, the copies of the questionnaire were delivered to the customer care service officers who administered them on behalf of the researcher.

### 3.1 Research Instrument

A questionnaire was the primary data collection instrument used in this study. It was divided into three sections, as elucidated below.

Section one collected data on respondents’ demographics, including respondents’ gender, age, highest educational qualification, and years of relationship with their bank.

Section two collected data on customers’ service skills (problem-solving, verbal, and non-verbal communication) taken from the work of Akroush et al. (2010). Problem-solving skills consisted of four survey items. It measures whether bank employees are proactive enough to solve customer problems. A sample item is “the banks’ employees have the knowledge and ability to deal with me.” Verbal communication skills consisted of four survey items. It is about bank employees’ ability to be polite to customers, be positive, and maintain corporate etiquette. A sample item is “the banks’ employees are careful not to interrupt me while explaining my problems.” Non-verbal communication skills consisted of three survey items. It is bank employees’ ability to read customers’ body language, motions, signals, and eye movements. A sample item is “the banks’ employees can understand my
Facial expressions and impressions.” The items were rated on a 5-point Likert scale (strongly disagree = 1 to strongly agree = 5).

Section three collected data on customer loyalty taken from the work of Orel and Kara (2014). The survey scale has six dimensions, which measured bank customers’ commitment to remain with their preferred bank rather than switching to alternative ones. Each survey item was anchored on a five-point response format (strongly disagree = 1 to strongly agree = 5). An example from the survey items was, “I would continue doing business with my bank ahead of others.”

3.2] Method of Data Analysis

The demographic characteristics of respondents were analysed using frequency counts and percentages. Covariance-Based Structural Equation Modelling (CB-SEM) statistical analysis was used to test the stated hypotheses. CB-SEM was preferred because it is a robust statistical analysis of testing hypotheses compared to regression analysis, which does not control measurement error (Ramlall, 2016). All statistical analyses were conducted using R software version 4.1.1 (R Core Team, 2021).

4] Results and Discussion

4.1] Demographic Characteristics of Respondents

Three hundred and eighty-four copies of the questionnaires were administered to respondents, while 354 were successfully retrieved, representing a 92% response rate. The demographic characteristics of the respondents in Table 1 revealed that most (59%) of the respondents were female. Most (85%) were married, indicating that married individuals dominated the breakdown. Concerning respondents’ age, the majority (71%) were between 36 and 45 years old. This finding implied that adult respondents dominated the survey. All the respondents had one form of formal education, though mostly (47%) Higher National Diploma (HND), which implied they were well-educated. Regarding years of relationship with the bank, the majority (81%) had more than seven years of association with their respective banks. Concerning the type of bank account respondents operated, the majority (56%) operated savings accounts.
### Table 1

**Demographic Characteristics of Respondents**

<table>
<thead>
<tr>
<th>Baseline Characteristics</th>
<th>Respondent</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>142</td>
<td>41</td>
</tr>
<tr>
<td>Female</td>
<td>212</td>
<td>59</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>354</td>
<td>100</td>
</tr>
<tr>
<td><strong>Marital Status</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>54</td>
<td>15</td>
</tr>
<tr>
<td>Married</td>
<td>300</td>
<td>85</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>354</td>
<td>100</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25 – 35</td>
<td>94</td>
<td>26</td>
</tr>
<tr>
<td>36 – 45</td>
<td>253</td>
<td>71</td>
</tr>
<tr>
<td>46 – 55</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>354</td>
<td>100</td>
</tr>
<tr>
<td><strong>Highest Educational Qualification</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NCE/OND</td>
<td>121</td>
<td>34</td>
</tr>
<tr>
<td>HND</td>
<td>168</td>
<td>47</td>
</tr>
<tr>
<td>Graduate</td>
<td>47</td>
<td>13</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>18</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>354</td>
<td>100</td>
</tr>
<tr>
<td><strong>Length of Relationship with Bank (Years)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 to 4</td>
<td>49</td>
<td>14</td>
</tr>
<tr>
<td>5 to 7</td>
<td>17</td>
<td>5</td>
</tr>
<tr>
<td>Above 7</td>
<td>288</td>
<td>81</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>354</td>
<td>100</td>
</tr>
<tr>
<td><strong>Bank Account Operated</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings account</td>
<td>199</td>
<td>56</td>
</tr>
<tr>
<td>Current account</td>
<td>106</td>
<td>30</td>
</tr>
<tr>
<td>Fixed deposit account</td>
<td>28</td>
<td>8</td>
</tr>
</tbody>
</table>
Abideen Olayinka Shodiya, Joseph Olushola Ojenike.
Customers’ Service Skills and Customers Loyalty: Evidence from Selected Deposit Money Banks

<table>
<thead>
<tr>
<th></th>
<th>Joint account</th>
<th>Domiciliary account</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint account</td>
<td>14</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Domiciliary account</td>
<td>7</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>354</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Author’s Computation (2021)*

**Measurement Model**

A measurement model was created to explain how well the observed indicator variables function as measuring tools for the latent variables. However, pre-existing reflective measurement survey scales were applied and tailored to the particular situation. In order to evaluate the measurement model, a two-step analytic procedure was used. First, the pattern by which each observable variable loaded on its corresponding construct was ascertained using a Confirmatory Factor Analysis (CFA). Second, an estimation of the structural model was performed in order to investigate the relationship between the independent and dependent variables. The result of the CFA model revealed that the measurement model showed a good fit. The $\chi^2$ was significant ($\chi^2 = 361.269$, $\chi^2/df$ ratio 1.272, $p = 0.001$), though sensitive to sample size. Anoher model to fit statistics was within the acceptable thresholds as the Goodness-of-fit index (GFI) value was 0.957, which is expected to be higher than 0.9. The Root Mean Square Error of Approximation (RMSEA) value is 0.045, which is expected to be less than 0.8. The Comparative Fit Index (CFI) value was 0.982, which is expected to be higher than 0.9. Therefore, the results mean that the model fits the data perfectly.

**Table 2**

<table>
<thead>
<tr>
<th>Construct</th>
<th>Items</th>
<th>Standardised Factor Loading Estimate</th>
<th>Average Variance Extracted (AVE)</th>
<th>Composite Reliability (CR)</th>
<th>$p$-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Problem-Solving Skills (PS)</td>
<td>PSS1</td>
<td>0.821</td>
<td>0.735</td>
<td>0.917</td>
<td></td>
</tr>
<tr>
<td>Cronbach’s alpha = 0.916</td>
<td>PSS2</td>
<td>0.811</td>
<td></td>
<td></td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>PSS3</td>
<td>0.876</td>
<td></td>
<td></td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>PSS4</td>
<td>0.917</td>
<td></td>
<td></td>
<td>0.001</td>
</tr>
<tr>
<td>Verbal Communication Skills (VC)</td>
<td>VCS1</td>
<td>0.801</td>
<td>0.704</td>
<td>0.905</td>
<td></td>
</tr>
<tr>
<td>Cronbach’s alpha = 0.904</td>
<td>VCS2</td>
<td>0.865</td>
<td></td>
<td></td>
<td>0.001</td>
</tr>
<tr>
<td></td>
<td>VCS3</td>
<td>0.856</td>
<td></td>
<td></td>
<td>0.001</td>
</tr>
</tbody>
</table>
Table 3 shows the factor loadings, Cronbach’s alpha, AVE for customers’ service skills and customer loyalty model. Cronbach’s alpha and the CR were computed to test the reliability of the survey items. The coefficient should exceed the minimum standard of 0.70 (Nunnally & Bernstein, 1994), indicating that it provided a reasonable internal consistency estimate. As shown in Table 2, the coefficients obtained were 0.916, 0.904, 0.915, and 0.917, which exceeded the minimum acceptable values for problem-solving, verbal, non-verbal, and customer loyalty.

The degree to which one measure correlates with another of the same phenomena is known as convergent validity (Hair, Hult, Ringle, & Sarstedt, 2017). The standardised factor loading estimates were used to determine the convergent validity of the constructs in this study. It can be ascertained if the standardised factor loading estimates are higher than 0.5 (Bagozzi & Yi, 1988) and the AVE is higher than 0.5 (Fornell & Larcker, 1981). Table 2 indicated that the standardised factor loading estimates of the reflective indicators ranged from 0.741 to 0.917, which exceeded the recommended threshold of 0.50. Since each standardised factor loading estimate on each construct was more than 0.50, indicating that convergent validity was established.
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Table 3

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<th>Discriminant Validity</th>
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<td>PS</td>
</tr>
<tr>
<td>PS</td>
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<tr>
<td>VC</td>
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<tr>
<td>NC</td>
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<tr>
<td>CL</td>
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</table>

Source: Author’s Computation (2021)

In addition, the square root of the AVE between each pair of factors was calculated to assess discriminant validity, which is expected to be higher than the correlation estimated between constructs. The degree to which unobserved variables are unique and uncorrelated is known as discriminant validity. (Hair et al., 2017). As shown in Table 3, the square root of the AVEs was higher than the corresponding off-diagonal values, thus establishing discriminant validity (Hair, Sarstedt, Ringle, & Mena, 2012).

Table 4

<table>
<thead>
<tr>
<th>Test of Hypotheses</th>
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<tbody>
<tr>
<td>Path</td>
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<tr>
<td>PS -&gt; CL</td>
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<tr>
<td>VC -&gt; CL</td>
</tr>
<tr>
<td>NC -&gt; CL</td>
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</table>

Squared multiple correlations ($R^2$) = 0.683

Source: Author’s Computation (2021)

Table 4 showed that PS was significantly related to CL with a path coefficient of 0.861 and a $p$-value of 0.001; therefore, hypothesis one ($H_1$) was rejected. The finding indicated that bank employees could identify customers’ problems and offer the best solutions. The discovery was in line with Abu-ELSamen et al. (2011) and Ali et al. (2018).

Furthermore, VC was significantly related to CL with a path coefficient of 0.708 and a $p$-value of 0.001; therefore, hypothesis two ($H_2$) was rejected. The finding indicated that bank employees were careful not to interrupt customers while explaining their problems, even if they were busy. The result was not in line with Abu-ELSamen et al. (2011) and Ali et al. (2018).

Lastly, NC was not significantly related to CL with a path coefficient of 0.235 and a $p$-value of 0.285; therefore, hypothesis three ($H_3$) was accepted. The finding indicated
that bank employees could not understand customers’ personalities through their body
gestures, cues and facial expressions while talking to them and in the waiting area. The
finding was in line with Abu-ELSamen et al. (2011) and Ali et al. (2018).

Conclusion and Recommendations

After analysing the data collected, the study concluded that customers’

service skills significantly influenced customer loyalty. Based on the findings, it was

recommended that:

(i) Bank authorities should continuously train their staff in dealing with different

customer types by defining the requirements of their problem and offering the best

possible solutions.

(ii) Bank management should also train their staff not to interrupt customers while

explaining their problems by sympathising and respecting their concerns.

(iii) Bank authorities should train their staff to respect customers’ personalities by

studying their facial expressions, body gestures, and impressions.

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Customers’ Service Skills and Customers Loyalty: Evidence from Selected Deposit Money Banks


ORIGINAL INTERPRETATION OF ATTITUDES IN THE CONTEXT OF ADVERTISING

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JEL: M37

Abstract

Research on consumer attitudes and their change under advertising influence is becoming a defining feature in advertising communication. The present review aims to outline recent advances in social psychology on the concept of “attitude” with an emphasis on the possibility of consumer attitudes being shaped by various advertisements. Some models of attitude formation and change are discussed, as well as some current views on the stability and strength of attitudes as part of advertising. The importance of the general attitude towards advertising, the credibility of advertising, as well as the ways of promoting products and services to achieve the most effective perception, remembering and the achieved impact through advertising is emphasized. Generalizations are synthesized for future research on the different attitudes and achievement of advertising effectiveness as a marketing communication tool.

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1. INTRODUCTION

Attitudes and attitude change are an important feature of modern psychology, social psychology, consumer psychology, personality psychology, and marketing and advertising communication. The growing interest in them is due to the fact that they are the “most distinctive and indispensable concept” for predicting consumer behaviour (Allport, 1935, p. 784, cited by Crano, and Prislin, 2006; Bohner & Dickel, 2011), relating it to the basic understanding of attitude and related constructs (Forgas, and Williams 2000, Forgas et al. 2003, Crano, and Prislin, 2006). The interpretation of attitude strength, and its relevance to ambivalence and resistance are an important part of the theory of planned behavior according to Crano, and Prislin (2006) (Crano, and Prislin, 2006). Offering a selective review by researchers regarding constructionist and stable-entity conceptualizations of attitude (Bohner & Dickel, 2011), as well as examining implicit and explicit manifestations of attitudes, provides some clarification on the causes of attitude change. The relationship between attitude structure and attitude change processes (Gawronski, and Bodenhausen, 2006) shows that attitude formation can occur in many ways (Crano, and Prislin, 2006), the main distinction between them being the degree to which individuals consciously accept or reject an attitude object.

In the present review, the author comments on the contribution of Crano and Prislin (2006) for the period from 1999 to 2004, as well as the selective review of Bohner and Dickel, (2011) for the period from 2005 to 2009. The main aim is to offer a new interpretation on the subject of attitude and attitude towards advertising, and the author seeks to discuss some new research on the effects of different consumer attitudes on the behaviour of consumers exposed to different advertisements. Outlining as many conceptions of attitudes as possible, while highlighting the main debates and studies, cannot offer a complete coverage of the issues on the subject. The present work can serve some companies in the purposeful formation of advertising messages for individual target groups and make some new findings regarding the consumer behaviour of the studied groups.

2. BASIC CONCEPTS OF ATTITUDE

An in-depth commentary on the conceptualization of attitude includes pointing out some key points in the definitions of researchers looking for its human manifestations. From 1999 to 2005, researchers provided useful scientific interpretations of the nature of attitude (Lord & Lepper 1999), developed dual process theories of attitude formation (Chaiken and Trope 1999, p. 34), and were interested in the role of the media in the persuasion process (Bryant and Zillman 2002, p. 67), as well as the measurement
and interpretation of some explicit and implicit attitudes (Greenwald & Nosek 2001; Greenwald et al., 2009; Fazio & Olson 2003; Bassili & Brown 2005). In some scientific subfields, the main functions of attitudes are sought (Maio and Olson, 2000, p. 88), the importance of the attribute with which the manifestation of the attitude is presented (Van der Pligt et al., 2000). According to advertising influence, an important role is played by the development of technologies through which computer-mediated persuasion is realized (McKenna and Bargh 2000, Postmes et al., 2001, Sassenberg & Boos 2003), as well as the application of virtual reality (Blascovich et al., 2002), which lead to additional measurements of the concept of attitude. Therefore, not only the definition and interpretation of attitude is essential to advertising research, but also integrative analysis, which directs attention to emerging approaches to the analysis and manifestation of human attitudes.

Although the fundamental construct of attitude dating back to Thurstone (1928) includes the notion of an evaluative interpretation of cognition and affect experienced in relation to a particular object (Thurston, 1928; Crano & Prislin, 2006), variations in strength have been observed in these evaluative abstractions, which according to other authors affects the persistence, resistance and consistency of attitude and behaviour (Holland et al., 2002, Petty et al., 2004). Therefore, the first question is what are the conditions under which a new attitude is formed, as well as the degree to which individuals consciously accept or reject the object of the attitude. Influence advertising relies on traditional self-report strategies to measure attitude, asking consumers to state their attitude toward a product, service, brand, or company. Recent research and theory in social cognition, however, has made a distinction between these more traditionally measured explicit attitudes and what have been termed implicit attitudes (Gawronski and Bodenhausen 2007; Greenwald et al., 2002, cited by Gibson, 2008, p. 178). According to Gawronski and Bodenhausen (2007) explicit attitudes, which are more deliberative and propositional in nature, but implicit attitudes are more automatic and based on associations in memory (Gawronska & Bodenhausen, 2007, p. 698). The general pattern of results from these studies indicates that consistently pairing positive stimuli with a brand can create a positive attitude toward that brand. The original traditional concept of attitude was based on the view that mere exposure to a stimulus can influence the formation of attitudes at a subconscious level (Bargh, 2001; Lee, 2001), but not change an established attitude because the frequency of exposure is perceived as affectively positive (Winkielman & Cacioppo, 2004). Other research suggests that “subliminal level” processes are unlikely to lead to change (Cacioppo et al., 1992; Till & Priluck, 2000; Walther, 2002; Courbet, 2003). Therefore, offering positive role models of behaviour in advertisements may be
beneficial for consumers who maintain a neutral to positive initial attitude toward recommended products and services such as cigarettes, alcohol, and others.

Concepts of attitude and attitude change are also associated with a selective review that spans the period from 2005 to 2009 and presents mostly constructivist and stable conceptualizations (Bohner and Dickel, 2011). Building on the previous review, the good conceptualizations of attitude are analyzed - (implicit or automatic) and (evaluate or attitude) (Fabrigar et al., 2005), attitude as a stable subject - the MODE model (motivation and opportunity as determinants) (Fazio, 2007; Johnson et al., 2010), as well as a meta-cognitive model (MCM, Petty et al., 2007), both models treating attitudes as long-term memory structures. The definitions that researchers give in a special issue of Social Cognition differ in the extent to which they accept the view that attitudes are stable entities stored in memory against temporary judgments built on the spot from available information (Gawronski & Bodenhausen, 2007). The following table lists some of the main opinions on the definition of attitude, some aspects of it, and conditions for change. (Table 1)

Table 1

<table>
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<tr>
<th>Authors</th>
<th>Definitions</th>
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<tr>
<td>Cacioppo, Marshall-Goodell, Tassinary, Petty (1992)</td>
<td>“When we gain more experience with an attitude object it becomes represented in memory within a richer network of associations. This greater availability of attitude-relevant information in memory, they suggest, leads to less attitude change after being exposed to an evaluative-conditioning procedure” (Cacioppo, Marshall-Goodell, Tassinary, Petty, 1992, p. 209).</td>
</tr>
<tr>
<td>Krosnick &amp; Petty (1995)</td>
<td>„Attitude strength is the extent to which attitudes manifest the qualities of durability and impactfulness” (Krosnick and Petty, 1995, p.2).</td>
</tr>
<tr>
<td>Higgins (1996)</td>
<td>“Judgments are rendered chronically more accessible after having been constructed many times in similar situations with the same result” (Higgins, 1996, p.179).</td>
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</table>
Most definitions treat attitudes either as stable entities (observed in earlier research) or as temporal constructs (found in later research). Some models clearly support either a stable object or a constructivist view, while others take a more intermediate position. On the side of the stable object of the continuum we see the MODE model (motivation and opportunity as determinants) (Fazio, Jackson, Dunton, and Williams, 1995; Fazio, 2007) and the meta-cognitive model (MCM, Petty, Brinol, & DeMarree, 2007), who both treat attitudes as long-term memory structures. In the MODE model (Fazio et al., 1995; Fazio, 2007) the presentation of an object is related to a global assessment; in this way, the meeting with the site will remind of the global assessment through an associative link. The meta-cognitive model - MCM (Petty, Brinol & DeMarree, 2007) makes similar structural assumptions, but includes the possibility that an object is associated with more than one generalized assessment with different associative power. Similarly, in their Associative Propositional Assessment (APE) model, Gawronski and Bodenhausen (2007) view attitudes as constructed in the situation, and they also emphasize two types of implementation process (Gawronski & Bodenhausen, 2007). Also taking a radical constructive view,
Conrey and Smith (2007) emphasize that attitudes are “time-dependent states of the system” and not “static” things that are “stored” in memory “ (Conrey & Smith, 2007, p.720). More intermediate positions are occupied by Eagly and Chaiken (2007), who present a definition that covers the key characteristics of trend, object (or object of attitude) and evaluation (Eagly, and Chaiken, 2007, p. 585). Cunningham et al. (2007) derive an integrated model of reprocessing, which is a combined view that “current estimates are constructed from relatively stable representations of the relationship” (Cunningham et al., 2007, p. 740)

Given the empirical evidence of sensitivity to context versus stability of attitudes, each view has its strengths and limitations (Bohner, and Dickel, 2011, p. 399). While much evidence of sensitivity to the context of evaluative judgments supports a constructivist view, there is also evidence of high stability of many attitudes even in the face of changing situations (Schwartz, and Clore. 2007). Such inter-situational stability seems clear if one assumes that attitudes are stored in long-term memory, ready for access and use when needed, as in the “mental drawer” (Bohner et al., 2008, p. 111). However, stability is also within the explanatory scope of radical design models (Conrey & Smith, 2007). Studies show that judgments become chronically more accessible after being constructed many times in similar situations with the same result (Higgins, 1996). Even if the situational input varies slightly, the overall estimate obtained may remain the same until the valence of the input changes, which again leads to stability over time (Schwarz, and Bohner, 2001). The power of attitude can be defined as “the degree to which attitudes manifest the qualities of permanence and impact” (Krosnick, and Petty, 1995, p. 18). The assumption is that strong attitudes are more stable in different situations and over time and can therefore be constantly recalled, while weak attitudes are less accessible and therefore more susceptible to context.

On the one hand, the researcher considers the constructivist view of attitudes to be powerful in its scope of explanation and at the same time very frugal (Schwarz and Clore, 2007). On the other hand, theories inspired by the file drawer, such as MCM (Petty, Brinol & DeMarree, 2007), although less sparing in their assumptions, generate new hypotheses and stimulate research, as we will see in-down. For future research, it may be useful to combine the strengths of the two approaches and to take into account both stable and changeable aspects of attitudes. Therefore, the initial hypotheses to be tested are as follows:

Hypothesis 0: An attitude is a stable entity that is formed in the presence of a stimulus, based on associations in memory (implicit attitude) or on the direction of thinking about things (explicit attitude).

Hypothesis 1: Attitude is not a stable entity because it has a temporal construct, and the causal relationship to its change is subsequently discovered.
3. ADVERTISING ATTITUDES

Although attitudes can be characterized as simple object-evaluation associations, attitudes may be part of larger sets of knowledge structures (Eagly & Chaiken, 2007, cited by Fabrigar, MacDonald and Wegener, 2005). For example, in advertising, the advertised product or service is perceived as a simple object, and part of the user’s evaluation is the testing of the product, which leads to the creation of cognitive, affective and some conative structures of the attitude. Other evidence supports the idea that evaluative conditioning is most effective for unfamiliar conditioned stimuli (Cacioppo et al., 1992) because the consumer has no preconceived attitude toward a product or service. Conversely, other authors demonstrate that as we gain more experience with an object, it becomes represented in memory within a richer network of associations. This greater availability of attitude-relevant information in memory results in less attitude change after exposure to an evaluation and conditioning procedure (Gibson, 2008, p. 178). Therefore, advertisers must be aware of the attributes associated with established attitudes in order to offer incentives to form new attitudes about individual products and services. This is the reason why many authors in individual years include in their questionnaires a pool statement pertaining to overall attitudes toward advertising, evaluation of various advertising components and other relevant issues (French, Barksdale & Perreault, 1982; Kwan, Ho & Cragin, 1983; Larkin, 1977; Mehta, 2000; Muehling, 1987; Ashill & Yavas, 2005). According to Metha (2000) “print advertising performance is influenced by consumers’ attitudes toward advertising in general and respondents with more favourable attitudes toward advertising recalled a higher number of advertisements the day after exposure and are more persuaded by them” (Mehta, 2000, p. 67). Determining consumer preferences for individual advertisements or specific target groups is therefore the first task of any researcher. According to Muehling (1987) given the increased interest in, and practical importance of, the “attitude-toward-the-advertising” construct, it is imperative to examine more closely the antecedent factors that may influence/shape these ad-specific attitudes (Muehling, 1987, p. 32). The same author through the inclusion of valance thought indices provided additional explanation of global attitudes toward advertising (Muehling, 1987, p. 33). In addition to the need for research on attitude-toward-advertising-in-general, researchers support the idea that attitude toward advertising is multidimensional because these studies include attitude toward a product or service (Mehta, 2000), attitude toward the company (Muehling, 1987), attitude towards components used in advertising and others (Ashill, and Yavas, 2005).

The thoroughness of advertising research also requires determining some of its aspects such as variations in strength, attitude persistence, resistance, as well as
the consistency of attitude and behaviour (Holland et al., 2002, Petty et al., 2004). According to Roskos-Ewoldsen, David and Fazio (1992), attitudes and attitude strength can serve as precursors to object attachment, and also attitudes and the strength of attitudes can influence behaviour, which is an important factor in object attachment (Roskos-Ewoldsen, David & Fazio, 1992). Depending on the type of advertising, its object can be either the company as a whole - image advertising, or a product or service - product advertising. Attitudes toward advertising in general have long been the focus of research, but most of these have been more focused upon investigating the structure of advertising attitudes rather than the generalizability of overall attitude favourability (Schlosser, Shavitt & Kanfer, 1999, p. 36). Although studies on advertising attitudes vary widely in the types of samples used and the data collection methods used, they focus on dimensions of product and service judgment. Respondents are typically asked not only about their overall attitude toward advertisements, but also about their perceptions of products and services, their purchase attitudes, attitudes toward the company, and effect on prices and value of products such as attitudes toward regulatory issues (Kwan, Ho & Cragin, 1983; Larkin, 1977; Mehta, 2000; Muehling, 1987; Ashill, and Yavas, 2005).

In this article, a sequence of the research of attitudes towards advertising is proposed, according to the achievements of the previous studies, as well as directions for future studies.

4. METHODOLOGY FOR TESTING ATTITUDES TO ADVERTISING

The main goal of the Consumer Attitudes Survey is to study the impact of companies’ advertising and communication activities on consumer attitudes, how this impact is achieved and what are the attitudes towards the products and services of the respective companies as part of consumer assessment. The researcher seeks to determine the conditions under which it is possible to influence consumers in building their attitudes to certain products and services, as well as whether changes are possible in the built prejudices.

The research can be conducted through an interdisciplinary approach based on the communication theory of persuasive communication, media studies, psychology and social psychology in the implementation of advertising communication. Creating an original methodology for conducting advertising research is a very complex task and this is explained by the fact that there are no strictly established standard models. The main methods relied on are surveys, group discussions or in-depth interviews, and advertising media are tested for perceiving, understanding, remembering or evoking emotions in order to influence consumer interest. The methodology of the advertising
research includes a total of three main points in the advertising research: Pre-tests - tests conducted before the presentation of advertising (copy tests) on recognition / recall of advertising (recognition / recall) (Starch, 1923) and persuasion / attitude shift (persuasion / attitude shift); (Vakratsas & Ambler, 1999); Basic tests - conducted during advertising; (Hollis, 2004); Tracking studies - used after the end of the advertising performance. (Brown, 1985).

The most widely discussed topic of advertising research in foreign literature is the topic of pre-tests, also called (copy tests). These are quantitative requirements, the values of which are measured and compared with empirically established coupons, on the basis of which it is decided whether and what improvements should be made. The second main group of advertising research is the so-called basic tests (Hollis, 2004), which are conducted during advertising. The third main group of advertising research is the so-called tracking studies to determine the effectiveness of the advertising. The following is established: assisted brand awareness; advertising reminder; diagnostics of advertising performance - liking, acceptance; intentions to make a purchase. The study of consumer attitudes towards advertising can follow the following sequence: 1) study of attitude towards advertising in general, which should include attitude towards the company, attitude towards the product category, attitude towards the company’s products and services. Additional statements about the types of company advertisements would help establish consumer familiarity with the products and services under study, attitude is also defined as long-term memory structures. 2) after establishing a certain targeted group of respondents who have positive or from neutral to positive attitudes towards the company’s products, a survey is conducted with this group, which includes various modules for determining individual attitudes - cognitive, affective and conative; 3) respondents are offered separate statements about the company’s advertisements. Claims must contain the following components: degree of awareness of products and services, usefulness of using the products, promotions, absence of misleading information, presence of purchase incentives and others; 4) affective attitudes are explored through statements about the sensations before, during and after exposure to advertisements; induced moods and feelings during and after making a purchase, as well as in the achieved impact of advertisements after trying the products; 5) conative attitudes are an important part of the study, because they are related to all behavioural changes of consumers - behaviour before trying the product, behaviour during the impact of advertising, as well as some individual reactions of consumers after making a purchase. The researcher should look for the reasons for repeat purchase or the reasons for the lack of one.
5. CONCLUSION

This article offers advertisers and marketers a systematic account and empirical evidence from various studies of the value of attitude toward advertising, and each new study should begin with a general statement regarding the overall attitude toward advertising, as well as an evaluation of various advertising components (Barksdale et al., 1982; French, Barksdale & Perreault, 1982; Kwan, Ho & Cragin, 1983; Larkin, 1977; Mehta, 2000; Muehling, 1987; Ashill & Yavas, 2005). Also, future advertising research should focus on the conditions under which a new attitude is formed, as well as the extent to which consumers consciously accept or reject the object of the advertisement. Another part of the study is the identification of both familiar and unfamiliar conditioned stimuli (Cacioppo et al., 1992), especially when individual consumers do not have preconceived attitudes about some of these stimuli.

Another important point in the study of attitudes towards advertising is the determination of the previous factors that can influence consumers in the formation of certain pre-attitudes (Muehling, 1987, p. 32), because a preliminary negative individual evaluation of products and services would lead to a decline of the influence of incentives in advertising. When identifying certain targeted groups of users, in which there is a strong positive attitude towards a certain product or service, a precursor of attachment to the object of the advertisement, a high degree of impact and effectiveness of advertisements is expected. In order to develop the most suitable scale for measuring attitudes towards advertising, statements from modules with different purposes should be offered for evaluation by users. Names of formed factors are those that have the highest loading on this factor. In some scientific studies, factors such as credibility of advertising and minimization of misleading effects, control of advertised products and services with clearly stated benefits, measuring the economic value of advertising and others are brought out (Ashill & Yavas, 2005). In addition, it can be pointed out that in some studies brand attitudes as well as purchase intentions also determine the positive and negative attitudes that hinder advertising effectiveness (Calfee & Ringold, 1988; Pollay & Mittal, 1993) Therefore, in future studies advertising claims should not be made in such a way that benefits appear overblown or duplicitous, as well as referrals to product benefits should be limited to tangible and not perceived benefits (Ashill & Yavas, 2005, pp. 346-347). In addition, future research should make a comparative analysis between different countries, as well as consider the influence of cross-cultural values in each country, because this would affect the retention, recall and meaning of the advertisements offered, as well as the attitudes that these advertisements would have built.
6. References


FINANCIAL INCLUSION AND GROWTH OF SMALL AND MEDIUM Sized ENTERPRISES: EVIDENCE FROM NIGERIA

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JEL: D14, G21, L26, P4

Abstract

Financial inclusion involves decreasing the number of unbanked population through series of activities that will enhance the participation in the financial system. The objective of this study is examining financial inclusion and its implications on growth of small and medium sized enterprises (SMEs) in Nigeria from 1992 to 2020 using data obtained from the Central Bank of Nigeria (CBN) Statistical Bulletin. The study used the classical linear regression model using Ordinary least square (OLS) and Dynamic Ordinary Least Square (DOLS) to analyse the data. The outcome of the analysis revealed that the growth of small and medium sized enterprises (SMEs) in Nigeria is positively and significantly influenced by financial inclusion. The findings further revealed that government needs to steer up efforts in ensuring the dissemination of all banking services to reach everyone at affordability fees regardless of income group and location.

Key words: Financial inclusion, SMEs, growth and development, Nigeria

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INTRODUCTION

The developmental finance literature has continuously investigated into the relationship between the financial institution in a country and the growth of any economy (Williamson & Maher, 1998; Waqabaca, 2004; Chinaemerem & Chigbu 2012; Nkoro & Uko, 2013; Gründler & Weitzel, 2013; Maduka & Onwukam, 2013; Pan & Wang, 2013). But, to no avail findings have shown that the wed interaction of financial institutions in the developing countries has not enhanced the financial inclusion interest of the economy. The raison de tre behind the inability of the financial development to enhance financial inclusion in emerging countries is the incoherent financial reform laid down to correct and capture in imperfect market attribute which is similar to all developing countries in Africa. This imperfect market limitation of the financial market has the internal capacity to stifle the effectiveness and efficiency of the financial sector in attaining financial inclusion, thereby hindering the availability of financial services and product to the vulnerable people in the economy.

Furthermore, the financial sector witnessed innovations in banks with introduction of e-banking, internet banking and other measures to facilitate their services. Over time, studies have showed that more than 41.6 per cent of most populated African countries on the continent are financial left-out of the financial flow (EFInA survey, 2016). The shortcomings of financial developments in enhancing financial inclusion may propel an increase in the poverty rate especially in a crisis prone economy like the Sub-Sahara African countries (World Bank 2016). For wealth improvement and economic developments to improve in a developing country, it is germane that the citizens have readily access to open bank accounts or access credit and other innovative financial services at a minimal cost. This illustrates that financial inclusion plays a vital part in poverty alleviation globally. This is also important in Nigeria because Small and Medium Scale Enterprises are propellant of employment creation and growth of the economy generally. However, availability of credit is scarce to formal, informal, micro, small and medium enterprises in developing economies. This has continued to crowd out according to Subair and Salihu (2010) most private sector borrowings and thus increased the cost of capital for the SMEs.

In Nigeria, the Small and medium scale enterprises face loads of systematic risk which stifle their ability to contribute their quote towards economic growth. The most visible challenge is the lack of access to funds and inadequate infrastructure especially power supply and insecurity. As observed by Sacerdoti (2005), even the deposit money banks that are not threatened with low liquidity ratio have remained unchanged in granting loans to SMEs, especially on long term basis this grass root institution are considered highly vulnerable with default risk and poor business
record. Small and medium scale enterprises in Nigeria lack the fund and impetus to rival large enterprises in terms of marketing because of what it requires in terms of marketing a product and also holding or hosting a market share. SMEs are supposed to be the lubricant oil to the economic development engine but the operating environment of Nigeria has been unfavourable for them to thrive and compete favourably. Some small and medium scale enterprises found it difficult to continue operation due to unhealthy and unsustainable operating business environment such as poor power infrastructure, high cost of raw materials and production, double taxation by regulatory agencies. In terms of capacity building, only few of small and medium scale enterprises can deploy technocrats and professionals that will take charge of strategic position with the support of information communication technology that can create linkage with the global village. Financial inclusion is the activity of bringing the population that are unbanked into the financial system at the smallest rate both by the service users and service providers (Shankar, 2013). Sacerdoti (2005) depicts that economic growth and developments can be improved through policies that will increase financial inclusion.

The Schumpeter Finance-Led growth theory of (1911) explains the supply-leading technique of the relationship between economic growth and finance. The innovative financial services are considered as an important activity where, financial systems are crucial to attaining economic growth and developments. The financial sector that gives avenue to a well-coordinated financial intermediation process between the deficit sector and the surplus sector would provide the flow of fund within the circular flow of income thereby promoting the growth process. The banking sector serves as a valve that aid in the equitable distribution of deposit between the borrower and the lender. The study of Schumpeter (1911) and Levine (1997) postulated that economic development can be attained when the financial sector is attaining the expected developments. This therefore, conforms to the study of Schumpeter (1911) that validates the relevance of financial products and services in enhancing economic growth.

In the same vein, Schumpeter (1939) further states that for an entrepreneur to have better discovery of new market opportunities and source for available fund proves that he is an innovator. Small and Medium Scale Enterprises (SMEs) are therefore the catalyst behind the large number of creative ideas and innovations that can contribute positively to the economic growth along with employment creation, investments and exports. Small businesses have been claimed by Asmelash (2002) of employing 72,000,000 people. Similarly, Abaka and Mayer (1994) had earlier depicted that the small and medium scale enterprises are the economic hub that creates employment opportunities due to their labour-oriented approach in attaining profit. The small and
medium scale enterprises are the vehicles that new entrepreneurs can ride upon to bring developments to the rural and urban areas through the deployment of labour-intensive technologies that are generally more appropriate for the hub. However, from the study of (Masurel & Montfort, 2006) it is evident that not all small and medium scale enterprises are goal oriented towards growth.

Furthermore, the study of Wong, Ho and Autio (2005) adapted the findings of Solow (1956) and Romer (1986) as well as the neoclassical model of economic growth that is consistent with capital and labour force to study the relationship between technological innovation and economic growth. While Nadiri (1993) used Cobb-Douglas production function to explain the relationship between innovation, output and productivity growth, it was thus concluded that economic growth can be achieved if financial innovation is determined exogenously. The study of Romer (1986) on the endogenous growth model further submits that economic growth is endogenously dogged and supported entrepreneur decisions to take advantage of economic opportunities. This model therefore considered the characteristics of entrepreneurship and further developed innovation process based on microeconomic data with the support of financial institutions.

Subair and Salihu (2010) identified that information asymmetry arising from the Small and Medium Scale Enterprises’ poor accounting records, inadequate financial statements or business plans make it difficult for creditors and investors to access creditworthiness of potential Small and Medium Scale Enterprises’ proposals in Nigeria and thereby making loanable funds difficult to small and medium scale enterprises. Their findings revealed further that the decline in percentage of bank loan to SMEs’ was more prevalent in the manufacturing sector compared to the agricultural sector going by the mean values of 30.2%, 12.2% and 5.6% respectively.

Aremu, Olusoga and Egbekunle (2015) evaluated the cashless policy of the Central Bank of Nigeria. Their finding identified that small and medium scale enterprises are not well educated on the objectives and benefits of financial inclusion especially how it can contribute positively to the growth of the sector. Furthermore, Fadun (2014) then investigated how financial inclusion can serve as a catalyst to reduce poverty alleviation and enhance income redistribution. This is in line with the study of Aremu, Olusoga and Egbekunle (2015), however it recommends the need for continuous effort of all stakeholders in the financial sector to support and promote financial inclusion policy. However, Onaolapo and Odetayo (2014) suggested that micro finance institutions through their customers can serve as an instrument for canvassing financial inclusion based on their findings through personal interview. Therefore, the study of Babajide, Adegboye and Omankhanlen (2015); Onaolapo (2015); Fadun (2014) along with Nwankwo and Ogonna (2014) affirmed that financial
inclusion could alleviate poverty and improve accessibility to financial services in rural areas. However, they failed to give necessary consideration to the implication of financial inclusion on the growth of Small and Medium Scale Enterprises. This could largely be traced to the fact that most of the studies on the nexus between financial inclusion and Small and Medium Scale Enterprises’ growth in Nigerian economy have largely depended on the use of primary data for the analysis of the relationship. It is against the background that this study tends to study the effect of financial inclusion on the growth of small and medium sized enterprises in Nigeria.

METHODOLOGY AND DATA

The dataset for this study have been collected from the Central Bank of Nigeria Statistical Bulletin from the period of 1992 to 2020 culminating to twenty seven (28) years. This period is believed to be broad enough to capture the long-run relationship between financial inclusion and the growth of small and medium scale enterprises going by the various government policies within the period of study. The variables of interest in this study are growth of small and medium scale enterprises (GMS), credit to the private sector (CPS), number of commercial bank branches in rural areas (NCBR) and financial deepening (FD).

Model Specification and Estimation Techniques

The classical linear regression model using the Ordinary least square (OLS) and Dynamic ordinary least square (DOLS) approach is employed in this study for the estimation. The estimated model of this study is evaluated based on a priori criterion, statistical test and economic second order test. The DOLS technique is an alternative approach to OLS, which have certain advantages over the OLS and maximum likelihood procedures as proposed by Stock and Watson (1993). The method improves on the OLS by coping with small sample and dynamic sources of bias. The Johansen Method, being a full information technique, is exposed to the problem that parameter estimates in one equation are affected by any misspecification in other equations. The Stock-Watson Method (1993) is, by contrast, a robust single equation approach which corrects for regressors’ endogenity by the inclusion of leads and lags of first differences of the regressors, and for serially correlated errors by a GLS procedure. In addition it has the same asymptotic optimality properties as the Johansen distribution (Al-azzam & Hawdon, 1999).

The Small and Medium Scale Enterprises’ growth model is therefore modelled as:

\[ GMS_t = f(CPS_t, NCBR_t, FD_t) \]  

(1)
By linearization, \( \ln GMS_t = \beta_0 + \phi \ln CPS_t + \psi \ln NCBR_t + \theta \ln FD_t + \epsilon_t \) (2)

\[
GMS_t = X_t M^t + \sum_{i=m}^{n} \phi_i \Delta CPS_{t=i} + \sum_{i=m}^{n} \psi_i \Delta NCBR_{t=i} + \sum_{i=m}^{n} \theta_i \Delta FD_{t=1} + \epsilon_t
\] (3)

Where: \( M = [\alpha, \beta, \gamma] \), \( X = [\text{CPS}, \text{NCBR}, \text{FD}] \) and \( m, n \) and \( l \) are the lengths of leads and lags of the regressors. Suppose that \( GMS_t \) has been found to be I(1) and at least some of the RHS variables are I(1) or I(0), then OLS and DOLS are obtained by regression analysis of the equation 3.

RESULTS AND DISCUSSION

**Descriptive statistics and normality test**

The mean and median of all the variables in the dataset as presented in Table 1 below lie within the maximum and minimum values. All the variables are positively skewed and highly symmetrical since their means are greater than their medians except for financial deepening and the skewness coefficient is greater than one except for the growth of small and medium scale enterprises and the number of commercial banks in rural areas. Specifically, credit to private sector and financial deepening are positively skewed. The positive values of the kurtosis of all the variables established the fact that these variables are leptokurtic in nature with the exception of credit to private sector. The values of the Jarque-Bera statistics show that the series are normally distributed since the p-values of all the series are statistically significance at 5% as well as 1% level except for growth of small and medium scale enterprises and number of commercial banks in the rural areas. This implies that the null hypothesis that says credit to private sector and financial deepening are normally distributed is rejected but cannot be rejected for the growth of small and medium scale enterprises and the number of commercial banks. Hence, the result shows that while credit to private sector and financial deepening are normally distributed, the growth of small and medium scale enterprises and the number of commercial bank branches in the rural areas are not normally distributed.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Descriptive Statistics and Normality Test of the Parameter Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GMS</td>
</tr>
<tr>
<td>Mean</td>
<td>35057.87</td>
</tr>
<tr>
<td>Median</td>
<td>32374.50</td>
</tr>
</tbody>
</table>

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Correlation Matrix

The test of the correlation among variables of estimates assists to discover whether the variables have high multi correlation. As a result, the parameter estimates may disagree with the theoretical postulates as a result of unexpected effect of multicollinearity among the independent variables (Agung, 2009; Hamsal, 2006). Multicollinearity occurs when the result of the correlation coefficient is above 0.95 (Iyoha, 2004). As a result of this explanation, the table 2 below shows the results of the correlation analysis of set of variables in the model. The table shows that the correlation coefficients for the relationship among the variables (GMS, CPS, NCBR, and FD) are below 0.95; thus, showing that there is no multicollinearity among the variables.

Table 2

<table>
<thead>
<tr>
<th></th>
<th>GMS</th>
<th>CPS</th>
<th>NCBR</th>
<th>FD</th>
</tr>
</thead>
<tbody>
<tr>
<td>GMS</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CPS</td>
<td>-0.558190</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NCBR</td>
<td>-0.333427</td>
<td>0.050044</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>FD</td>
<td>-0.227472</td>
<td>0.454071</td>
<td>0.230081</td>
<td>1</td>
</tr>
</tbody>
</table>

Unit root tests

The table 3a shows ADF statistics for GMS, CPS, FD, and NCBR series which are not stationary at raw level but they are found to be stationary at first difference I(1).
except for CPS, which was significant at 10% in the second difference I(2). Thus, this shows that variables are multi-levelled integrated. This implies that the null hypothesis in respect of these series is rejected; hence, indicating that the series are stationary at raw level I(1).

On the other hand, the ADF statistics for CPS at raw level and first difference are (-1.89, -2.70). When compared with the critical value at 5% (-3.05) in absolute terms suggest that the null hypothesis stating that there is presence of unit root or that the series is not stationary cannot be rejected. However, the ADF statistics value for CPS at second difference (-2.70) with critical value at 5% (-3.06), the null hypothesis is therefore rejected since the critical statistics in absolute terms is less than the observed ADF statistics.

Table 3a

<table>
<thead>
<tr>
<th>Series</th>
<th>t-statistics @ Level</th>
<th>@5% critical value</th>
<th>Prob.</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>GMS, @ Level</td>
<td>-1.4775</td>
<td>-3.0048</td>
<td>.5259</td>
<td>I(1)</td>
</tr>
<tr>
<td>@ 1st Level</td>
<td>-4.7447</td>
<td>-3.0123</td>
<td>.0012</td>
<td></td>
</tr>
<tr>
<td>CPS, @ Level</td>
<td>-2.9809</td>
<td>-3.0048</td>
<td>1.000</td>
<td>I(2)</td>
</tr>
<tr>
<td>@ 1st Level</td>
<td>-1.8655</td>
<td>-3.0521</td>
<td>.3390</td>
<td></td>
</tr>
<tr>
<td>@ 2nd Level</td>
<td>-2.7012</td>
<td>-3.0655</td>
<td>.0954</td>
<td></td>
</tr>
<tr>
<td>FD, @ Level</td>
<td>-1.8105</td>
<td>-3.0048</td>
<td>.3659</td>
<td>I(1)</td>
</tr>
<tr>
<td>@ 1st Level</td>
<td>-4.1601</td>
<td>-3.0123</td>
<td>.0045</td>
<td></td>
</tr>
<tr>
<td>NBCR, @ Level</td>
<td>-2.7064</td>
<td>-3.0049</td>
<td>.0889</td>
<td>I(1)</td>
</tr>
<tr>
<td>@ 1st Level</td>
<td>-6.1952</td>
<td>-3.0522</td>
<td>.0001</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors

* Significant at 1%; ** Significant at 5%; *** Significant at 10%

The study also used Levin, Lin & Chu t* test and Im, Pesaran and Shin W-stat to test for the presence of the unit roots in the data. The result using both techniques showed that growth of small and medium scale enterprises, credit to private sector, number of commercial banks in rural areas are not stationary at level [none is I(0)] at both 1% and 5% level of significance but all were stationary at first difference at both 1% and 5% level of significance using both techniques as shown in Table 3b below. The autocorrelation results from correlogram showed that all the series have no serial autocorrelation problem.
### Table 3b

<table>
<thead>
<tr>
<th>Variables</th>
<th>Levin, Lin &amp; Chu t* test</th>
<th>Im, Pesaran and Shin W-stat</th>
<th>Order of Integration</th>
<th>Autocorrelation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Constant &amp; trend</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Level</td>
<td>First Diff</td>
<td>Level</td>
<td>First Diff</td>
</tr>
<tr>
<td>GMSt</td>
<td>-0.24267</td>
<td>-1.14199</td>
<td>-1.7462</td>
<td>-4.9374</td>
</tr>
<tr>
<td>CPSt</td>
<td>-0.51427</td>
<td>-1.48940</td>
<td>-2.8051</td>
<td>-3.0984</td>
</tr>
<tr>
<td>NCBRt</td>
<td>-0.39913</td>
<td>-1.24020</td>
<td>-2.6137</td>
<td>-3.8721</td>
</tr>
<tr>
<td>FDt</td>
<td>-0.40848</td>
<td>0.95147</td>
<td>-2.1238</td>
<td>-4.0474</td>
</tr>
</tbody>
</table>

* Source: Authors.

* Significant at 1%; **Significant at 5%; ***Significant at 10%

Note: The results of the unit-root test are incorporated into the analysis based on the order of integration. All the variables are with I(1) series because none was stationary at level I(0) but after difference and the probability was computed assuming asymptotic normality.

### Estimated results of Variables

The result of the estimation Table 4a indicated that credit to private sector \( \beta = -0.27888 \),

\[ t = -2.7953, P<0.05 \] exerts a significant negative effect on the growth of small and medium scale enterprises and number of commercial banks in the rural areas \( \beta = -11.4017, t = 3.9429, P<0.05 \) exerts a significant negative effect on the growth of small and medium scale enterprises in Nigeria. The estimate of financial deepening \( \beta = 0.7978, t = 1.5193, P>0.05 \) fails to show any effect on the growth of small and medium scale enterprises in Nigeria rather has positive non significant effect on the growth of small and medium scale enterprises in Nigeria. This suggests that financial inclusion exerts a significant impact on the growth of small and medium scale enterprises in Nigeria. The coefficients of credit to private sector \( (CPS_t) \) are -0.279, this shows that one per cent increase in the amount of credit to private sector leads on the average to 27% decrease in the growth of small and medium scale enterprises in Nigeria. The coefficient of number of commercial banks in rural areas -11.40 shows that a unit increase in number of commercial banks in rural area will on the average leads to 11.40% decrease in the growth of small and medium scale enterprises in Nigeria.

The estimate of financial deepening conforms to the economic acceptability and theoretical postulates while the estimate of credit to private sector and number of
commercial banks in the rural areas fails to conform to a priori expectation in Nigeria. The result of the explained variation shows that $R^2 = 0.43$. This shows that, on the average the explanatory variables accounted for 43% of the variations in the growth of small and medium scale enterprises in Nigeria. Hence it can be concluded that the explanatory variables explained the variations in the behaviour of the dependent variable adequately.

**Table 4a**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>$C$</td>
<td>37.79685</td>
<td>11.21116</td>
<td>3.371361</td>
<td>0.0032</td>
</tr>
<tr>
<td>$\ln\text{CPSt}$</td>
<td>-0.278882</td>
<td>0.099766</td>
<td>-2.795354</td>
<td>0.0115</td>
</tr>
<tr>
<td>$\ln\text{FDt}$</td>
<td>0.797872</td>
<td>0.525145</td>
<td>1.519337</td>
<td>0.1451</td>
</tr>
<tr>
<td>$\ln\text{NCBRt}$</td>
<td>-11.40168</td>
<td>3.942913</td>
<td>-2.891688</td>
<td>0.0093</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.429789</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$\hat{R}^2$</td>
<td>0.339756</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.217278</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sum squared resid</td>
<td>0.896982</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log likelihood</td>
<td>4.672867</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F-statistic</td>
<td>4.773674</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob (Fstatistic)</td>
<td>0.012082</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Authors’ fieldwork using E-view*

**Table 4b**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\ln\text{CPSt}$</td>
<td>-0.572879</td>
<td>0.165926</td>
<td>-3.452620</td>
<td>0.0107</td>
</tr>
<tr>
<td>$\ln\text{FD}$</td>
<td>2.530212</td>
<td>0.938595</td>
<td>2.695744</td>
<td>0.0308</td>
</tr>
<tr>
<td>$\ln\text{NCBR}$</td>
<td>1.637949</td>
<td>9.614538</td>
<td>-0.170362</td>
<td>0.8695</td>
</tr>
<tr>
<td>$\hat{C}$</td>
<td>10.38078</td>
<td>27.08454</td>
<td>0.383273</td>
<td>0.7129</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.866125</td>
<td></td>
<td></td>
<td>4.501500</td>
</tr>
<tr>
<td>$\hat{R}^2$</td>
<td>0.636624</td>
<td></td>
<td></td>
<td>0.269430</td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.162414</td>
<td></td>
<td></td>
<td>0.184649</td>
</tr>
<tr>
<td>Long-run variance</td>
<td>0.021636</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Authors’ Fieldwork using E-view*
The result of the estimation (DOLS) in Table 4b shows that credit to private sector \( \beta = -0.5728, t = -3.4526, P<0.05 \) exerts a significant negative effect on the growth of small and medium scale enterprises and financial deepening \( \beta = 2.53, t = 2.69, P<0.05 \) exerts a significant positive effect on the growth of small and medium scale enterprises in Nigeria. The estimate of number of commercial banks in the rural areas \( \beta = -1.6379, t = -0.1703, P>0.05 \) fail to show any effect on the growth of small and medium scale enterprises in Nigeria rather has positive non-significant effect on the growth of small and medium scale enterprises in Nigeria. Therefore, financial inclusion exerts a significant impact on the growth of small and medium scale enterprises in Nigeria.

The coefficient of credit to private sector (CPS) is -0.57 and thus, shows that one percent increase in the amount of credit to private sector leads on average to 57% decrease in the growth of small and medium scale enterprises in Nigeria. The coefficient of financial deepening 2.53 shows that a unit increase in financial deepening will on the average leads to 253% increase in the growth of small and medium scale enterprises in Nigeria. The estimate of financial deepening conforms to the economic acceptability and theoretical postulates while the estimate of credit to private sector and numbers of commercial banks in the rural areas failed to conform to a priori expectation in Nigeria. The result of the explained variation shows that \( R^2 = 0.87 \). This shows that, on the average the explanatory variables accounted for 87% of the variations in the growth of small and medium scale enterprises in Nigeria. Hence it can be concluded that the explanatory variables explained the variations in the behaviour of the dependent variable adequately.

**Discussion**

The review of literature and theoretical framework revealed that financial inclusion will enhance ability of small and medium scale enterprises to access desired credit for business growth and expansion. Consequently, financial inclusion supports the flow of credit facilities to small-scale enterprises, likewise it increases income stream for the household, provides immediate liquidity/cash flow and absorbs shock of adversity. In order to achieve the broad objective of the study effectively, three independent variables were tested with the aid of ordinary least square (OLS) and dynamic least square (DOLS) econometric techniques for estimation of the model. The result of the analysis reveals that all the variables were stationary at first difference at both 1% and 5% level of significance. The result of the estimation at 5% level of significance found that credit to private sector \( \beta = -0.572879, t = -3.452620, P<0.05 \) exerts a significant negative effect on the growth of small and medium scale enterprises in Nigeria. It was also found that financial deepening \( \beta = 2.530212, t = 2.695744, P<0.05 \) exerts a significant positive effect on the growth of small and medium scale enterprises in Nigeria.
Nigeria. The result reveals that the number of commercial banks in rural areas \([\beta = -1.637949, t = -0.170362, P>0.05]\) does not have any effect on the growth of small and medium scale enterprises in Nigeria.

**CONCLUSION AND RECOMMENDATIONS**

This study evaluates the growth of small and medium scale enterprises (SMEs) in Nigeria and how this is influenced by financial inclusion in its various dimensions (credit extended to private sector, number of commercial banks’ branches in rural areas and financial deepening). While recognizing costs to both the service provider and the service users as the essential problem in achieving financial inclusion, the study notwithstanding convincingly concluded that financial inclusion has a positive and significant impact on the growth of small and medium scale enterprises in Nigeria. However, the negative effect of credit to private sector may have been as a result of small and medium scale enterprises’ low access to credit facilities and the high cost of interest rate associated with available credit for such enterprises. Thus, this can be regarded as a highly volatile sector for bank loan in Nigeria. Full operation of financial inclusion serves as a catalyst for sustainable development of small and medium scale enterprises (SMEs) sectors since the process ensures that all members of the society are captured in the access and usage of the formal financial system at lowest cost.

By implication, in order for financial inclusion to contribute positively to the growth of small medium enterprises, it is, therefore, essential for government and policy makers to develop new mechanisms, strategies and policy that will reduce factors that increase financial exclusion such unemployment, high illiteracy rates, financial inclusion, pay inequality, low interest rate and high transaction cost etc. This study thereby recommends that the Central Bank of Nigeria intervention funds to SMEs through the financial institutions should be enhanced. There is also the need to lessening the stringent banking regulation such as minimum capital base, reserved requirement and account opening documentation by the financial institutions while financial institutions should provide users friendly electronic banking system and accommodate the need of small and medium scale enterprises.

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EFInA (2016). What does the CBN’s Cash-less Policy mean for Financial Inclusion in Nigeria? Enhancing Financial Innovation and Access, Bankable Frontier Associate (BFA)


This study examines the influence of firm performance attributes on the quality of financial reporting of listed non-financial firms in Nigeria within the range of 2012 and 2020. The research design adopted was an ex post facto. A sample size of 72 firms was selected to make up the 648 observations. Descriptive statistics and fixed effect panel regression were used to establish the link between the identified independent variables and the quality of financial reporting. The outcomes reveal that return on asset is connected with the quality of financial reporting positively and significantly while revenue growth influence the quality of financial reporting negatively and significantly. In line with the outcomes, this study suggests that the management of Nigerian non-financial firms should maximize the benefit of their revenue growth chances to issue standard accounting information which will precisely avail expanded chances for the growth of the business.

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1.0. Introduction

The presentation of financial reports by firms is becoming a formality because some of the happenings in many firms negate their reports; in this wise, the quality of financial reporting is questionable. Financial reports are official and complete statements describing the financial happenings of business entities. To make the financial statement transparent, the presentation should not be deceptive while the user can comprehend the presented information without much struggle (IASB, 2008).

The higher the quality of financial reporting, the more important are the advantages earned by investors and users of financial reports (Herath & Albarqi, 2017). Furthermore, over the years, the accounting scandals that took place in foreign financial institutions and Nigeria have raised questions and worries regarding the quality of financial reporting (Agraval & Chadha, 2005; Brown, Falaschetti & Orlando, 2010). Notable firms like Enron, Worldcom, Marconi, Parmalat, Cadbury, and Bank Oceanic have engaged in financial fraud; this reduced the confidence of investors in the management and their published financial reports (Biddel, Hillary & Verdi, 2009).

Firm attributes are described as a firm managerial as well as demographic variables hence, include groups within the firm’s domain (Zou & Stan, 1998 as cited in Egbunike & Okerekeoti, 2018). These attributes cannot be overemphasized because of their importance in determining the standard of financial reporting. Hassan and Bello, (2013) listed seven independent variables which were chosen as substitutes for the firm’s attributes such as institutional shareholding, board composition, leverage, firm size, firm growth, liquidity as well as profitability. They further re-grouped the variables into three, namely: structure variables such as leverage as well as firm size; monitoring variables are institutional shareholding as well as boards’ composition; while performance variables are revenue growth as well as profitability.

Despite numerous measures by foreign financial institutions to boost the standard of financial reporting, which reached its peak at the beginning of International Financial Reporting Standards (IFRS) and its succeeding acceptance by a meaningful number of nations; the wave of firm offense and fraud was retained on a universal extent. Particularly, in 2014, after an examination; Glaxo Smith Kline (GSK) was engaged in widespread corporate corruption to the tune of £320m as a result of the low quality of the financial report (Okunbor & Dabor, 2018). Also, in 2015 the Financial Reporting Council of Nigeria suspended the Chairman, two directors and the CEO of Stanbic IBTC Bank for filing false financial statements between 2013 and 2014 has affirmed this and also shows that the regulator takes the standard of financial reporting issue seriously. Olowokure, Tanko and Nyor, (2015) stated that financial reports in Nigeria are controlled by regulations and standards from diverse approved financial regulatory
entities such as the Financial Accounting Reporting Council of Nigeria (FRC), the Securities and Exchange Commission (SEC), Nigeria Stock Exchange (NSE) to name a few.

Moreover, studies were carried out on performance variables - profitability and revenue growth. Soyemi and Olawale, (2019) disclosed that most profit-making companies possess high quality of financial reporting; consequently, profit-making ought to be a great pointer to good or poor financial reports. Also, they revealed that firm growth had a negative and significant influence on the discretionary accrual of the sampled firms. The study concluded that higher firm growth would lead to improved financial reporting quality.

Hossain et al., (2012) showed that profitability is insignificant with the extent of disclosure of internet financial reporting. Hassan and Bello, (2013) found that profitability significantly influences the quality of earnings of listed Nigerian deposit money banks following the adoption of IFRS. Given the aforementioned problem and findings by several studies that have been undertaken on this topic; Hassan and Bello (2013) submitted a detailed report that firm attributes impact the quality of financial reporting non-financial firms in Nigeria, others are; Okunbor & Dabor (2018), Egbunike & Okerekeoti (2018). Therefore, the study filled the gap of considering the influence of firm performance attributes on the quality of financial reporting of listed non-financial firms in Nigeria from 2012 - 2020.

The broad objective is to examine how the firm performance attributes affect the quality of financial reporting of listed non-financial firms in Nigeria, while the specific objectives are to examine the influence of profitability on the quality of financial reporting of listed non-financial firms in Nigeria and investigate the influence of revenue growth on the quality of financial reporting of listed non-financial firms in Nigeria.

2.0. Literature Review

Hopen and Kemebradikemor (2019) describe financial reporting as the trustworthiness of information divulged in the reporting process of both non-financial as well as financial. There should be an element of truthfulness in the firm’s financial statement at the close of a financial year. Also, a financial reporting refers to the extent whereby financial statement furnishes us with authentic as well as fair information concerning the financial position and achievement of a firm (Tang, et al, 2008). The quality of financial reporting refers to the precise way through which it reveals information concerning a business venture as well as its expected cash flow, planning to notify the shareholder pertaining to a firm’s activities (Verdi, 2006). According to Martinez, et al (2013) the quality of financial reporting is termed as the trustworthiness
of information divulged in the process of financial reporting. The definition inferred that to consider a financial statement as having high-quality traits, it must have the capability to furnish undisputed information concerning the firm’s performance economically.

Profitability is one of the independent variables; it measures a firm’s potential to produce a profit (Ela et al., 2016). It is utilized to measure the degree of the efficacy of total management in generating profits for the firm. The firm’s potential to remain competing with other firms necessitates firms to grow profit-making. The return on assets is the profitability ratio utilized. The firm’s potential to produce profit hangs on the higher return on assets. The high rate of return on assets stipulated the potential of the firm to make profits for the shareholder of the firm as well as giving a positive signal to make profits in that stock prices tend to increase.

Revenue Growth is another independent variable that is described by a change in income extent, is one of the measures for evaluating the future expectations of a firm (Deitiana2011). Sofyaningsih and Hardiningsih, (2011) opined that the firm presents a low level of income will encounter a decline in profit, which specified that the growth possibility is poor. Firm growth is very essential considering inward and outward parties. Considering the inward group, the growth of the firm is a basis for corporate achievement as well as a good measure of upcoming corporate expectations. As regards outward group investors, the growth of a firm is noticed as a beneficial signal for investors, anticipating a pleasant rate of return for their investment (Ulfa & Prasetyo, 2018).

Firm age is the control variable in this study. Paramitha and Rohman (2020) stated that firm age can be ascertained by considering its starting point. It refers to the span of life of a firm from the time it was found till as long as the firm exists. The firm that has been in existence for a longer period will be well known and have vast experience as regards the sector it belongs. Firm age depicts the age of the firm at the point of analysis (Yameen, et al, 2019).

Theoretically, this study was anchored on agency theory that was introduced by Jensen and Meckling (1976). The theory is designed to be an agreement between the owner as well as external auditors to regulate the activity of management. Shareholders assigned duties to be done by management. The duty to be done is mainly running the organization in place of shareholders to achieve their goals and objectives. The most paramount premise of this theory is that the managers are normally encouraged by their benefits as well as work to achieve their benefits rather than considering shareholders’ benefits; as well as boosting shareholder worth, while stakeholders take measures rationally to boost their utility (Toukabri, et al, 2014).
Empirical Review

Mohammadi (2014) investigates the connection between investment efficiency as well as the quality of financial reporting on Tehran Stock Exchange. The results show that 93 firms revealed a connection that is positively significant between investment efficiency and the quality of financial reporting. Also, there was a straight connection between growth opportunities with investment efficiency as well as firm size. Lastly, the author revealed that there exists no connection between the tangibility of assets with investment efficiency as well as cash holdings.

Makori and Jagongo (2013) conducted a study on firm profitability and environmental accounting: An empirical analysis of chosen firms quoted in Bombay Stock Exchange, India. The findings revealed that there exists a negative significant connection between environmental accounting and Return on Capital Employed (ROCE) as well as earnings per share. Also, a positive significant connection exists between environmental accounting and net profit margin as well as dividend per share.

Efuntade and Akinola (2020) investigated the influence of firm attributes on the financial performance of registered non-financial firms in Nigeria. The research design adopted was descriptive as well as cross-sectional being utilized to evaluate the connection between variables of company attributes and financial performance of registered non-financial firms in Nigeria considering 14 years period. Panel least square regression model was utilized to examine the hypothesis. The outcomes revealed that firm attributes: sales growth, firm size, firm age, leverage as well as liquidity were connected significantly with return on asset. The study recommendation is that the management of non-financial firms should create an avenue to enhance as well as acquire the optimal utilization of the firm’s assets while making maximum utilization of their resources in production processes and distribution of done products in order to assist in profits improvement.

Soyemi and Olawale (2019) investigated a study on firm attributes as well as the quality of financial reporting: Evidence from Nigerian non-financial firms. The study showed that firms with high profit possess high financial reporting, so good or poor financial report is determined by a good measure profitability. The authors further showed that, since profit-making is a business result, a firm can either make a loss or gain a profit. This hangs on internal, economic as well as political factors; it is inherent to expect that managers would be delighted to report profit quicker than to report a loss.

Hassan (2015) emphasized a study conducted on the Adoption of International Financial Reporting Standards as well as the Quality of Earnings in Nigerian
Registered Deposit Money Banks. The results of the findings show that companies’
traits (bank growth, profitability, leverage, bank size as well as liquidity) have an
influence that is significant on the quality of earnings following the adoption of IFRS.
The pre-period reveals that the chosen company traits exert insignificant influence on
the quality of earnings. Therefore the deduction was that the IFRS adoption is timely
and right.

Soyemi and Olawale (2019) investigated firm attributes as well as the quality
of financial reporting using a sample of 25 registered non-financial companies on
the Nigeria Stock Exchange between 2009 and 2016. The data were examined
utilizing panel fixed effect regression. The outcomes revealed that firm growth had a
negative and significant influence on the discretionary accrual of the sampled firms.
The study concluded that higher firm growth would lead to improved financial
reporting quality.

Farouk et al. (2019) examined how financial reporting is affected by firm
characteristics using data obtained from a sample of 11 industrial goods firms
between 2011 and 2018. The techniques of multiple regressions were utilized for
data analysis while Roychowdhury (2006) model was employed to measure the
quality of financial reporting. The results of the panel regression revealed that
firm growth has a weak impact on the quality of financial reporting of the chosen
companies.

Hamidzadeh and Zeinali (2015) investigated the impact of sales growth on the
standard of financial reporting in a study of 100 quoted companies on the Tehran
Stock Exchange (TSE). The sampled 100 firms were selected using the systematic
elimination sampling method, and the period covered was 2007 to 2011. The data
collected for the study were estimated using multivariate panel regression. The
outcomes reveal that sale growth influence significantly the quality of financial
reporting of listed firms in Iran.

3.0. Methodology

The research design adopted is ex post facto. A total of 112 listed non-financial
firms comprise the population while a total sample of 72 firms was selected to make
up 648 observations. The selection was done through purposive sampling techniques.
Data for the listed non-financial firms were sourced from their annual reports between
2012 and 2020. Descriptive statistics and fixed effect panel regression were used.
Many of diagnostic tests were conducted including tests such as serial correlation,
heteroscedasticity and multicollinearity. In addition, specification tests for firm effect
and Hausman specification tests were also conducted.
The quality of financial reporting was evaluated using the model modified by Dechow and Dichev (2002). This is given as following Adebiyi and Olowookere 2016:

\[ \Delta WC_{it} = \lambda_0 + \lambda_1 CFO_{it} - 1 + \lambda_2 CFO_{it} + \lambda_3 CFO_{it} + 1 + \lambda_4 \Delta REV_{it} + \lambda_5 PPE_{it} + \varepsilon \]

Where; \( \Delta WC \) = change in working capital, \( CFO \) = Cash Flow from Operations, \( \Delta REV \) = change in revenue, \( PPE \) = property, plant and equipment.

Quality of financial reporting was represented by the residuals for the modified Dechow and Dichev (2002) stated above. Furthermore, the accrual quality was determined by the residuals; the smaller the residuals, the higher the quality of accruals, and vice versa (McNichols, 2002).

Table 3.1

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Variable Label</th>
<th>Measurement</th>
<th>Source</th>
<th>Expected Sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of Financial Reporting</td>
<td>QFR</td>
<td>Discretionary Accrual (DAC)</td>
<td>Adebiyi and Olowookere (2016)</td>
<td></td>
</tr>
<tr>
<td><strong>Independent Variables</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitability</td>
<td>ROA</td>
<td>The ratio of net income to total assets</td>
<td>Soyemi and Olawale (2019)</td>
<td>±</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>REVG</td>
<td>The ratio of the market value of equity to book value of equity</td>
<td>Soyemi and Olawale (2019)</td>
<td>±</td>
</tr>
<tr>
<td>Firm Age</td>
<td>FIRA</td>
<td>Number of years since the firm is listed on the Stock exchange</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors Compilation, 2022

3.1. Model specification

The model specification for this study was based on the lessons learned from the review of both theoretical and empirical literature. To empirically ascertain how firm attributes influence the quality of financial reporting of Nigerian registered non-financial firms, a model put forward by Soyemi and Olawale (2019) was used as specified in functional and stochastic forms.
Where:

\[ DAC_{it} = \lambda_0 + \lambda_1 ROA_{it} + \lambda_2 REVG_{it} + \lambda_3 FIRA_{it} + \varepsilon_{it} \]  

4.0 Results and Discussion

Table 4.1

<table>
<thead>
<tr>
<th>Variables</th>
<th>Obs</th>
<th>Mean</th>
<th>Std.Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAC</td>
<td>648</td>
<td>.076</td>
<td>.1</td>
<td>0</td>
<td>1.109</td>
</tr>
<tr>
<td>ROA</td>
<td>648</td>
<td>1.995</td>
<td>17.34</td>
<td>-79.917</td>
<td>76.267</td>
</tr>
<tr>
<td>REVG</td>
<td>648</td>
<td>10.533</td>
<td>66.453</td>
<td>-100</td>
<td>354.255</td>
</tr>
<tr>
<td>FIRA</td>
<td>648</td>
<td>26.866</td>
<td>13.482</td>
<td>2</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: Authors Computation, 2022

The results in Table 4.1 specify that the firms’ average discretionary accrual within the period is 0.076 with minimum of 0 and maximum of 1.109. The results further reveal the average return on assets of the sampled firms to be 1.99 percent with -79.917 as a minimum and 76 as a maximum. The standard deviation of 17.34 shows a considerably low variation in the return on assets of the companies for the period. In addition, the results reveal that the average revenue growth is 10.533 with a standard deviation of 0.66.45, a minimum of -100 and a maximum of 354.255. It was revealed from the results that the average age of the sampled firms stands at 26.86 years with a minimum age of 2 and a maximum of 55.
Table 4.2

Estimated Pairwise Correlation Coefficients

<table>
<thead>
<tr>
<th>Variables</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) DAC</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) ROA</td>
<td>-0.052</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) REVG</td>
<td>-0.057</td>
<td>0.095**</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>(4) FIRA</td>
<td>-0.077*</td>
<td>0.042</td>
<td>-0.015</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Source: Authors Computation, 2022

\[ p<0.05, \ *p<0.1 \]

The outcomes in Table 4.2 reveal a correlation coefficient between discretionary accrual and return on asset of -0.052 which implies that a weak inverse (direct) relationship exists between return on assets and discretionary accrual. The correlation coefficient of -0.057 between discretionary accrual and revenue growth implies that a weak positive relationship exists between revenue growth and quality of financial reporting among Nigerian registered non-financial firms. The firm age as well as discretionary accrual, has a correlation coefficient of -0.077 which implies that a weak but positive significant connection is expected between firm age as well as the quality of financial reporting.

Table 4.3:

Variance inflation factor

<table>
<thead>
<tr>
<th>Variable</th>
<th>VIF</th>
<th>1/VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1.011</td>
<td>.989</td>
</tr>
<tr>
<td>REVG</td>
<td>1.009</td>
<td>.991</td>
</tr>
<tr>
<td>FIRA</td>
<td>1.002</td>
<td>.998</td>
</tr>
<tr>
<td>Mean VIF</td>
<td>1.007</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors Compilation, 2022

The results of the variance inflation factors (VIF) to test for the presence of multicollinearity are presented in Table 4.3. From the VIF results, ROA has VIF of 1.011 which is the highest while REVG and firm age have VIF of 1.009 and 1.002. Since none of the estimated VIF is up to the threshold of 10, the study could not establish the violation of the classical linear regression assumption of no multicollinearity.
Table 4.4

<table>
<thead>
<tr>
<th>Diagnostic Test</th>
<th>Type of Test</th>
<th>F- Val</th>
<th>P- Val</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heteroskedasticity</td>
<td>Breusch-Pagan</td>
<td>42.71</td>
<td>0.0000</td>
<td>Presence of Heteroskedasticity</td>
</tr>
<tr>
<td>Serial Correlation</td>
<td>Wooldridge</td>
<td>0.007</td>
<td>0.9337</td>
<td>No serial correlation</td>
</tr>
<tr>
<td>Firm effect test</td>
<td>Chow Test</td>
<td>6.36</td>
<td>0.0000</td>
<td>Firm effect exist</td>
</tr>
<tr>
<td>Systematic Coefficient</td>
<td>Hausman</td>
<td>14.81</td>
<td>0.0020</td>
<td>Fixed effect is appropriate</td>
</tr>
</tbody>
</table>

Source: Authors Compilation, 2022

The results of the Wooldridge test for serial correlation with an estimated p-value of 0.9337 in Table 4.4 suggest that the null hypothesis of no serial correlation could not be rejected at all conventional level of significance which implies that the results are free of serial correlation problem. The estimated Breusch Pagan p-value of 0.000 such that the null hypothesis of homoscedasticity is rejected at a 1 percent level of significance. This implies that the data are characterized by heteroscedasticity problems. The study controls for the heteroscedasticity problem by running the regression with robust standard error.

Table 4.4 shows the p-value of 0.0000 which stipulates that the null hypothesis of no effect on the firm is rejected at a 1 percent level which implies that, the model is characterized by firm effect. The choice between fixed effect and random effect techniques is based on the outcome of the Hausman specification. The estimated Hausman p-value of 0.0020 from the results indicates that the null hypothesis that coefficients are not systematic is rejected implying that fixed effect panel regression is more appropriate.

Table 4.5

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>POLS(1)</th>
<th>FE(2)</th>
<th>RE(3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>-0.000255</td>
<td>0.000637*</td>
<td>0.000428</td>
</tr>
<tr>
<td></td>
<td>(0.760)</td>
<td>(0.0608)</td>
<td>(0.253)</td>
</tr>
<tr>
<td>REVG</td>
<td>-8.14e-05*</td>
<td>-6.92e-05**</td>
<td>-7.16e-05**</td>
</tr>
<tr>
<td></td>
<td>(0.0534)</td>
<td>(0.0294)</td>
<td>(0.0221)</td>
</tr>
<tr>
<td>FIRA</td>
<td>-0.000562*</td>
<td>-0.000566</td>
<td>-0.000614</td>
</tr>
<tr>
<td></td>
<td>(0.0822)</td>
<td>(0.626)</td>
<td>(0.219)</td>
</tr>
</tbody>
</table>
In line with the results of the pre-estimation diagnostic tests which suggest the presence of heteroscedasticity, the results of the panel regression are obtained with robust standard error and they are presented in Table 4.5. In line with the outcomes of the Hausman specification test, the study focused on the results of the fixed effect panel regression outcomes.

From the results of the fixed effect panel regression in Table 4.5, the estimated coefficient of -0.000637 indicates that return on assets has a negative influence on discretionary accrual and the corresponding p-value of 0.0608 shows that the negative impact is significant at a 10 percent level. The implication of the results is that return on asset is connected positively and significantly with the standard of financial reporting of the listed non-financial firms. Thus, it was found that a higher return on assets discourages earning management which translates to improved quality of financial reporting. This outcome is in line with the apriori assumption of the study as well as the outcomes in preceding other empirical literature that has recorded a significant positive influence of return on asset on the standard of financial reporting. These studies include that of Soyemi and Olawale (2019) in the study of sample manufacturing firms in Nigeria.

The results obtained for the impact of both returns on asset and revenue growth conform to the management interest alignment proposition of the agency theory which suggests that opportunistic behaviour of the management can be limited by aligning the interest of the management with that of the principal. By implication, the firms
that have good performance have the wider capacity to adequately remunerate the management and thus discourage them from engaging in financial misstatement which would eventually materialize in the production of higher quality financial reports.

For the control variable represented by the age of the firms, the estimated coefficient of -0.00057 indicates that the age of the firm is negatively associated with the discretionary accrual of the firms. The corresponding p-value of 0.626 for the age of the firm however reveals that the impact of age on the standard of financial reporting is not significant. By implication, the age of the firm does not matter in determining the quality of its financial report.

5.0. Conclusion and Recommendations

This study contributes to the empirical literature on the quality of financial reporting by looking at the potential of performance factors in influencing the standard of financial reporting using a sample of registered Nigerian non-financial firms. The results of the fixed panel regression engaged to attain the objective of the study revealed that a firm’s performance factors play significant roles in explaining the standard of financial reporting among Nigerian listed non-financial firms. Especially, the results of the panel regression suggest that return on asset exerts a positive and significant influence on the standard of financial reporting of the firms while other outcomes were established for the revenue growth showing an impact that is negative as well as significant on quality of financial reporting. Firm age also showing the impact is negative but insignificant on the quality of financial reporting.

These findings further reinforce the submission of the agency theory that the standard of financial reporting may be enhanced by aligning the interest of the principal and agent one of which is truly appropriate financial incentives for the management that record good performance. Considering the outcomes, this study suggests that the management Nigerian registered non-financial firms should take the edge of their firms’ growth chances to give standard accounting information which will directly give expanded chances for business development.

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