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ENTREPRENEURIAL CHARACTERISTICS AND ORGANISATIONAL PERFORMANCE OF MEDIUM ENTERPRISES

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JEL: C22, D24, J21, L81 M20, 21

Abstract

This study aims to determine the mechanisms by which entrepreneurial characteristics impact the organisational performance of Medium Enterprises (ME) in South-West, Nigeria. This study surveyed 370 owners/managers of MEs across the six states of South-West, Nigeria, using quantitative methods. And data were collected and analysed using descriptive and inferential statistics. The empirical data reveal that creativity impacted organisational innovativeness; competitive aggressiveness influences organisational innovativeness; and creativity and competitive aggressiveness collectively impacted the organisational innovativeness. Hence, the study concluded that the entrepreneurial characteristics dimension, specifically, creativity and competitive aggressiveness individually and collectively enhanced organisational innovativeness of MEs in South-West, Nigeria.

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DOI: 10.56065/IJUEV2023.67.1.5
1. Introduction

Globally, scholars acknowledged the economic roles and contributions of both Small and Medium Enterprises to the growth and development of nations, resulting from the creation of wealth, employment generation, and creation of products and services (Ivan et al., 2018). Therefore, stakeholders have developed an increased interest like never before to provide a common ground to find a lasting solution to poor performance and failure among these enterprises in order to enhance performance and develop ways to achieve more participants to boost and increase the participation of the sector in a global market. However, the search for businesses to gain market share and improve their competitiveness over their competitors led to the recognition, and the need to be more creative in their business operation while at the same time seeing innovation as a vital ingredient for their survival and enhancing business performance.

Although many factors make a business successful, measuring an entrepreneur's attributes is relatively straightforward. However, every successful business owner has unique skills and personality quirks that set them apart from others in domain-specific competencies and personality traits. On the other hand, firms do well in markets where their competitive advantages stem from their ideas' quality and capacity to innovate.

Liang (2019) opines that the discussions involving government support and promotion, sociocultural trends, and the injection of economic capital have all contributed to the global agenda on the improvement of the performance of small businesses. However, Ayodeji (2015) argues that the performance of small and medium businesses is relatively poor as a result of their poor innovation and creative capability in respect of products and services development, coupled with a lack of competitive aggressiveness among local entrepreneurs, which negatively affects their global competitions, reduces their performance, growth and development when compared with foreign-owned medium enterprises.

The literature review revealed scanty studies on the relationship between entrepreneurial characteristics and organisational performance, considering the creativity and competitive aggressiveness as dimensions of entrepreneurial characteristics, except the studies of Liang (2019); Ivan et al. (2018) that found
entrepreneurship and personality traits to be positively related, and emphasised on entrepreneurs to be more confident and outgoing while being less insecure and amenable. In other words, these few studies did not explicitly focus on the Medium Enterprises (MEs), which are relatively bigger in terms of resources than small enterprises to pursue creativity and drive competition in their products and services globally. Also, few or no available studies tested the combined impact of creativity and competitive aggressiveness on the organisational innovativeness of MEs both locally and internationally.

Further review also revealed that most related studies on entrepreneurship and performance were discussed under a single theoretical framework, specifically on Resource-Based View (RBV) theory or dynamic capability theory. However, only few studies, if not none, were found to adopt a multi-theoretical framework, with entrepreneurship innovation theory and dynamic capability theory as a baseline to empirically explain the role of entrepreneurial characteristics on organisational performance. As a result of these gaps, it has become necessary to assess the mechanisms by which entrepreneurial characteristics impact the organisational performance of medium enterprises in South-West Nigeria.

2.0 Literature Review

2.1. Entrepreneurial Characteristics

Economic growth and competitiveness are two areas where entrepreneurship plays a crucial role over time. Therefore, there is a level of scrutiny placed on the entrepreneur's personality by stating the characteristics and traits that set entrepreneurs apart from managers. According to Rukundo et al. (2016), an entrepreneur is someone who takes the initiative to start a business and sees it through to fruition, despite the possibility of adverse financial, social, or psychological outcomes. Nwite (2016) sees the entrepreneur as a person who is willing to start a new business and is willing to accept complete responsibility for the results. Tanoğlu (2008) as cited in Wardhana and Pangestu (2021), defines entrepreneurial characteristics as a unique synthesis of an individual's mechanisms, personality behaviours, modes of thinking, desires and tendencies, talents, knowledge, personality, and ways of thinking, while Santos (2016) posits entrepreneurship characteristics to be human characters and traits that may influence
people's interpretations and responses to their business environment. Therefore, entrepreneurial characteristics can be defined as human characters and traits that may influence the interpretations and responses of entrepreneurs in their business environment.

2.1.1. Creativity

The personal characteristics of an entrepreneur are essential for the decision-making process that can bring change in the society and the economy. Because, being an entrepreneur is no walk in the park; rather, it requires a constant pursuit of disruption, a willingness to adapt, and the maximisation of opportunity. Personal, social, creative, and practical abilities are all included in entrepreneurial characteristics that help seek out change, welcome innovation and progress, and find endless ways to advance and seize possibilities. Creativity is the creation of original ideas that solve a problem through innovative processes to create a better or new product or gain a competitive advantage in a specific sector. Liu et al. (2018) opined that creativity had positively impacted entrepreneurship intentions, mainly regarding entrepreneurial originality. However, the term creativity is the ability to generate and implement creative ideas that support the launch of new businesses or the revitalisation of the existing product of a business. Anna et al. (2021) state that having the right talents, skills, and characteristics can significantly increase a company's productivity and success.

2.1.2. Competitive Aggressiveness

Competitive aggressiveness occurs when businesses respond negatively to competitors that are taking advantage of current opportunities to grow business and outperform other competitors. Competitive aggressiveness can be seen as a "combative attitude or aggressive response" to achieve a more advantageous market position or triumph over competitors. Meanwhile, Olubiyyi et al. (2019) see competitive aggressiveness as a way businesses actively seek out and exploit opportunities presented by competitors to exceed one's competitors. Therefore, a competitively aggressive business strives to outperform and fiercely fight competitors in a specific market to either break into the market or strengthen its current foothold.
2.2. Organisational Performance

2.2.1. Organisational Innovativeness

In addition to being crucial to the long-term success of any company, innovative organisational practises are increasingly important in today's highly competitive environment. Due to the dynamic nature of the modern business world, entrepreneurs, managers, and academics constantly look for novel approaches to enhance organisational effectiveness, productivity, and performance. Asad (2018) states that product and process, radical and incremental, administrative and technological, are all forms that innovation may take in this highly competitive business environment. Asad (2018) asserted further that organisational innovativeness is vital for survival, enhancing market share, improving performance and providing a competitive edge in any given business environment. Product innovation refers to any change in the way a product is designed, manufactured, or prepared; process innovation refers to any shift in the way a product is created; and innovation procedures refer to any strategy for incorporating products and processes into an organisation's operations (Schumann, 1994). Therefore, the ability of a company to generate such innovations is contingent on the company's resources, in terms of both financial and non-financial resources attributable to the business.

2.3. Theoreticak Framework

2.3.1. Entrepreneurship Innovation Theory

Joseph Schumpeter proposed the theory of entrepreneurship innovation in (1949). Joseph Schumpeter defined entrepreneurs as persons who bring new ideas to a market and have the insight to see how such ideas might contribute to the growth of an economy. Schumpeter states that innovation occurs when an entrepreneur offers a novel product or manufacturing technique, opens a new market, discovers an untapped source of raw materials, or establishes an entirely new organisation in an existing industry. Therefore, this theory is relevant to this study, because firms operate in a highly competitive business environment, and the only way for an entrepreneur to outperform competitors is through the use of innovation and creativity in the company products/services development and process.
2.3.2. Dynamic Capability Theory

Teece and Pisano first explicitly published the ideas of the dynamic capability theory in 1994. They imply that a firm is more endowed than the principle underlying the standard resource-based view would have it believe; it is not just the availability of resources that matters but also the firm's ability to learn and accumulate new skills that ultimately determines competitive advantage. Teece (2012) as cited in Rashid and Ratten (2020), states that the dynamic capacities approach is founded on the entrepreneur's capacity to think creatively, develop new products and services, and adapt quickly to shifting market conditions. Therefore, this theory is relevant to this study, because of the need for a firm's stock of resources to rapidly respond to increasingly dynamically changing environments.

2.4. Empirical Review

Ivan et al. (2018) investigated the potential impact of innovation and creativity on SME profitability in Serbia. The study tested a conceptual model and six hypotheses with a survey of 717 SMEs in southern and south-eastern Serbia using Confirmatory Factor Analysis (CFA) and Path Analysis. The result showed the reliability of the data. Furthermore, the findings highlighted the need for an entrepreneurial mindset that values creativity, innovation, and risk-taking propensity to improve profitability.

Domi et al. (2019) conduct an empirical investigation of the relationship between innovativeness, innovation behaviour and the performance metrics of SMEs. The study involved in-person meetings and collected data for 211 cases that were analysed utilising SEM statistical methods. The findings show that innovativeness is highly associated with innovative behaviour. Even though innovativeness does not directly impact the performance of SMEs, it does have a considerable impact through the mediating role played by innovation behaviour.

The effects of innovativeness and firm resources on the growth of small enterprises in the Ga South Municipality in Ghana were empirically studied by Ayepa et al. (2019). A total of 368 registered SMEs were used as the population for this study, with a quantitative approach using a cross-sectional design on the sample size of 188 derived from the study's population. The respondents were selected using
a simple random sampling technique. The study revealed that both innovativeness and firm resources affected the growth of small enterprises and concluded that SMEs should be more innovative and strengthen and maximise the effective use of resources to boost growth and enhance performance.

Indriastuti (2019) empirical study was on entrepreneurial innovativeness, relational capabilities, and value co-creation on marketing performance of SMEs of apparel fashion industries in Central Java, Indonesia. Purposive sampling method was used to collect data from 150 respondents via a questionnaire. Structural Equation Modeling (SEM) was used with the AMOS software to analyse the data. The study found that relational capabilities significantly affect value co-creation. The study concludes that value co-creation can bridge the gap between relational capabilities and marketing performance.

3.0 Methodology

Descriptive survey research design was employed to investigate the impact of entrepreneurial characteristics on the organisational performance of selected Medium Enterprises (MEs) in South-West Nigeria. The population comprises of 9,654 registered Medium-Sized Enterprises (MEs) in the South-West (MSMEs Survey, 2021). The sample size of 370 was determined using 0.05 margins of error and a 95% confidence level from the sample size determination table developed by Krejcie and Morgan (1970). The researcher also adopted multistage sampling techniques; stratified, proportional, and simple random sampling method to select the respondents across the six states in South-West, Nigeria.

3.1 Model Specification

The model formulated for this study is stated below:

The dependent variable is Organisational Performance, while the independent variable is Entrepreneurial Characteristics.

Based on the above, the model that expresses the relationship between the two variables is specified as follows:

\[ Y = f(X) \]

The independent Variable (X) = Entrepreneurial Characteristics
The dependent Variable (Y) = Organisational Performance (OP)
X = (x₁, x₂), x₁ = creativity, x₂ = Competitive aggressiveness
Y = (y), y = Organisational innovativeness

Functional relationships (fn)
Y = f(X)
y = f(x₁)............................................fn. i
y = f(x₂)............................................fn. ii
y = f(x₁, x₂) .....................................fn. iii

Regression Model
y = α₀ + β₁x₁ + µ  ........equ. i
y = α₀ + β₁x₂ + µ  ........equ. ii
y = α₀ + β₁x₁ + β₂x₂ + µ₁ ....equ.iii

Where α = the constant of the equation
β₁ = the coefficient of variables in the equations;
µᵢ = the stochastic function that accounts for the errors that may arise in the equation.

3.2 Research Instrument

The researcher employed the use of primary data with the use of structured questionnaires adapted from the study of Lumpkin and Dess (1996), and Marina et al. (2018). The questionnaires were administered across the six states in the South-West: Ondo, 43; Oyo, 51; Ogun, 72; Osun, 15; Lagos, 189; and Ekiti, Nil. The questionnaire was designed using a five-point modified scale structure, with responses to individual items ranging from Strongly Agree (SA) to Strongly Disagree (SA). The study also conducted a pilot test to strengthen and modify the questionnaire before distribution to the focus; respondents. Additionally, face, concept, and content validity were assessed using Average Variance Extracted, with scores between 0.8 and 0.9. Kaiser-Meyer-Olkin (KMO) results in between 0.665 and 0.854 reported following the Kaiser-Meyer-Olkin (1974) threshold. Cronbach’s Alpha was also adopted to determine the reliability of the study’s instrument, with the value ranging between 0.837-0.891.
Research Hypotheses

Three null hypotheses were formulated for this study viz.:

i. Creativity has no significant impact on organisational innovativeness of MEs in South-West Nigeria.

ii. Competitive aggressiveness has no significant influence on organisational innovativeness of MEs in South-West Nigeria.

iii. The combined impact of creativity and competitive aggressiveness does not significantly influence organisational innovativeness of MEs in South-West Nigeria.

4.0. Results and Discussion

4.1. Test of Hypotheses

**Hypothesis One:** Creativity does not have a significant impact on the organisational innovativeness of MEs in South-West Nigeria

Table 1 shows the regression analysis of the interaction between Creativity and Organisational Innovativeness with an (R) value of 0.835, which indicates a positive interaction. The result also indicates an R Square value of 0.697; this indicates that creativity is responsible for roughly 69.7% of the organisational innovativeness of MEs in South-West Nigeria.
MEs. The stochastic error factor accounts for the remaining 30.3% of changes driven by causes or variables excluded in this model. Table 1 further revealed that this model is statistically significant with $F_{tab} (4,369) > F_{cal} 210.010$, and (Sig .000) less than 0.05 threshold.

Table 2

Contribution of Each Predictor Variable on Organisational Innovativeness

<table>
<thead>
<tr>
<th>Model 1</th>
<th>Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>Unstandardised Coefficients</td>
</tr>
<tr>
<td></td>
<td>B</td>
</tr>
<tr>
<td>1</td>
<td>-.397</td>
</tr>
<tr>
<td>The enterprise continuously allocated budget to foster the growth of research and development on innovation</td>
<td>-.231</td>
</tr>
<tr>
<td>The enterprise is always working on something new, be it a product or a process</td>
<td>.468</td>
</tr>
<tr>
<td>The business is always on the lookout for information on the potential integration of new technologies and processes</td>
<td>.323</td>
</tr>
<tr>
<td>The focus of the company's investment strategy is on emerging technology in the industry</td>
<td>.534</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Organisational Innovativeness

Source: Author’s Computation (2022).

The regression coefficients for each independent variable's effect on the criterion variable are displayed in table 2. A standardised beta coefficient of 0.496 was found after analysis that the enterprise is always working on something new, be it a product or a process. This result reveals a substantial and distinctive contribution of this variable with 49.6% in explaining organisational innovativeness.

The result of the analysis that the business is always on the lookout for
information on the potential integration of new technologies and processes gives a standardised beta coefficient value of 0.272, and this reveals a 27.2% contribution of this variable to organisational innovativeness.

The result of regression coefficients based on the focus of the company's investment strategy on emerging technology in the industry reveals a standardised beta coefficient of 0.460. The result suggests that a 46% increase in the rate of organisational innovation may be attributed to a 1% rise in the willingness to invest in new technologies among MEs in the sector. The results that the enterprise continuously allocated budget to foster the growth of research and development on innovation gives a standardised beta coefficient of -0.229. This result means a 1% increase in this variable led to a 22.9% reduction in organisational innovativeness of MEs in South-West Nigeria.

From the overall results, the sig. value was 0.000 less than 5% critical value threshold. Hence the null hypothesis was rejected. Therefore, the study concludes that creativity does have an impact on the organisational innovativeness of MEs.

**Hypothesis Two:** Competitive aggressiveness has no significant influence on the organisational innovativeness of MEs in South-West Nigeria

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.892*</td>
<td>.795</td>
<td>.794</td>
<td>.590</td>
<td>.212</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>495.176</td>
<td>3</td>
<td>165.059</td>
<td>473.828</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>127.497</td>
<td>366</td>
<td>.348</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>622.673</td>
<td>369</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Organisational Innovativeness

b. Predictors: (Constant), Competitive Aggressiveness

*Source: Author’s Computation (2022).*

The summary of this model in **Table 3** gives an (R) value of 0.892, and an R Square value of 0.795; it means that competitive aggressiveness accounts for about 79.5% of contribution to organisational innovativeness. The stochastic error term
captures the remaining 20.5% of changes because it is driven by causes not included in this model. Table 3 further indicates that this model is statistically significant with $F_{	ext{tab}} = 3,369 > F_{	ext{cal}} = 473.828$, and $p$ value less than 0.05 threshold.

### Table 4

**Contribution of Each Predictor Variable on Organisational Innovativeness**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardised Coefficients</th>
<th>Standardised Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>constant</td>
<td>-.475</td>
<td>.128</td>
<td>-3.703</td>
</tr>
<tr>
<td></td>
<td>Our company is intensely competitive</td>
<td>.119</td>
<td>.023</td>
<td>.123</td>
</tr>
<tr>
<td></td>
<td>When dealing with market competitors, our company typically takes an aggressive stance to outsmart the market.</td>
<td>.870</td>
<td>.033</td>
<td>.794</td>
</tr>
<tr>
<td></td>
<td>The company actively works to eliminate competition in the market.</td>
<td>.126</td>
<td>.033</td>
<td>.115</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Organisational innovativeness  

*Source: Author’s Computation (2022).*

Regression coefficients for each independent variable's contribution to the criterion variable are shown in **Table 4**. The standardised beta coefficient is calculated to be 0.794 for the MEs, that when dealing with market competitors, the enterprise typically takes an aggressive stance to outsmart competitors in the market. This result makes a contribution of 79.4% in explaining organisational innovativeness when the variation explained by all other factors in the model is controlled.

The firm's competitiveness in the operating sector shows a standardised beta coefficient of 0.123. The result means a 1% increase in being intensely competitive led to a 12.3% increase in the rate of organisational innovativeness of MEs in South-West Nigeria. The standardised beta coefficient contribution on the company
actively working to eliminate market competition indicates a 0.115 value. This result reveals that a 1% increase in active work by the company to eliminate competition in the market led to an 11.5% increase in the rate of organisational innovativeness. Therefore, the overall results show p-value of 0.000 less than the 5% threshold. As a result, hypothesis two was rejected. In light of these findings, the study concludes that competitive aggressiveness influences the organisational innovativeness of MEs.

**Hypothesis Three:** Creativity and Competitive Aggressiveness do not significantly enhance the organisational innovativeness of MEs in South-West Nigeria.

### Table 5

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.804a</td>
<td>.647</td>
<td>.645</td>
<td>.774</td>
<td>.128</td>
</tr>
</tbody>
</table>

Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>2</td>
<td>201.436</td>
<td>336.334</td>
<td>.000b</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>367</td>
<td>.599</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>622.673</td>
<td>369</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Organisational Innovativeness

b. Predictors: (Constant), Creativity, Competitive Aggressiveness

*Source: Author’s Computation (2022).*

**Table 5** shows the model summary of the interaction between the combined impact of creativity, competitive aggressiveness, and organisational innovativeness with an (R) value of 0.804, and R Square value of 0.647; means that creativity and competitive aggressiveness collectively account for about 64.7% contribution to organisational innovativeness. Although the stochastic error term captures the remaining 35.3% of changes, they are not accounted for in this model. The result
further indicates that this model is statistically significant with $F_{tab} (2,369) > F_{cal} 336.334$, and sig value less than 0.05 threshold.

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficients</th>
<th>Standardised Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-.875 .176</td>
<td>-4.962 .000</td>
<td></td>
</tr>
<tr>
<td>Creativity</td>
<td>.461 .070</td>
<td>.319</td>
<td>6.626 .000</td>
<td></td>
</tr>
<tr>
<td>Competitive aggressiveness</td>
<td>.778 .070</td>
<td>.533</td>
<td>11.057 .000</td>
<td></td>
</tr>
</tbody>
</table>

The regression coefficients for how much each independent component of entrepreneurial characteristics contributed to the criterion variable were revealed in Table 6. The result shows that a standardised beta coefficient for creativity is 0.319. When the variance in the model caused by other factors is controlled, the creativity of MEs led to a 31.9% rise in the rate of organisational innovation. The result further revealed a standardised beta coefficient of 0.533 on the competitive aggressiveness, indicating that a 1% increase of competitive aggressiveness of MEs led to a 53.3% increase in contribution to organisational innovativeness. Therefore, the sig value of 0.000 is less than the 5% critical value, making a shred of solid evidence to reject the null hypothesis three for this study. Hence, it is concluded that the combined impact of creativity and competitive aggressiveness impacts the organisational innovativeness of MEs.

### 4.2. Discussion of Findings

Hypothesis one for this study was tested with the aid of Regression, that creativity does not impact MEs' organisational innovativeness. The result in Table 1 reveals the interaction between creativity and organisational innovativeness of MEs in the South-West, with an (R) value of 0.835, which reveals a positive interaction.
between creativity and organisational performance. The result of R Square reveals a value of 0.697, indicating a total contribution of about 69.7% of creativity to the organisational innovativeness of MEs. Therefore, the null hypothesis one was rejected, implying that creativity has a significant impact on organisational innovativeness of MEs in South-West, Nigeria. The findings are consistent with the study of Ivan et al. (2018) assertion that creativity and innovation affect the performance of the SME sector.

More so, hypothesis two for this study was tested with the aid of Regression, that competitive aggressiveness does not influence the organisational innovativeness of MEs. The model summary shows the interaction between competitive aggressiveness and organisational innovativeness with an (R) value of 0.892. This shows a positive interaction between competitive aggressiveness and organisational innovativeness. The result further reveals R Square value of 0.795; it means that competitive aggressiveness accounts for about 79.5% contribution of organisational innovativeness of medium enterprises in South-west Nigeria. Therefore, the null hypothesis two was rejected, implying that competitive aggressiveness significantly influences the organisational' innovativeness of MEs in South-West Nigeria. The findings confirm the findings of the study of Egwakhe et al. (2021) assertion that competitive aggressiveness enhances performance.

Finally, hypothesis three for this study was tested with the aid of Regression, that the combined impact of creativity and competitive aggressiveness does not influence the organisational innovativeness. The table displays the results of the combined interactive effect of creativity and competitive aggressiveness on the organisational innovativeness, with an (R) value of 0.804. This shows a positive interaction between creativity and competitive aggressiveness on organisational innovativeness. The result also displays an R Square value of 0.647; it means that creativity and competitive aggressiveness collectively account for about 64.7% of organisational innovativeness of medium enterprises. This provides substantial evidence against the null hypothesis three; hence, the null hypothesis three was rejected, implying that creativity and competitive aggressiveness collectively has a significant impact on organisational innovativeness of MEs in South-West, Nigeria. The finding is consistent with the study of Egwakhe et al. (2021); Ivan et al. (2018); who assert that creativity and innovation affect the performance of enterprises.
5.0. Conclusion

This study investigates the impact of entrepreneurial characteristics on the organisational performance of Medium Enterprises. The findings revealed that creativity impacted organisational innovativeness of MEs. The finding further reveals that the competitive aggressiveness of MEs influences the organisational innovativeness of MEs. This study concluded that the entrepreneurial characteristics dimension, specifically creativity and competitive aggressiveness has the unique capacity to enhance organisational innovativeness and improving organisational performance of MEs. The study also emphasizes the need for MEs owners/managers in paying utmost attention by continuously engaging and reassessing their innovation strategies to improve the creation of new products and services. And also develop possible strategies that can be implemented to support MEs competitiveness in the global market.

Organisational effectiveness can be predicted to be influenced by internal characteristics such as the creativity and aggression in the face of competition displayed by the company's owners and managers. Therefore, to improve the performance of medium enterprises, creativity and competitive aggressiveness are indispensable characteristics of owners/managers in a competitive business environment.

5.1. Research Contribution

The key value-added of this study is filling a gap in the existing literature on entrepreneurial characteristics and organisational innovativeness, specifically on medium enterprises. Further, the study aids in discovering how managers and owners of MEs may prioritize creativity and competitive aggressiveness to improve organisational innovativeness and overall performance of medium enterprises.

5.2. Research Implications

As well as theoretical ramifications, this research also has the following research implications: This research will be helpful for business owners and managers of MEs to understand how creativity and competitive aggressiveness techniques can improve organisational innovativeness. The study will help MEs owners and managers know and identify benefits of creativity and competitive
aggressiveness to organizational innovativeness, and, equally create awareness among all the stakeholders in the MEs sector on the collective importance of creativity and competitive aggressiveness to organisational performance.

5.3. Research Limitations and Future Research

The study met its objectives, but there were some inherent methodological constraints. Because the managers were contacted through a survey, which records their opinions on the study variables and strategies, it is only possible to evaluate how these strategies were implemented within the organisation through this instrument. Because of this, the outcomes obtained cannot be taken as final.

Regarding future research, these findings can be used to pinpoint any research gaps for potential future studies. Also, it is essential to incorporate specific moderators, such as market orientation and technological capability to further evaluate how these variables moderate the relationship between entrepreneurial characteristics and organisational innovativeness.

References


Science, 9(1), 102-114.


ROLE OF THE HIGHER ECONOMIC EDUCATION 
FOR THE DEVELOPMENT OF ECONOMIC ACTIVITY IN VARNA

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JEL: K 230

Abstract

The article examines the role of the higher economic education in the Higher School of Commerce, which was founded by entrepreneurs and whose successor is the University of Economics - Varna, for the training of highly qualified personnel for the economy and for the development of economic activity in the region. The Higher School of Commerce was opened by Order No. 7177 of 28 September 1920 of the Minister of Commerce, but even before the opening of the first Bulgarian universities, Bulgarians began to seek to acquire knowledge for the needs of the developing commercial activity during the Renaissance. The aim of this paper is to analyse the relationship between higher economic education and entrepreneurship - at the time of the establishment of the Higher school and our modern times - in the light of a historical overview. The practical necessity of analyzing the tendencies and challenges for the future development of the university stems from its contribution to the training and professional realization of student-economists. In conclusion and as a result of the research, conclusions and summaries are made regarding the role of the higher economic education for the economic development of the Varna region.

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Key words:
history of law; history of education; business; economic education.


DOI: 10.56065/IJUEV2023.67.1.24
Introduction

Before the Liberation there were no universities in the Bulgarian lands. The actual history of our higher education began in the late 19th century (Popov, 2001, p. 208). In the period until 1944, eight higher schools were opened in Bulgaria: 1) The Higher School in Sofia (today Sofia University); 2) the Higher School of Commerce in Varna (today the University of Economics - Varna); 3) the Balkan Middle East Institute (Free University - today the UNWE); 4) the Academy of Music; 5) the Academy of Arts; 6) the Higher School of Commerce in Svishtov (today DA Tsenov Academy of Economics); 7) The Higher school of Technics in Sofia (today TU - Sofia); and 8) Higher School of Physical Education in Sofia (today NSA) (Dimitrova, 2016).

Despite the fact that the establishment of universities started relatively late in Bulgaria, Bulgarian higher education has its historical traditions, and the University of Economics-Varna has over 100 years of history. It was opened as a Higher Commercial School by Order No. 7177 of 28 September 1920 of the Minister of Commerce (Bliznakov, et al., 2001, p. 21). Acts of the National Assembly were subsequently passed confirming its status as a higher school.

The first higher school of economics in Bulgaria was opened on the initiative of the Varna Chamber of Commerce and Industry. On 14 May 1920, during the 25th session of the Chamber, a decision was made to establish the Higher School of Commerce, today the University of Economics-Varna. Initially, the most important tasks of the newly established chamber were to replace the fading craftsmen' associations and to advise central executive authorities (Ministry of Trade and Agriculture) on problems of economic policy and life, and also to have arbitration functions in disputes between merchants and industrialists. No less important, however, is its role in organising secondary and higher commercial education. Its undoubted merit is the start of vocational education in the region, which then covered 19 districts (Tabakov, et al., 2010).

From a historical perspective, economic ideas underlie economic development, which in turn provokes the need for specialized professional knowledge for those engaged in productive or commercial activities. Consequently, the development of economic education in turn contributes to the prosperity of economic activity in the
Varna region. In this sense, the article examines the role of the Higher School of Commerce, which was created by entrepreneurs, for the training of highly qualified personnel for the economy and for the development of economic activity in the region. The practical necessity of analyzing the trends and challenges for the future development of the university stems from its contribution to the training and professional realization of economics students.

The history of the Higher School of Commerce has repeatedly aroused research interest and has been the subject of study by economists (Bliznakov, 1995; Tsonev, 1995; Bliznakov, 1995 and historians (Rusev, 2014; Rusev, 2020), but has not been thoroughly examined through the prism of legal science. This justifies the need to fill this gap in the literature and to clarify the issues concerning the establishment of the Higher School of Commerce in the context of the creation of New Bulgarian law. Law is the main regulator of social relations, but it is characteristic for the period after the Liberation that the dynamically developing economic activity and economic relations overtook the creation of legislation to regulate them. This put its mark on the way the Higher School of Commerce was established and initially developed.

Given the above, the scientific aim of this paper is to provide a normative analysis of the relationship between higher education and entrepreneurship at the time of the establishment of Higher School and in our contemporary times in the light of a historical review. In pursuing this aim, the authors set themselves the following tasks:

1. To examine the initial period from the establishment of the Higher School of Commerce until 1945, on the one hand, in the context of the creation of the New Bulgarian Law, and on the other hand, in the light of the entrepreneurial idea of the Varna Chamber of Commerce and Industry.

2. To clarify the relationship of the economic specialties of the University of Economics - Varna with the development of economic activity in the region today, by analyzing the current legislation in the field of higher education.

3. To draw conclusions and summaries about the legal framework regarding the linking of the Bachelor's and Master's degrees in economics with economic practice.

The research methodology includes historical comparative legal analysis, current normative analysis and summary method.
1. The entrepreneurial idea for the establishment of the Varna Higher School of Commerce

After the Liberation, Varna became a centre of attraction for young and ambitious people, as the development of the city from the mid-19th century was closely linked to the export of food by sea. The socio-economic shape of Varna in this period was determined by two main factors - firstly, the development of trade and secondly, the transformation of the city into an administrative and military centre. The life of the whole city was set up to serve the large maritime trade. The engine of change in Varna became the clerks and freelancers who settled in the city in the 80s and 90s of the nineteenth century (Denchev, 1998, p. 64 – 74).

The socio-economic processes taking place in Varna, of course, are not an isolated phenomenon, but are typical for the whole country. The liberation of Bulgaria is an event of paramount importance for our new history (Tokushev, 2008, p. 27). The new economic relations need a regulatory framework to regulate them. The Tarnovo Constitution was adopted (16.04.1879), and with its amendment by SG No. 15 of 1 January 1893 the Ministry of Trade and Agriculture was established, later changed to the Ministry of Trade, Industry and Labour (promulgated in SG No. 149 of 1911).

On the basis of the first Bulgarian Constitution the establishment of the different branches of law began. The established national legal system in the period immediately after the Liberation is referred to as "New Bulgarian Law" (Tokushev, 2008, p. 161), an important part of which is commercial law. It regulates very important relations for the new society. The merchant class needed its own law, with the norms of which to regulate the relations between merchants. But in the first years after the Liberation, the existing legislation (the Commercial Law of the Ottoman Empire of 1850) was still applied in our country, which no longer met the public needs and the rapid economic development of the country (Tokushev, 2008, p. 202 – 204). In order to stimulate trade and give impetus to the development of the economy in the Principality of Bulgaria in 1897, the first Bulgarian Trade Law was adopted (State Gazette No. 114 of January 1, 1897).

The legislation of this period, however, was far from being limited to the Commerce Act. Two years earlier, the first Law on the Chambers of Commerce and Industry had already been adopted (State Gazette No. 21 of 27 January 1895), as a
result of which such chambers were established initially in Sofia, Plovdiv, Varna and Ruse, and later in Burgas. Thus, the necessary stimulus for the progress of the national economy was given. At the same time, a whole series of measures was taken to support and protect craftsmen and traders. These legislative measures and economic policies pursued by the Bulgarian governments at the end of the 19th century are described in the literature as “state protectionism” of domestic production, aimed at overcoming the historical backwardness and accelerating the pace of capitalist development (Veleva, 2005, pp. 19, 28).

According to the Law on Chambers of Commerce and Industry of 1895, the chambers are directly subordinated in organisational and administrative terms to the central executive authority - the Ministry of Commerce and Agriculture. Their functions are mainly advisory and are limited to giving opinions on legislative bills in the field of trade and industry, on opening new chambers of commerce, on tariffs for customs and octroi (levies - my note Darina Dimitrova), on opening educational institutions for providing commercial education (Article 11 of the Law on Chambers of Commerce and Industry of 1895). In spite of their limited functions, the chambers were active in various fields of their activity: they supported and promoted trade, crafts and industry; carried out business research; developed professional education; carried out a promotional and publishing mission; expanded international contacts and cooperation (Veleva, 2005, p. 77).

A few years later, a new Law on Chambers of Commerce and Industry was adopted (State Gazette No. 10 of 13 January 1907), which did not regulate significant changes in either the status or the functions of chambers. However, the Law on Chambers of Commerce and Industry of 1907 provides for a much more detailed legal regulation of the activities of chambers and their relations with the Ministry of Commerce and Agriculture.

What is remarkable about the activities of the Chambers of Commerce and Industry is that along with their contribution to the modernization and development of commerce, as well as to the support and promotion of crafts and industry in the country, there is also a significant contribution to the development of vocational education. Between the end of the 19th and the beginning of the 20th centuries, the most widespread were temporary general education, craft and trade courses. Another important direction in the activity of the chambers is the individual subsidies for
specializations at home and abroad. Most significant, however, is the chambers' contribution to the development of the country's trade schools. In this respect, with their initiatives they were even ahead of the state (Veleva, 2005, pp. 241, 253).

The Varna Chamber of Commerce and Industry was particularly insistent in its initiative to open a commercial school and in 1904 it opened a secondary commercial school, which grew into the Higher Commercial School (Bliznakov, et al., 2001, p. 12). Thus, the Varna Chamber of Commerce and Industry is the only one to establish a university, the other chambers only established secondary vocational schools in the field of commerce and industry. The prerequisites for the rise of business education are rooted in the rapid economic development of the Varna region during this period. And the entrepreneurial spirit of the Varna Chamber of Commerce and Industry was at the heart of the idea to establish the Higher School of Commerce.

The University of Economics - Varna was established as a Higher School of Commerce following a decision of the 25th session of the Varna Chamber of Commerce and Industry, approved by Order No. 7177 of 28 September 1920 of the Minister of Commerce (Bliznakov, et al., 2001, pp. 19 – 21). Acts of the National Assembly were subsequently passed to regulate its status as a university. For example, according to Article 222 of the Law on the Amendment and Supplement to the Law on National Education (State Gazette No. 87 of 21 July 1921), as an already opened higher special school was pointed the Academy of Commerce (Higher School of Commerce in Varna - my note Darina Dimitrova) (Dimitrova, 2016), and in the Ordinance-Law on Private Higher Schools (State Gazette No. 80 of 12 April 1938) under the name "Varna Commercial Academy“. From 1938 to 1945 it was the Higher School of Economic and Social Sciences, which in 1945 was rebuilt into the State University "St. Cyril Slavyanobulgarski" (this was done by law - promulgated in SG 191 of 18 August 1945). Since 1953 it has been the Higher Institute of National Economy, named after Dimitar Blagoev since 1960 (1). The Higher Institute of National Economy "Dimitar Blagoev" was transformed into the University of Economics - Varna by the decision of the National Assembly (promulgated in SG 68 of 1 August 1995).

The limited scope of the present study does not allow to examine in detail all these stages through which the University of Economics-Varna has passed in its development. The analysis focuses on the initial stage from the establishment of the
Higher School of Commerce until 1945. What is specific of this period of its existence is that it is not recognised as a legal entity, and this has significant legal implications. The disadvantages of this are mainly twofold: firstly, unequal treatment in relation to the other universities of the period which had legal personality; secondly, strong financial and therefore managerial dependence on the Varna Chamber of Commerce and Industry.

The status of a legal entity makes the higher education institution an autonomous legal subject, which may independently acquire rights and obligations and be responsible for them, and also participate in legal relations with other legal subjects on its own behalf and on its own account. The Higher School of Commerce was recognised as a "legal personality" and received legislative regulation only in 1945, when it was nationalised by the Ordinance-Law on the State University of "St. Cyril Slavyanobulgarski" in the town of Varna (promulgated in SG 191 of 18 August 1945). In the period until the adoption of the first general Law on Higher Education (State Gazette No. 153 of 5 July 1947), other higher education institutions did not have the status of legal entities - for example, the Academy of Music and the Academy of Arts. The reasons for this are to be found in the fact that, during this period, legislation in the field of higher education was scattered in numerous normative acts and there was no unified state policy regarding higher education institutions (Dimitrova, 2016). In the period after the Liberation, the development of social and economic processes was so dynamic that it anticipated the adoption of legislation, which with its norms would regulate the new social relations. This once again shows the importance of the role played by the Varna Chamber of Commerce and Industry in that era, the strength of the entrepreneurial spirit, foresight and strategic thinking ahead of the time of the founders of the University of Economics – Varna.

The legislative practice in the period from the Liberation to 1944 was to regulate the legal status of each higher education institution by a separate legal act. However, no such law was adopted for the Varna University of Commerce until 1945 and it existed for 25 years without being explicitly regulated by law. However, in spite of the lack of a special law for the Higher School of Commerce and its subordination to the Varna Chamber of Commerce and Industry, it should be noted that this initial period of its development leaves a bright trace in the history of
Bulgarian higher education. It was the first university with an economic profile in Bulgaria, which became a centre of economic science.

Based on the above, certain conclusions and summaries can be drawn about the relationship between higher education and entrepreneurship in the initial period of the establishment of the Higher School of Commerce. On the one hand, with its opening, the Varna Chamber of Commerce and Industry undoubtedly has merits for the development of higher economic education not only in the city, but also in the country. On the other hand, the foregoing shows that an important role in the development of economic activity in the region was also played by the Higher School of Commerce, opened precisely as a result of the fact that Varna became a large maritime trade center for the scale of the Principality of Bulgaria (Knyazestvo Bulgaria). Thus, since its establishment until today, in its more than 100-year history, the University of Economics - Varna has trained hundreds of thousands of economists who have successfully realized themselves in their professional field (2).

2. Relationship between the economic specialties of the University of Economics - Varna and the development of economic activity in the region

According to the historical overview, the entrepreneurial idea has accompanied the activities of the Higher School of Commerce from its establishment to the present day. It has played an important role in the development of economic activity in the region over the years and up to the modern period. In recent years, especially after the adoption of the Strategy for the Development of Higher Education in the Republic of Bulgaria for the period 2014 - 2020 (3) and the subsequent Strategy for the Development of Higher Education in the Republic of Bulgaria for the period 2021 - 2030 (4), the lack of connection and mismatch of curricula and programmes with the needs of the labour market (Andreeva & Yolova, 2019) and practice has been mentioned as one of the main problems facing higher education (Mineva-Dimitrova, 2016; Zareva, et al., 2014, pp. 66 - 74) (5). In this regard, the following objectives are formulated in the strategy: “item 5.3. Building a sustainable and effective link between higher education institutions and the labour market and achieving a dynamic match between the supply and demand of graduates” and “5.8 Expanding and strengthening the lifelong learning network; extensive use of various electronic forms of distance learning”, which is also relevant to
the above-mentioned issues, and in items 6.3 and 6.8 respectively, activities and measures are envisaged to achieve these objectives. In 2018, the legislator also provided for the normative regulation of the relationship between higher education and the labour market and the economy by adopting the Law on Supplement to the Higher Education Act (promulgated in SG No. 98 of 27.11.2018, in force from 27.11.2018). Supplemented is Article 26, paragraph 1 Higher Education Act (HEA) (promulgated in SG No. 112 of 27.12.1995) – „Following a decision of the Faculty (School) Board concerned, up to 10 per cent of the total number of lectures and seminars in the training course in a bachelor’s educational and qualification degree and up to 20 per cent of the total number of lectures and seminars in the training course in a master’s educational and qualification degree can be also delivered by prominent experts from the practice“. The possibility of conducting academic hours by prominent experts from the practice in the bachelor’s educational and qualification degree and master’s educational and qualification degree programmes is introduced, with a limit of 10, respectively 20 percent of the total number of study hours. So far, there is no explicit regulation for attracting specialists from practice in the HEA, although higher education institutions have invited them as guest lecturers in various forms. According to the explanatory memorandum to the bill of the law, this amendment enables higher education institutions to include specialists in the training of staff, and in no small amount - 10 or 20 per cent of the total curriculum. The expectation is for a better adaptation of curricula and curricula plans to the new social realities, in particular the economy and the labour market. It is explicitly noted that this should not undermine the academic character of higher education. Further, in Article 26 paragraph 8 items 3 and 7(6) of the HEA, the powers to attract prominent practitioners are included in the scope of the General Assembly of the Faculty Board. Accordingly, a new paragraph 5 has been added to Article 52 of the HEA, according to which, within its autonomy (Slavova, et al., 2019) higher education institutions shall lay down in their regulations the procedure and conditions for such a decision by a Faculty Board. The remaining additions provided for in Article 35b paragraph 8 and Article 45 paragraph 2 of the HEA concern the possibility for employers' representatives to submit proposals for updating the curricula and programmes, respectively, to be included, exceptionally, in the state commission when conducting the state examinations.

In the Strategy for the Development of Higher Education in the Republic of Bulgaria for the period 2021-2030 some progress in this direction is reported - there
is a convergence of higher education institutions with the business. However, the problem persists given the rapid pace of development of social relations. Strengthening and expanding these links should be pursued in order to match the supply and demand for highly qualified professionals. There is still a mismatch between the needs of the labour market and the training offered in higher education institutions. In this respect, the new strategy also sets similar objectives - Objective 7 "Building an effective education-science-business link" and Objective 8 "Enhancing the role of higher education as an active factor for regional development by providing for appropriate measures". In 2020, the Act on Amendment and Supplement to the Higher Education Act (State Gazette No. 17 of 25.02.2020) provides in Article 9, paragraph 3, item 1a of the HEA, that the Minister of Education and Science shall adopt “National Higher Education Map of the Republic of Bulgaria, which determines the profile and territorial structure of higher education in Bulgaria in terms of occupational fields and specialisations within regulated professions, taking into account social and economic development and the needs of the labour market”. This map was adopted by Decision No 538 of 22.07. 2021 of the Council of Ministers and has been coordinated with the nationally representative trade unions and employers' organisations (Article 10, paragraph 2, item 1a HEA). Along with the provided in Article 9, paragraph 3 item 1a HEA objective of structuring according to "socio-economic development and labour market needs", objectives of the map are also to identify "the needs for the development of higher education by region" and to support "the formulation of policies for the balanced development of the network of higher education institutions according to the needs of the regions and ...... in accordance with national and regional needs and the forecasts for future development of the labour market." The creation and updating of this map according to the dynamic changes in the labour market is important and will influence the role of higher education institutions in the development of regional economic activity.

The following conclusions can be drawn from the analysis of the legal provisions: a legal framework has been adopted regulating the attraction of practitioners in the training process and thus creating the relation between higher education and the labour market. The objectives, the measures and activities for their achievement, set out in the Strategies for the Development of Higher Education, as
well as the creation of a National Higher Education Map of the Republic of Bulgaria, help to develop this relation and to strengthen the role of higher education institutions in the development of a competitive economy, in particular regional economic activity.

University of Economics - Varna has undertaken amendments in its Regulation of the activities (7) with the decision of the General Assembly of 26.11.2020 to update the provisions and bring them in line with the amendments in the HEA. Thus, in Article 33, item 4a of the Regulations, the functions of the Faculty Board have been supplemented with the one to approve proposals for the attraction of prominent experts from the practice in accordance with Article 52, paragraph 5 of the HEA, in item 20 of the Regulations to approve and control their teaching load, and in Article 64, paragraph 5 of the Regulations with the possibility that up to 10/20 per cent of the total number of teaching hours may be conducted by prominent experts from the practice. This amendment in the Regulations was made about two years after the adoption of the legal amendments, but the University of Economics - Varna maintained an active relationship with the economy and business in the region and the country before its introduction. The examples of this are numerous - starting from the numerous agreements concluded with representatives of business and state administration in the region and at the national level, organizing conferences, round tables and other forums for the exchange of ideas with business, and last but not least the Bachelor Programme "Judicial Administration" introduced in 2017 in accordance with the needs of the practice and in coordination with the National Institute of Justice, some of whose students have already been successful in their realization and are working in the regional administrations of the judiciary (8). The College of Tourism at the University of Economics – Varna trains qualified personnel for the needs of the Black Sea resorts. In addition, members of the academic staff of the University of Economics-Varna not only maintain contact with the business, but also carry out consulting, auditing and other activities for it. It is impossible not to mention the established in the period 2013-2015 Innovative Network for Cooperation between the University of Economics - Varna and Business (UEBN), developed within the framework of Project BG051RO001-7.0.07-0036 "Innovative Partnership Network for Sustainable University-Business
Cooperation" (9) with partners Varna Chamber of Commerce and Industry and Lucian Blaga University - Sibiu, Romania. The platform has registered over 8200 students, about 8200 graduates, over 2700 employers, 820 business experts, over 160 prospective students, over 180 experts from the University of Economics - Varna, over 2400 internship and job ads and over 4900 reported internships. The platform is a place not only for connections with business, but also for supporting the successful realization of students. From the analysis of the internal regulations of the University of Economics it can be concluded that they are updated and aligned with the national regulations. And the mentioned examples of connection with business show the active work and practice of the University in this direction.

On the one hand, as a result of the changes introduced in recent years, the better preparedness/training of young professionals is positively reported (10). On the other hand, there is no shortage of critics of the increased interconnection between higher education and the business/labour market. They raise a number of questions such as: why students are seen only as a workforce and not as people with diverse interests to whose development higher education institutions can contribute; why the main task for universities is shifted from providing fundamental theoretical knowledge to focusing on practical skills, turning them into “craft schools”; why a policy of early and narrow professional specialisation is introduced rather than train students/individuals/ with individual qualities (leading to dehumanisation) (11). Others argue that globalization has also led to the massification and commodification of education, with the requirement of the educational service being less about the transfer of knowledge than about training students to find the information they need (Kanev, 2002; Andreeva & Yolova, 2022). Undoubtedly, the main goal of higher education is the formation of individuals, providing them with fundamental knowledge at an academic level and supporting their realization not only in economic activity, but also as members of society. However, one cannot deny the role and importance of practical knowledge, which only a prominent practitioner can provide. In this regard, a balance should be found between the knowledge provided which continues the spirit of traditional academic higher education and does not relegate it to “craft training”, but also reflects the spirit of the new times, including some practical knowledge and skills in response to the demand and requirement of
Higher education institutions are at the heart of regional development (Georgieva, 2016) and every region should have a strong higher education sector (12). Since its establishment and up to the present day, the University of Economics - Varna has traditionally continued to maintain the relationship with entrepreneurship not only in the region, but also nationally. It is no coincidence that the motto of the University is "with academic traditions into the future". Scientific achievements, the results of scientific research, the organization and holding of scientific forums and discussions on problems and challenges that have arisen before representatives of business and the state administration contribute to the development of a competitive economy, to support in solving them. The university continues to be one of the main "pillars" of economic education in Bulgaria, training economists and thus playing an important role in the development of economic activity in Varna and the region. However, for the effectiveness of this interrelationship for the development of the region, business should also support the improvement of the quality of higher education not only with prominent experts from practice, but also through funding to support scientific research activity, appropriate stimulation of highly qualified employees and workers, so as not to they leave Bulgaria. We believe that the University of Economics - Varna will continue to fulfill this role as a response to the challenges posed by the new era and succeed in turning higher education into "an engine, not a situational mirror of the economy or the social sphere" (13).

Conclusion

As a result of the research, the following more important conclusions and summaries can be made regarding the role of higher economic education for the economic development of the Varna region:

First, given the lack of in-depth research on the history of the Higher Commercial School through the prism of legal science, the authors hope through the present work to shed light on the stated problem with a view to enriching the doctrine. This will fill a gap in the literature regarding the emergence of higher economic education in the context of the creation of the new Bulgarian law. At the same time, the trends and challenges facing the future development of the university, resulting from its contribution to the training and professional realization of the
economics students, are highlighted.

Second, the period from the establishment of the Higher School of Commerce to 1945 was studied in the light of the entrepreneurial idea of the Varna Chamber of Commerce and Industry. Based on the above, conclusions and summaries have been made regarding the relationship between higher education and entrepreneurship in the initial period since the establishment of the Higher Commercial School. The merits of the Varna Chamber of Commerce and Industry for its establishment and for the development of higher economic education not only in the city but also in the country are indisputable.

Thirdly, the connection of the economic study programmes of the University of Economics - Varna with the development of economic activity in the region nowadays has been clarified, through an analysis of the current legislation in the field of higher education. From the analysis of the regulatory framework, it is concluded that the relation of economic study programmes with business practice shows positive trends for the future development of the university and its contribution to the training and professional realization of economics students.

Notes

1. Decree Renaming the State University in the city of Stalin into the Higher Institute of National Economy (№ 288-KНИК) – State Gazette No. 68/1953 ; Decree naming the Higher Institute of National Economy in Varna the Higher Institute of National Economy "Dimitar Blagoev" (№ 210) – State Gazette No. 46/1960

6. According to Article 26 paragraph 8, item 3 of the HEA: approves the attraction of prominent experts from the practice in accordance with Article 52, paragraph 5; According to Article 26 paragraph 8, item 7 of the HEA: annually approves and controls the academic workload of the members of the academic staff, including the attracted prominent experts from the practice under item 3


8. More about possible forms of cooperation see in "Relationship between education and business - necessary evil or conscious partnership", https://vanyapavlovblog.wordpress.com/2018/06/17/%D0%B2%D1%80%D1%8A-%D0%B7%D0%BA%D0%BC%D0%B5%D0%B6%D0%B4%D1%83- %D0%BE%D0%B1%D1%80%D0%B0%D0%B7%D0%BE%D0%B2%D0%B0- %D0%BD%D0%B8%D0%B5-%D0%B8-%D0%B1%D0%B8%D0%B7%D0%BD%D0%B5%D1%81-%D0%BD/

9. https://uebn.ue-varna.bg/bg/page/1

10. The best universities are next to business. The true path to quality higher education https://www.bmgk.bg/%D0%BD%D0%B0%D0%B9- %D0%B4%D0%BE%D0%B1%D1%80%D0%B8%D1%82%D0%B5- %D1%83%D0%BD%D0%B8%D0%B2%D0%B5%D1%80%D1%81%D0%B8- %D1%82%D0%B5%D1%82%D0%B8-%D1%81%D0%B0-%D0%BD-%D0%B8-%D0%B1%D0%B8-%D0%B7%D0%BD%D0%B5%D1%81/

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OWNERSHIP STRUCTURE AND VOLUNTARY DISCLOSURE AMONG NIGERIAN LISTED NON-FINANCIAL FIRMS

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JEL: M41, M40

Abstract

Investors are concerned with the disclosure of information by management of firms to make relevant and timely decisions, therefore, this study investigates the influence of ownership structure on corporate voluntary disclosure of listed non-financial firms in Nigeria. The population of the study consists of all non-financial listed firms on the Nigerian Exchange Group. Using purposive sampling technique, the study selected a total of 67 listed non-financial firms having the required information necessary for the study between year 2011 to 2020. The study employed the dynamic panel Generalised Method of Moment (GMM) technique to analyse the data. The system GMM results revealed that block and institutional ownership exert positive significant influence on the disclosure of voluntary information by listed non-financial firms in Nigeria while the impact of managerial ownership was positive but not significantly associated with corporate voluntary disclosure.

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DOI: 10.56065/IJUEV2023.67.1.41
1. Introduction

Corporate disclosure is a significant tool used by corporate investors to make appropriate and feasible investment decisions. Firms’ disclosure increases the confidence of present and prospective shareholders of a business entity, in addition to lowering asymmetric information and agency costs (Boshnak, 2021; Gaol & Harjanto, 2019). While information asymmetry is a significant issue in today's business world because it produces a poor image of a company's stock, and results to higher cost of capital (Mashood & Vij, 2021). Firm transparency can help to improve investor trust and lower the cost of equity by eliminating information asymmetry (Barako, 2007). According to Leuz and Verrechini (2000), companies can achieve reduction in information asymmetry and stock market liquidity improvement by pursuing high-quality disclosure.

Corporate disclosure is used by management to provide financial and non-financial information to the firm's stakeholders, such as shareholders, customers, prospective shareholders, and other relevant stakeholders. According to Rashid (2018), the primary purpose of financial disclosure is to reduce agency costs and information gaps between the firm and its stakeholders. The major stream of corporate reporting focuses on an organization's financial performance. However, in today's changing corporate world, the need to report on sustainability as well as corporate social responsibility has been recognized. Business entities should account for the amount to which their operations affect the operational environment and society at large, and the corrective measures to reduce their effects according to the proponents (Bowerma & Sharman, 2016).

Though the expansion of the business sector influences a country's economic development through its impact on individuals, corporate activities tend to have negative impact on the environment by contributing to pollution, natural disasters, and global warming (Li et al., 2018). Governments, international organizations, and other stakeholders are becoming increasingly concerned about global warming caused by pollution (Kalu et al., 2016). This necessitates corporate entities disclosing information about their operations in order to demonstrate how well they are fulfilling their environmental responsibilities. The timely publication of significant information by corporations is likely to have an impact on the firm's corporate social
image since it allows the public to properly monitor the corporate entity's sustainability behavior as well as how socially responsible they are. Hence, there has been a growing literature on factors affecting corporate disclosures.

There has been argument in literature that firms’ ownership structure influences firm disclosure (Boshnak, 2021; Elfeky, 2017; Kholis, 2020; Mashoud & Vij, 2021; Scaltrito, 2016). The argument in literature is generally based on the view that a firm’s strategic decisions are influenced by the composition of its ownership which define the kind of principal-agency relationship that exist in the firm. In addition, the nature and the structure of the firm ownership determine to a large extent, the quality and quantity of information provided by firms’ management (insiders) to other stakeholders (outsiders). Firms’ ownership structure tends to determine the extent of demand for information disclosure and the degree of managerial opportunistic behavior. This is premised on the fact that firm disclosures especially voluntary disclosure facilitates the protection of minority shareholder’s interest and trigger transparency of the corporate’s information to other interested stakeholders.

While there has been a number of attempts in literature to examine the impact of ownership structure on the firm’s voluntary disclosure, these studies have produced mixed results (Albers & Gunther 2010; Boshnak, 2021; Ceustermans & Breesch, 2017; Hartikayanti & Maryani, 2015, Elfeky, 2017, Ismail and El-Shaib, 2012; Mashould and Vij, 2021; Scaltrito, 2016; Welbeck, 2017). A careful review of the existing related studies revealed that previous studies have largely used static panel regression which ignores the persistency in the behavior of corporate voluntary behavior as well as likely cross-sectional dependence among the firms. This study corrects this gap by using Blundell and Bond (1998) system GMM panel regression technique. Hence, this study examined the influence of firms’ ownership structure on the extent of voluntary disclosure. It is expected that regulators, standard setters and other stakeholders interested in firms’ disclosure will find this study useful. Accordingly, the objectives of this study are to: (i) evaluate the influence of block ownership on the voluntary disclosure among listed non-financial firms in Nigeria; (ii) investigate the impact of institutional ownership on the voluntary disclosure among listed non-financial firms in Nigeria; and (iii) examine the effect of managerial ownership on the voluntary disclosure among listed non-financial firms in Nigeria.
2. Literature Review

Corporate Disclosure

Annual financial reports are a key instrument for communication of both financial and non-financial information to stakeholders (Lang & Lundholm, 1993). In business organizations, the information revealed in yearly reports serves as a vital monitoring mechanism for reducing agency conflicts between the principal and the agent (Jensen & Meckling, 1976). The extent of the information (financial and non-financial) revealed in a firm's annual report is referred to as firm disclosure (Dobler, 2008). The purpose of these disclosures is to give relevant information about the company's performance and to communicate management decisions. Mandatory disclosure refers to the provision of financial and non-financial information that is required by relevant regulatory agencies such as the Securities and Exchange Commission, Financial Reporting Council of Nigeria among others. In Nigeria, there are other mandatory disclosures stipulated in relevant Acts such as the Corporate and Allied Matters Acts (CAMA). Voluntary disclosure, on the other hand, refers to the inclusion of other information (financial and non-financial) in annual reports. Voluntary disclosures of information are encouraged by regulatory and standard setting bodies to enhance the quality of financial reports. More so, voluntary disclosures improve the quality of decisions made by existing and potential investors on an entity. The information is largely non-financial, and it is provided on a voluntary basis. Environmental disclosure, social disclosure, and risk management disclosure are few examples of corporate voluntary disclosure.

Ownership Structure

Ownership structure is defined by Sahut and Gharbi (2010) as a “combination of ownership concentration, management ownership, and institutional ownership”. Ownership structure is defined by López-Iturriag and Rodríguez-Sanz (2012) as the mix of managerial and concentrated ownership. According to Anis, Chizema, Lui, and Fakhreldin (2017), ownership structure can be classified based on ownership concentration and ownership identity. Block holders are a type of ownership concentration, whereas ownership by identity includes managerial, institutional, and foreign ownership.
Theoretical Review

Agency Theory

This study is based on the agency theory which is a key theory in accounting and finance literature to use often in explaining the firm’s strategic behavior. Agency theory, according to Naseem, Xiaoming, Riaz, and Rehman (2017), explains how agency difficulties are highly influenced by ownership structure. Companies having diverse ownership, on one hand, have agency issues between top management and diffused shareholders. Firms with concentrated number of shareholders, on the other hand, can effectively tackle owners-management agency related crisis because this form of holders have a very strong motivation to oversee the management activities including the disclosure of required information. In a nutshell, the level of ownership dispersion is a key factor that might influence the scope of company disclosures (Raimo, Vitolla, Marrone & Rubino, 2020). According to Listyaningsih, Dewi, and Baiti (2018), when a large percentage of shares is held by institutional investor, there is a stronger requirement for disclosure. This is due to the agency theory proposition of a very strong monitoring capability of the institutional investors which help to guide the management strategic decisions including the disclosure choice. Similarly, the institutional investors are more concerned about the transparency of the firm in order to promote their reputation as being socially responsible. Thus, as various shareholders groups are concerned about wealth maximization and increased returns, they require information on firms’ activities for decision-making. The demand by various shareholders group is expected to affect the degree of information disclosed by management.

Review of Empirical Literature and Hypotheses Development

Block ownership and Corporate Voluntary Disclosure

A number of studies have established that ownership concentration or block ownership have positive and significant influence on firms’ information disclosure. This include the study of Abers and Gunther (2010). Some other studies have however reported that higher concentration of firm share results to lower voluntary disclosure (Ceustermans & Breesch, 2017; Elfeky, 2017; Hartikayanti & Maryam, 2015; Hu et al., 2018; Ismail & Elshaib, 2012; Ji et al., 2015). There are also studies that failed to find significant impact of block ownership on the firm’s voluntary
disclosure among which is the study by Kholis et al. (2020), Welbeck (2017) and others (Nurhayati et al., 2016; Scaltrito, 2016; Yusoff et al., 2015). Hence, the previous studies found mixed results on the impact of ownership concentration on corporate firm voluntary disclosure. Therefore, this study hypothesized that:

**H01: Block ownership has no influence on the voluntary disclosure of Nigerian listed non-financial firms**

**Institutional Ownership and Corporate Voluntary Disclosure**

Studies have also examined the relationship between institutional shareholding and corporate voluntary disclosure with varying results reported. Elgergeni, Khan and Kakabadse (2018) found that the tendency to invest in corporate information-related activities by a firm increases with higher proportion of shareholding by the institutional investors. Similar results have been documented in literature (Jaggi et al., 2018; Nurhayati et al., 2016). However, some other studies have reported that higher institutional shareholding harms the disclosure of firm information among which are the study by Hu et al. (2018) and Nguyen et al. (2020). There are other studies that found an insignificant effect of institutional ownership on the corporate voluntary disclosure including Ji et al., 2015, Boshnak (2021), Gaol and Harjanto (2019) and Mashoud and Vij (2021). Hence, the second null hypothesis of the study is that:

**H02: Institutional ownership has no influence on the voluntary disclosure of Nigerian listed non-financial firms**

**Managerial Ownership and Corporate Voluntary Disclosure**

Substantial number of studies have also explored the influence of managerial ownership on corporate firm disclosure among which are Mgambarl (2017) who reported in a study of Saudi Arabian firms that managerial shareholding exerts positive and significant influence on firms’ voluntary disclosure, and others (Alotaibi & Hussainey, 2016; Ismail & El-Shaib, 2012). On the contrary, other studies revealed negative implication of managerial shareholding on the firm’s disclosure among which are the study by Mkumbuzi (2016) as well as Akhtaruddin and Rouf (2012). Also, few other studies could not find significant influence on the managerial shareholding on the disclosure of corporate voluntary information among which are the study by Ji et al. (2015) and Nguyen and Nguyen (2020). Hence, the
third hypothesis of the study is that:

**H03:** managerial ownership has no significant influence on the CSR disclosure of Nigerian listed non-financial firms

3. **Methodology**

**Data and Technique of Analysis**

The population of the study is made up of all non-financial firms listed on the Nigerian Exchange Group (NGX) between 2011 and 2020. This study utilized purposive sampling technique to select all listed non-financial firms having required information from 2011 and 2020. As a result, the study sampled 67 listed Nigerian non-financial firms which met the requirements for the research. The data was extracted from the annual reports of these non-financial firms listed on the NGX using content analysis. Based on the nature of the variable which has both unit and time dimension, a panel regression analysis is used to test the three hypotheses of the study. As would be seen in the later section, the study found evidence of cross sectional dependence in the data used as well as the presence of both heteroscedasticity and serial correlation. To correct these issues, the study used dynamic panel system generalized method of moment (GMM) to achieve the objectives of the study as suggested in literature as one of the ways of handling such issues (Roodman, 2009). The system GMM used the lag of the variables as instrument and the validity of the instrument is ascertained using Sargan test of over identifying restrictions.

**Model Specification**

To investigate the influence of ownership structure on corporate voluntary disclosures, the following regression model was used:

\[
CVD = f(BLK, INO, MANO, FSIZ, ROA) - - - (1)
\]

(1) could be represented in linear form as

\[
CVD_{it} = \lambda + \lambda \text{BLK}_{it} + \lambda \text{INO}_{it} + \lambda \text{MANO}_{it} + \lambda \text{FSIZ}_{it} + \lambda \text{ROA}_{it} + \mu_{it} - - (2)
\]

The dynamic specification of the above in (2) is given as

\[
CVD_{it} = \lambda + \lambda \text{CVD}_{it-1} + \lambda \text{BLK}_{it} + \lambda \text{INO}_{it} + \lambda \text{MANO}_{it} + \lambda \text{FSIZ}_{it} + \lambda \text{ROA}_{it} + \\
\mu_{it} - - - (3)
\]

where:
CVD - Corporate Voluntary Disclosure;
BLK - Block Ownership;
INO - Institutional Ownership;
MANO - Managerial Ownership;
ROA - Profitability;
FSIZ - Firm Size.

The specification in (3) is characterized with endogeneity problem due to the presence of first lag of the dependent variable (Cameron & Trivedi, 2010). However, the system GMM proposed by Arrellano-Bover/Blundell and Bond (1998) can control for this endogeneity issue. In addition, the system GMM has inbuilt mechanism to control cross sectional dependence, heteroscedasticity and serial correlation (Roodman, 2009).

**Variable Measurement**

The study employed three categories of variables including the dependent variable, independent variables and control variables. The dependent variable of the study is the corporate voluntary disclosure represented by the disclosure of social and environmental information which is obtained using a checklist adopted from the study of Umoren, Isiavwe and Atolagbe (2016). The checklist is made up of twenty (20) items with social and environmental disclosure having 10 items each. The corporate voluntary disclosure is then obtained using an unweighted index of the firm score in the twenty items. The value obtains ranges between 0 and 1 where the closer the value to 1, the higher the voluntary information disclosed by the firm.

**Table 1**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Description</th>
<th>Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CVD</td>
<td>An index score of the extent of firm disclosure of voluntary information obtained from the proportion of the total items disclosed to the total expected items to be disclosed.</td>
<td>Elshandidy and Neri (2015)</td>
</tr>
</tbody>
</table>
Independent Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Block Ownership (BLK)</td>
<td>The proportion of ordinary shares owned by individuals with above 5% shareholding</td>
<td>Elfeky (2017)</td>
</tr>
<tr>
<td>Institutional ownership (INO)</td>
<td>The percentage of shares owned by the institutional investors with 5% and above</td>
<td>Kao, Hodgkinson and Jaafar (2019)</td>
</tr>
<tr>
<td>Managerial Ownership (MANO)</td>
<td>The percentage of shares owned by directors (board members) and managers.</td>
<td>Widyaningsih (2018)</td>
</tr>
</tbody>
</table>

Control Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability (ROA)</td>
<td>The ratio of net income to total assets</td>
<td>Kılıç and Kuzey (2018)</td>
</tr>
<tr>
<td>Firm size (FSIZ)</td>
<td>Natural log of total assets of the company</td>
<td>Aslam and Haron (2020)</td>
</tr>
</tbody>
</table>

4.0. Results and Discussion

**Summary Statistics**

The results of the descriptive statistics of the variables are contained in Table 2 which revealed the average voluntary disclosure to be 0.715 implying that the extent of voluntary disclosure among Nigerian firms is 71.5 per cent. The institutional investors and management shareholding are respectively 51.99 per cent and 18.453 per cent. The average ownership concentration or the proportions of shares held by individuals with more than 5% is 58.522 per cent.

Table 2

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>Std.Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>CVD</td>
<td>670</td>
<td>.715</td>
<td>.191</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>BLK</td>
<td>670</td>
<td>58.522</td>
<td>19.592</td>
<td>0</td>
<td>98</td>
</tr>
<tr>
<td>INO</td>
<td>670</td>
<td>51.99</td>
<td>24.881</td>
<td>0</td>
<td>98</td>
</tr>
<tr>
<td>MANO</td>
<td>670</td>
<td>18.453</td>
<td>28.572</td>
<td>0</td>
<td>54.96</td>
</tr>
<tr>
<td>FSIZ</td>
<td>670</td>
<td>7.089</td>
<td>.857</td>
<td>5.093</td>
<td>9.241</td>
</tr>
<tr>
<td>ROA</td>
<td>670</td>
<td>2.977</td>
<td>15.758</td>
<td>-179.917</td>
<td>89.545</td>
</tr>
</tbody>
</table>

*Source: Authors’ Compilation, 2022*
Diagnostic Test Results

To ensure that relative linear regression assumptions are not violated, the study conducts diagnostic tests for serial correlation, heteroscedasticity and cross sectional dependence. The results obtained are summarized in Table 4. The results of the Pesaran test indicates the presence of cross sectional dependent while Wooldridge test shows that there is existence of first-order serial correlation. Also, the Modified Wald test revealed the presence of groupwise heteroscedasticity in the data used for the study. With these results, using pooled OLS, fixed effect and random effect will produce misleading results. Hence, we relied on the suggestion of previous literature (Rodman, 2009) by using the system GMM which corrects for the serial correlation, heteroscedasticity and cross-sectional dependence.

Table 3

<table>
<thead>
<tr>
<th>Test</th>
<th>Results</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pesaran Cross Sectional Dependence Test</td>
<td>F = 8.088</td>
<td>Existence of Cross Sectional Dependence at 1 per cent</td>
</tr>
<tr>
<td></td>
<td>Pr = 0.000</td>
<td></td>
</tr>
<tr>
<td>Modified Wald test for groupwise</td>
<td>Chi2 = 9285</td>
<td>Existence of Heteroscedasticity at 1 per cent</td>
</tr>
<tr>
<td>heteroskedasticity</td>
<td>Prob &gt; Chi2 = 0.000</td>
<td></td>
</tr>
<tr>
<td>Wooldridge test for serial correlation</td>
<td>F stat = 41.406</td>
<td>Existence of First-order serial correlation</td>
</tr>
<tr>
<td></td>
<td>Prob &gt; Chi2 = 0.8258</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author’s Computation, 2022

Dynamic Panel System GMM Results

The results of the system GMM regression as regards the impact of ownership structure on firm’s voluntary disclosure are shown in Table 4. From the GMM results in Table 4, the estimated coefficient of 0.016 with p value of 0.001 reveal that corporate firms’ voluntary disclosure is positively associated with concentrated
ownership structure at 1 per cent significant level (0.001<0.01). By implication, the higher the proportion of a firm share held by the investors with more than 5% shareholding, the more likely are the firms to disclose voluntary information. The results found here are consistent with that of Abers and Gunther (2010) which reported positive and significant influence of block ownership on the firm’s voluntary disclosure. The results however failed to agree with those of Elfeky (2017), Hu et al. (2018) and Ceustermans and Breesch (2017) who reported negative implication of block ownership or concentrated shareholding on firm’s disclosure of voluntary information.

Table 4

<table>
<thead>
<tr>
<th>CSR</th>
<th>Coef.</th>
<th>St.Err.</th>
<th>t-value</th>
<th>p-value</th>
<th>[95% Conf Interval]</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>L.CSR</td>
<td>0.575</td>
<td>0.084</td>
<td>6.87</td>
<td>0.000</td>
<td>0.411</td>
<td>0.739 ***</td>
</tr>
<tr>
<td>BLK</td>
<td>0.016</td>
<td>0.005</td>
<td>3.29</td>
<td>0.001</td>
<td>0.006</td>
<td>0.026 ***</td>
</tr>
<tr>
<td>FSIZ</td>
<td>-0.021</td>
<td>0.019</td>
<td>-1.15</td>
<td>0.249</td>
<td>-0.058</td>
<td>0.015</td>
</tr>
<tr>
<td>ROA</td>
<td>0.001</td>
<td>0.000</td>
<td>2.36</td>
<td>0.018</td>
<td>0.000</td>
<td>0.002 **</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.474</td>
<td>0.152</td>
<td>-3.13</td>
<td>0.002</td>
<td>-0.771</td>
<td>-0.177 ***</td>
</tr>
</tbody>
</table>

Mean dependent var 0.724 SD dependent var 0.193
Number of obs 603.000 Chi-square 333.642
No of Instruments 9 No of Groups 67
AR (1) Z -7.69 AR (1) Prob 0.000
AR(2) Z 0.04 AR (2) Prob 0.968
Sargn Chi² 0.59 Sargan Prob 0.964
Wald Chi2 333.64 Prob of Wald 0.000

*** p<0.01, ** p<0.05, * p<0.1

Source: Author’s Computation, 2022

Similarly, results in Table 5 suggest that institutional investors’ shareholding has a positive significant influence on corporate voluntary disclosure given its estimated coefficient of 0.008 with p value of 0.000. The implication of the results is that higher shareholding by institutional investors encourages disclosure of
voluntary information by Nigerian non-financial firms. Similar results have been documented elsewhere (Jaggi et al., 2018; Nurhayati et al., 2016). The finding however contradicted the findings by Alhazaimeh et al. (2014) and Ntim and Soobaroyen (2013) who both reported that voluntary disclosure decreases with higher institutional shareholding. The post estimation diagnostic test results revealed validity of used instruments as the Sargan test’ null hypothesis could not be rejected. In addition, the AR test indicates no second order serial correlation with p value of 0.163.

**Table 5**

**Estimated System GMM Panel Regression Results for Hypothesis 2**

<table>
<thead>
<tr>
<th>CSR</th>
<th>Coef.</th>
<th>St.Err.</th>
<th>t-value</th>
<th>p-value</th>
<th>[95% Conf Interval]</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>L.CSR</td>
<td>0.623</td>
<td>0.064</td>
<td>9.80</td>
<td>0.000</td>
<td>0.498 0.747</td>
<td>***</td>
</tr>
<tr>
<td>INO</td>
<td>0.008</td>
<td>0.002</td>
<td>3.65</td>
<td>0.000</td>
<td>0.004 0.012</td>
<td>***</td>
</tr>
<tr>
<td>FSIZ</td>
<td>-0.029</td>
<td>0.018</td>
<td>-1.60</td>
<td>0.109</td>
<td>-0.065 0.007</td>
<td></td>
</tr>
<tr>
<td>ROA</td>
<td>0.000</td>
<td>0.000</td>
<td>1.32</td>
<td>0.186</td>
<td>0.000 0.001</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>0.091</td>
<td>0.045</td>
<td>2.04</td>
<td>0.042</td>
<td>0.004 0.179</td>
<td>**</td>
</tr>
</tbody>
</table>

Mean dependent var 0.724
SD dependent var 0.193
Number of obs 603.000
Chi-square 508.868
No of Instruments 9
No of Groups 67
AR (1) Z -12.83
AR (1) Prob 0.000
AR(2) Z .40
AR (2) Prob 0.163
Sargn Chi2 4.12
Sargan Prob 0.390
Wald Chi2 508.87
Prob of Wald 0.000

*** p<0.01, ** p<0.05, * p<0.1

Source: Authors’ Computation, 2022

The estimated system GMM results on the impact of managerial ownership on voluntary disclosure by Nigerian firms are presented in Table 6. Estimated coefficient and corresponding p-value of 0.004 and 0.328 respectively of the study in Table 6 depicts that managerial ownership maintained a positive but insignificant relationship with corporate disclosure of voluntary information. The implication is that managerial ownership is irrelevant to firm’s voluntary information disclosure. This result fails to align with the study by Ilmi, Kustono and Sayekti (2017) which
found that managerial ownership had a positive influence on corporate disclosure. This also failed to support the claim made by Kamardin (2014) which document that managerial ownership improves the performance of the firm leading to optimum disclosure of corporate information. However, the finding is consistent with submission on some other literature (Ji et al., 2015; Nguyen & Nguyen, 2020).

The results of the Sargan test of over identifying restriction revealed that the null hypothesis of over identifying restriction could not be rejected with an estimated p value of 0.830. Hence, the instruments used in achieving the third objective are valid. In the same vein, the results of the AR1 test show evidence of first-order serial correlation while there is no evidence on second order serial correlation as given by AR2 with p value of 0.999.

### Table 6

**Estimated System GMM Panel Regression Results for Hypothesis 3**

<table>
<thead>
<tr>
<th></th>
<th>Coef.</th>
<th>St.Err.</th>
<th>t-value</th>
<th>p-value</th>
<th>[95% Conf Interval]</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>L.CSR</td>
<td>0.441</td>
<td>0.099</td>
<td>4.44</td>
<td>0.000</td>
<td>0.247-0.636</td>
<td>***</td>
</tr>
<tr>
<td>MANO</td>
<td>0.004</td>
<td>0.004</td>
<td>0.98</td>
<td>0.328</td>
<td>-0.004-0.013</td>
<td></td>
</tr>
<tr>
<td>FSIZ</td>
<td>0.110</td>
<td>0.023</td>
<td>4.70</td>
<td>0.000</td>
<td>0.064-0.155</td>
<td>***</td>
</tr>
<tr>
<td>ROA</td>
<td>-0.008</td>
<td>0.005</td>
<td>-1.76</td>
<td>0.079</td>
<td>-0.017-0.001</td>
<td>*</td>
</tr>
<tr>
<td>Constant</td>
<td>-0.425</td>
<td>0.167</td>
<td>-2.54</td>
<td>0.011</td>
<td>-0.752-0.097</td>
<td>**</td>
</tr>
</tbody>
</table>

Mean dependent var     0.724
SD dependent var       0.193
Number of obs          603.000
Chi-square             405.031
No of Instruments      9
No of Groups           67
AR (1) Z               -7.53
AR (1) Prob            0.000
AR(2) Z                0.004
AR (2) Prob            0.999
Sargn Chi2             0.88
Sargan Prob            0.830
Wald Chi2              405.03
Prob of Wald           0.000

*** p<0.01, ** p<0.05, * p<0.1

*Source: Authors’ Computation, 2022*
5.0. Conclusion and Recommendations

The relationship between ownership structure and the level of corporate voluntary disclosure in Nigeria was thoroughly explored in this study. Understanding the impact of company ownership structure on corporate disclosure allows for an assessment of its existing governance performance as well as provision for improvement. In this study, different types of ownership are used as factors influencing corporate voluntary disclosure. Over a ten-year period from 2011 to 2020, the study uses dynamic panel data analysis based on system GMM to analyse the data of 67 non-financial firms listed on the Nigerian Exchange Group.

The empirical results indicate a positive and significant impact of block and institutional ownership on corporate voluntary disclosure while managerial ownership was found to be positive but insignificantly related to firms’ voluntary disclosure. Previous studies on the link between ownership structure and corporate disclosure have largely employed static panel regression method which assumes no persistency in the behavior of corporate disclosure and cross sectional independence. This study contributes to the existing literature by using dynamic panel regression results to study the influence of ownership structure on firm’s voluntary disclosure in Nigerian corporate environment. Based on the results, it is recommended that relevant regulatory bodies should take firm’s ownership structure into cognizance in any regulatory reforms aimed at encouraging firm’s voluntary disclosure. In particular, increased institutional and block ownership which promotes the firms’ monitoring mechanism and thus the disclosure of the relevant information should be on the reform agenda of Nigerian corporate firms.

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ROLE OF FEMALE LABOUR PARTICIPATION IN REDUCING INCOME INEQUALITY IN ECOWAS SUB-REGION

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JEL: C23; D31; J21

Abstract

This study examined the nexus between female labour participation and income inequality in ECOWAS sub-region between 1990 and 2019. Consequently, Panel Dynamic Ordinary Least Squares and Pairwise Panel Causality techniques were used to estimate the objective of the study. The findings from this study are summarized as follows: two (2) of the three (3) indicators of female labour participation—labour participation rate and female employment in service—showed a positive and significant relationship with income inequality in ECOWAS sub-region. In addition, no feedback relationship exists between any indicators of female labour participation and income inequality in ECOWAS sub-region. Meanwhile, a bidirectional causality exists between female educational enrolment and female employment in the service sector. Also, female educational enrolment Granger causes female labour force participation. In the light of the above findings, the following recommendations were offered for the policy makers.
in ECOWAS sub region and African policymakers, at any time the goal of these policymakers is reduction of income inequality, the labour market policy should be structured in such a way that will give preference to women in the recruitment process. Also, the policymakers should prioritize giving of scholarship to female folks, this will drive a rise in female education enrolment. As such, more educated women will participate in the labour market and consequently earn more income, thereby leading to the reduction in income inequality.

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1. Introduction

Continuous participation of women in the labour market has been attributed to high productivity which exacts a favourable influence on the prosperity of the global economy (International Monetary Fund, 2018). In advanced economies, proper harnessing of women through female labour participation has been one of the prominent factors that drive rapid economic development. This is because women account for over half of the labour force in those economies (World Bank, 2020). The majority of countries in the developing world are experiencing low welfare partly owing to gender exclusion which further aggravates the possibility of inclusive economic growth in these countries (World Bank, 2015; ILO, 2013).

Meanwhile, in Africa, women have been conceptualised as strong but untapped economic resources which could constitute a powerful spring of manpower for sustainable economic development (Verick, 2014). Full involvement of women in the labour market is very important in Africa as this may significantly boost economic growth of the continent. It is important to stress that African women have been confined to peripheral sectors of the economy such as domestic chores, subsistent farming and petty trading with no financial rewards (Asongu and Odhiambo, 2019; Efobi et al., 2018; Asongu and Odhiambo, 2018).

However, in the case of the Economic Community of West African States (ECOWAS), there has been a continuous inequality between female and male participation in the labour market. It has been established that female labour force participation has remained low throughout ECOWAS countries due to the fact that in this sub region, less women are in the formal sector, which could be detrimental to economic and human development (World Bank, 2020: Abney and Laya, 2018). This shows that underutilization of women constitutes a hindrance to the trickle-down good effects of female labour force participation on other socio-economic variables in the economy. Historically, women in West Africa had suffered a substantial level of discrimination in addition to limited labour market participation in the West Africa's labour market due to patriarchal ideology, domestic obligations, educational achievement and maternal dedication. As such, inequality the disparities in men's and women's chances in the labour market becomes inevitable.

Furthermore, addressing the prevalence of gender inequality, female
unemployment, income inequality and low female labour participation in developing countries, and ECOWAS countries particularly necessitated the quest to achieve the Sustainable Development Goals (SDGs) by 2030 via the closure of the existing gender gap among the labour force in these countries (United Nations, 2018). Continuous rise in income inequality, especially in the ECOWAS sub region, has the capacity to make the post-2015 development agenda a mirage because of the growing level of inequality which is triggered by the negative economic growth and extreme poverty (Asongu & Kodila-Tedika, 2018; Fosu, 2015). In view of the above, reducing inequality has become a major concern among scholars and policymakers in the ECOWAS sub region in recent times. The above narratives motivate this research to embark on investigation of the nexus between female labour participation and income inequality in the ECOWAS sub region. This current study becomes very pertinent because nowadays the empirical studies regarding female labour participation and income inequality have not gained much prominence in Africa, and the ECOWAS sub region in particular. For instance, few empirical studies on this subject matter such as Asongu and Odhiambo (2019) focused on Sub Saharan Africa, while Iheonu et al. (2020) focused on West Africa respectively. This current study is unique in several ways. Firstly, in terms of scope, this study covers 16 ECOWAS countries from 1990 to 2019. Previous studies in Africa had been restricted between the periods of 2004 and 2016 due to the paucity of data. However, this study innovatively employed interpolation of data to overcome the observed limitation in the past studies, and the data for the study was extracted from WDI database. Similarly, in term of methodology, Panel Dynamic Ordinary Least Squares and Panel Granger causality techniques of estimation were equally utilised in which the existing studies both in Africa and beyond, to the best of our knowledge, have not been employed in recent times. Hence, this study will contribute to the existing literature by analysing the nexus between female labour participation and income inequality in ECOWAS countries. The structure of this work is outlined as follows. Section two is the review of the empirical studies. In addition, section three accommodates methodology, discussion of results was presented in section four and policy implication of the study in section five, respectively.
2. Review of Literature

2.1 Theoretical Review

In the Classical theory of labour, the argument is based on the postulate that the aggregate production function of demand and supply of labour is driven by the amount of national income and employment in the economy. When a stock of capital is fixed alongside a given constant technology, there would be a rise in the level of output only as the employment of labour rises. This implies that employment of labour and productivity go in the same pattern. Therefore, based on this theory, when the stock of capital is fixed, the rise in the employment of labour leads to a diminishing marginal productivity of labour. This gave birth to the popular law of diminishing return in classical economics. Consequently, the labour supply by households in the economy, according to the Classical economists relies on the structure of the household`s preference between leisure and income. In the short run, the assumption of the classical theory is that when there is no change in population, the labour supply curve slopes upward. This justifies the belief of the classical economists that the rise in real wage possesses the higher substitution effect than the income effect, and this eventually motivates the supply of labour to rise with the increase in the wage rate. The implication of the above is that when the wage rate becomes higher, more labour is supplied and vice-versa. From the above theory it could therefore be inferred that income in the form of wages is the motivating factor for the participation of labour in the labour market.

However, when women labour supply became prominent in 1960s, other modern theories originated with a view to addressing critical issues surrounding women labour supply. Few of the notable theories include Work-Leisure Choice Theory pioneered by Mincers in 1962. This theory submitted that the individual`s or household`s decision to enter the labour market is motivated by the desire for the individual or household to accumulate more income. In the same vein, this theory was metamorphosed to “Household Production Theory” by Mincers in 1962 why arguing that families constitute the economic agents who are conceptualised as both producers and consumers of goods. In attempt to maximise utility, the families thrive based on efficient allocation of their time, income and the collection in both production and usage of goods and services.
2.2 Literature Review

Sackey (2005) utilized one of the demographically enriched information such as data from the Ghana living standards surveys to analyse how female labour force participation affect women fertility in Ghana. The study discovered that female schooling happened to be a crucial factor in both urban and rural centres as both primary and secondary schooling levels have a strong beneficial influence on women's labour market engagement, and this exacted negative impact on women fertility in the country.

Ogwumike et al. (2006) assessed the interlink that exists among labour force participation, earnings and income inequality in the Nigerian economy. The study employed the general household survey GINI Coefficient and Theil’s Entropy Index, using Ordinary Least Squares technique, alongside Heckman’s two-stage selectivity bias correction procedure and Tobit analytical technique. It was reported in the study that inequality of income is more popular in the paid employment aspect of the Nigerian labour force than the aspect that has to do with self-employment. The higher result was recorded among women in paid employment than men participating in the same employment segment. However, it is higher among those engaged in self-employment than their female counterparts. In general terms, it is higher in rural areas than in urban ones. Yakubu (2010) investigated determining factors of female labour force participation in South Africa using human capital theory to assess how dynamics in labour force takes place in South Africa. The outcomes from logistic regression estimation indicated that female labour force participation had a relationship with educational attainment in the country.

Boateng et al. (2013) investigated how fertility and education influenced the participation of female folks in the Ghana’s labour market covering both urban and rural populations. The authors utilized secondary data from the fifth round of the Ghana Living Standards survey (Glss5) conducted in 2005/06 alongside logistic regression to argue that women with children have large positive marginal effects on female labour participation. This shows that having more children enhances the chance of female folks in involvement in the labour market. The study also provided evidence to support that women could mix work and home production due to the availability of self-employment and/or the informal sector in the country.
Meanwhile, Nchake and Koatsa (2017) explored 37 countries in Sub-Saharan Africa with a view to examining the situation reports of female labour force participation in sub-Saharan Africa between 2005 and 2014. The study utilized the technique of fixed effect model to estimate its objective. It was enunciated in the study that accessibility to communication infrastructure, economic development, female education and household expenditure motivated the rise of female labour force participation in the studied countries.

While employing the ARDL techniques within the dynamic panel model of Pooled Mean Group, Idowu and Owoeye (2019) examined how factors in supply side of labour determined female labour force participation in African countries from 1990 to 2015. The findings in the study indicated that fertility, unemployment of male, income of household, and female education were prominent factors that motivated the female labour participation in the selected African economies.

Obodochine (2019) investigated the relationship between female labour participation and growth of economy using the case study of 21 African Countries from 1997-2017. The study argued that economic growth was influenced by female labour participation, but the participation of female labour in the service sector contributed the greatest impact to the economic growth of the selected countries.

In another related work, Kuhn and Ravazinni (2017) explore the technique of index decomposition analyses in investigating the nexus between the participation of female labour force and inequality in household income in the Swiss economy from 2000 to 2014. The finding from the study established that inequality in income of the Swiss household was slightly reduced by female labour force participation. Iheonu et al. (2020) researched about how income inequality and female labour force participation were related in West Africa from 2004 to 2016. Indicators such as the GINI coefficient, the Atkinson index, and the Palma ratio were simultaneously employed as measures of income inequality. The fixed effects model was used to address the objective of the study. It was recorded in the study that all the three measures to proxy income inequality were resulted in a significant reduction due to women's participation in the West African sub region. Anyanwu et al. (2021) utilized the technique of Ordinary Least Squares (OLS) in examining the connection between how female labour force participation led to economic growth in Nigeria from 1981 to 2015. The authors enunciated that female labour force participation caused an
inverse impact on the economic growth in the country.

To summarize, it is evident from the reviewed studies that a wide gap still exists in the literature in terms of methodology and up-to-date studies regarding female labour force participation and income inequality in the ECOWAS sub region. Therefore, this study is highly imperative.

3. Methodology

An ex-post facto research design was utilized in estimating the relationship between female labour force participation and income inequality in ECOWAS countries because the main focus of the study paper is the explanation and description of a viable relationship that exists between the principal variables of this study. Similarly, an attempt was made to extract data from 1990 to 2019 from the WDI database. The scope of this study was principally motivated by data availability. The study, therefore, utilized all 16 countries in the ECOWAS sub region.

3.1 Theoretical Framework

This study is anchored on Kuznets hypothesis which provide a strong foundation for an idea that links income inequality and development. In 1955, Simon Kuznets opined that income inequality and economic growth is likely to assume an inverted U-shape relationship. This implies that inequality rises with increasing per capita income when income level is low, and falls only as development which is driven by industrialisation occurs in the later stage. The aftermath effect of the above scenario is an inverted U-shaped linkage between income inequality and per capita income. In this model, individuals migrate from a low-wage rural centre characterised by minor inequality to an urban area characterised by major income inequality and high average income.

3.2 Model Specification

Building the relevant model to address the objective of this study requires an insight from the works of Altuzarra et al. (2019), which is stated as thus;

\[ \text{Female Labour Participation} = f(\text{Economic Development}) \] (1)

Therefore, this current study adapted a model from the existing model by
eliminating the variables that are not relevant to this study. In view of the above, the model is re-stated as follows:

Income Inequality = f (Female Labour Participation)  \hspace{1cm} (2)

The introduction of some key control variables to model 2 changes its structure to model 3

\[ ICQ = F (FES, FLP, FLPP, EDOR) \hspace{1cm} (3) \]

Subjecting model (3) to linearization gives birth to model (4) as expressed below:

\[ ICQ_{it} = \beta_0 + \sum_{i=0}^{p} \beta_1 ICQ_{i-1} + \sum_{i=0}^{p} \beta_2 FES_{i-1} + \sum_{i=0}^{p} \beta_3 FLP_{i-1} + \sum_{i=0}^{p} \beta_4 EDOR_{i-1} + \mu_{it} \hspace{1cm} (2) \]

The aprori expectation is that \( \beta_1, \beta_2, \beta_3 \text{ and } \beta_4 < 0 \)

In addition, a dynamic panel model to estimate causality test between female labour participation and income inequality in ECOWAS Sub-Region could be specified as follows, following the works of Obiakor et al. (2022), Aderemi et al. (2019), and Lawal et al. (2022):

\[ ICQ_{it} = \beta_0 + \sum_{i=0}^{p} \beta_1 ICQ_{i-1} + \sum_{i=0}^{p} \beta_2 FES_{i-1} + \sum_{i=0}^{p} \beta_3 FLP_{i-1} + \mu_{it} \hspace{1cm} (3) \]

\[ FES_{it} = \beta_{01} + \sum_{i=0}^{p} \beta_{11} FES_{i-1} + \sum_{i=0}^{p} \beta_{21} ICQ_{i-1} + \sum_{i=0}^{p} \beta_{31} FLP_{i-1} + \mu_{it} \hspace{1cm} (4) \]

\[ FLP_{it} = \beta_{02} + \sum_{i=0}^{p} \beta_{12} FLP_{i-1} + \sum_{i=0}^{p} \beta_{13} ICQ_{i-1} + \sum_{i=0}^{p} \beta_{22} FES_{i-1} + \mu_{it} \hspace{1cm} (5) \]

\[ FLPP_{it} = \beta_{03} + \sum_{i=0}^{p} \beta_{13} FLPP_{i-1} + \sum_{i=0}^{p} \beta_{23} ICQ_{i-1} + \sum_{i=0}^{p} \beta_{33} FES_{i-1} + \mu_{it} \hspace{1cm} (6) \]

\[ EDOR_{it} = \beta_{04} + \sum_{i=0}^{p} \beta_{14} EDOR_{i-1} + \sum_{i=0}^{p} \beta_{24} ICQ_{i-1} + \sum_{i=0}^{p} \beta_{34} FES_{i-1} + \mu_{it} \hspace{1cm} (7) \]

\( \mu_t = \) White noise error term i.e. \( \mu_t \approx (0, \sigma_t) \). \( \mu_t = \mu_{1t} = \mu_{2t} = \mu_{3t}. p \) is lag length.
3.3 Measurement of Variables and Reasons for Inclusion in the Model

ICQ is used to denote income inequality, and which is measured by Gini index as embraced in the recent studies such as Ceesay et al. (2019), Lucas et al. (2020) and Iheonu et al. (2020). In the same vein, female labour participation is proxied by FLP, FLPP and FES which are labour force participation rate, female population between age of 15 and 64 as percentage of total female population, and female who are employed in service sector as percentage of female employment respectively. In the same vein, the control variable EDOR is female secondary school enrolment as percentage of gross enrolment.

4.0 Result and Discussion

Table 1

<table>
<thead>
<tr>
<th>Descriptive Statistics</th>
<th>ICQ (%)</th>
<th>FES (%)</th>
<th>FLP (%)</th>
<th>FLPP (%)</th>
<th>EDOR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>40.73054</td>
<td>39.63582</td>
<td>56.03155</td>
<td>57.51328</td>
<td>27.96810</td>
</tr>
<tr>
<td>Median</td>
<td>40.70000</td>
<td>40.44000</td>
<td>59.69000</td>
<td>61.62500</td>
<td>24.05000</td>
</tr>
<tr>
<td>Maximum</td>
<td>57.90000</td>
<td>83.12000</td>
<td>76.31000</td>
<td>79.11000</td>
<td>10.35921</td>
</tr>
<tr>
<td>Minimum</td>
<td>24.00000</td>
<td>8.01000</td>
<td>27.77000</td>
<td>28.72000</td>
<td>3.397150</td>
</tr>
</tbody>
</table>

Source: Authors’ Computation (2022)

One of the underlying assumptions upon which econometric analysis is premised is symmetrical distribution of data. Meanwhile, information from various descriptive statistics of data could provide a useful insight to the nature of distribution of data employed to run the analysis of this work. In view of the above, Table one (1) displays the estimated results of the descriptive statistics as follows.
ICQ which is GINI index from 1990 to 2019 has a minimum of 24%, maximum of 58% and a mean value of 40%. This means that distribution of income is not relatively fairly in ECOWAS sub region. Similarly, GINI index data is moderately dispersed from its mean because it has a standard deviation that is less than the mean value. The value of its skewness is also positive with kurtosis value that is 3.2. This is an indication that this variable satisfies the assumption of symmetrical distribution.

Consequently, FES which denotes the percentage of female employment in service sector possesses a minimum value of 8% and a maximum value of 83%, alongside 39% as the mean value. This shows that the participation of female folks in service sector is relative low in ECOWAS sub region. This variable has a positive skewness alongside kurtosis value, which is 2.5. This implies that the assumption of symmetrical distribution is fulfilled within the dataset. In the same vein, FLP- female labour force participation has a minimum value of 57.8%, a maximum value of 76.3% and a mean value of 56% respectively. This affirms that about half of the female folks within a minimum age of 15 years participates in labour market in ECOWAS sub region from 1990 to 2019. Whereas, female labour force participation rate as percentage of female population between 15 years and 64 years has a minimum value of 28.7%, a maximum value of 79% and a mean value of 57.5% concurrently. This shows that that nearly 60% of the female folks within the age bracket of 15 years and 64 years participates in labour market in ECOWAS sub region from 1990 to 2019. The female secondary school enrolment as percentage of gross enrolment has a minimum of 3% and a maximum of 10.3% with a mean value of 27.9%. This implies that female enrolment in secondary school in ECOWAS sub region is relatively low. However, it is important to report that the values of standard deviations of all the variables of interest are less than their respective mean values, and the values of their kurtosis are not far from 3. This indicates that the dataset is in agreement with symmetrical assumption, which facilitates its further application for econometric analysis.
Table 2

Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>FES</th>
<th>FLP</th>
<th>FLPP</th>
<th>EDOR</th>
</tr>
</thead>
<tbody>
<tr>
<td>FES</td>
<td>1.00000</td>
<td>-0.579533</td>
<td>-0.570794</td>
<td>0.737604</td>
</tr>
<tr>
<td>FLP</td>
<td>-0.579533</td>
<td>1.000000</td>
<td>0.997443</td>
<td>-0.093418</td>
</tr>
<tr>
<td>FLPP</td>
<td>-0.570794</td>
<td>0.997443</td>
<td>1.000000</td>
<td>-0.072737</td>
</tr>
<tr>
<td>EDOR</td>
<td>0.737604</td>
<td>-0.093418</td>
<td>-0.072737</td>
<td>1.000000</td>
</tr>
</tbody>
</table>

Source: Authors’ Computation (2022)

Table 2 shows the estimated results of various pairs of correlation analyses between the set of explanatory variables in the estimated model. It was discovered from the above table that the degrees of correlation between various pairs of the explanatory variables were not too high to lead to the problem of multicollinearity in the subsequent models estimated. This assertion is justified by the submission of Goldberger (1991), which posited that simple correlation between a pair of regressors could cause the danger of multi-collinearity in mode; if it is 0.9

Table 3

Unit Root

<table>
<thead>
<tr>
<th>Variables</th>
<th>Level</th>
<th>Probability</th>
<th>1st Diff</th>
<th>Probability</th>
<th>Remark</th>
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<tbody>
<tr>
<td>ICQ</td>
<td>1.69488</td>
<td>0.9550</td>
<td>-4.72917</td>
<td>0.0000</td>
<td>I (1)</td>
</tr>
<tr>
<td>FLP</td>
<td>-2.78532</td>
<td>0.0027</td>
<td></td>
<td></td>
<td>I (0)</td>
</tr>
<tr>
<td>FLPP</td>
<td>-2.84012</td>
<td>0.0023</td>
<td></td>
<td></td>
<td>I (0)</td>
</tr>
<tr>
<td>EDOR</td>
<td>3.73803</td>
<td>0.9999</td>
<td>-2.19127</td>
<td>0.0142</td>
<td>I (1)</td>
</tr>
<tr>
<td>FES</td>
<td>7.20743</td>
<td>1.0000</td>
<td>6.88092</td>
<td>1.0000</td>
<td>I (2)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variables</th>
<th>Level</th>
<th>Probability</th>
<th>1st Diff</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICQ</td>
<td>1.62271</td>
<td>0.9477</td>
<td>-7.48787</td>
<td>0.0000</td>
</tr>
<tr>
<td>FLP</td>
<td>1.74309</td>
<td>0.9593</td>
<td>-2.67821</td>
<td>0.0037</td>
</tr>
<tr>
<td>FLPP</td>
<td>1.61654</td>
<td>0.9470</td>
<td>-2.28521</td>
<td>0.0112</td>
</tr>
<tr>
<td>EDOR</td>
<td>8.18840</td>
<td>1.0000</td>
<td>-3.96588</td>
<td>0.0000</td>
</tr>
<tr>
<td>FES</td>
<td>14.0102</td>
<td>1.0000</td>
<td>-4.34280</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Source: Authors’ Computation (2022)
Spurious or nonsense regression has been identified as one of the aftermath effects of time series data in empirical analysis. In order to resolve this problem, the test for the stationarity properties of data becomes one of the pre-estimation checks that are very crucial in empirical study that utilizes data that is much trended in nature. Against this backdrop, this study made use of panel unit root tests- Levin, Lin & Chu $t^*$ Test and Im, Pesaran and Shin $W$-stat test to examine the stationarity properties of data employed for this study. The estimated results displayed in table 3 indicate that FLP and FLPP are stationary at level, ICQ is stationary after first differencing and FES is stationary after second differencing respectively, and this is based on Levin, Lin & Chu $t^*$ Test results. On the other hand, Im, Pesaran and Shin $W$-stat test results indicate that all the variables are stationary after first differencing. This implies that the variables of interest are the combination of I(0), I(1) and I(2) variables concurrently. The presence of unit root in these variables could cause the dependent and the set of explanatory variables to exhibit divergence in the short run. Hence, there is a need for cointegration test.

Table 4

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>309.3</td>
<td>0.0000</td>
<td>216.5</td>
<td>0.0000</td>
</tr>
<tr>
<td>At most 1</td>
<td>135.1</td>
<td>0.0000</td>
<td>88.75</td>
<td>0.0000</td>
</tr>
<tr>
<td>At most 2</td>
<td>71.91</td>
<td>0.0001</td>
<td>48.88</td>
<td>0.0285</td>
</tr>
<tr>
<td>At most 3</td>
<td>46.45</td>
<td>0.0474</td>
<td>42.83</td>
<td>0.0957</td>
</tr>
<tr>
<td>At most 4</td>
<td>34.74</td>
<td>0.3385</td>
<td>34.74</td>
<td>0.3385</td>
</tr>
</tbody>
</table>

*Probabilities are computed using asymptotic Chi-square distribution*

At most four (4) cointegrating equations exist in the results of Johansen Fisher Panel Cointegration Test presented in Table 4. This is an evidence to prove the existence of a long run equilibrium relationship between the dependent variable and
other set of the explanatory variables in the model despite the fact that unit root existed in some set of data which could have led to a short run disequilibrium among these variables.

Table 5

Panel Dynamic Ordinary Least Squares Estimation of Female Labour Participation and Income Inequality in ECOWAS Sub-Region

Dependent Variable: ICQ
Method: Panel DOLS

<table>
<thead>
<tr>
<th>Regressors</th>
<th>Coefficient</th>
<th>Prob.</th>
<th>T-statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>FLP</td>
<td>-6.003551**</td>
<td>0.0801</td>
<td>1.758375</td>
</tr>
<tr>
<td>FLPP</td>
<td>6.561051**</td>
<td>0.0492</td>
<td>1.978139</td>
</tr>
<tr>
<td>ENDOR</td>
<td>-0.131131***</td>
<td>0.0339</td>
<td>2.134627</td>
</tr>
<tr>
<td>FESS</td>
<td>0.312785***</td>
<td>0.0160</td>
<td>2.426871</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.830765</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.666964</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes: The value in parenthesis denotes the p-values *Significant at 1% ***significant at 5% **Significant at 10%

Source: Author’s Computation (2022)

Table 5 shows the estimated panel DOLS results showing the relationship between female labour participation and income inequality in ECOWAS sub region. It is instructive to stress that the two of the explanatory variables, namely FLP and ENDOR follow the apriori expectation. Similarly, the estimated model is relatively good because the R² has the value that affirms that about 83% variation in income inequality was explained by female labour participation and the control variables, leaving 17% unaccounted for due to random shocks. Consequently, female labour force participation rate as percentage of female population ages 15 and above has a negative relationship with income inequality in ECOWAS countries. This relationship is significant at 10% level of significance. This means that income inequality is a decreasing function of female folks within a minimum age of 15 years that participated in labour market in ECOWAS sub region from 1990 to 2019. Whereas, female labour force participation rate as percentage of female population between 15 years and 64 years has a positive relationship with income inequality in
ECOWAS sub region. This relationship is significant at 10% level of significance. This implies that income inequality is an increasing function of female folks within the age bracket of 15 years and 64 years that participated in labour market in ECOWAS sub region from 1990 to 2019. In the same vein, the female employment in service sector has a positive and significant relationship with income inequality in ECOWAS sub region. A unit change in the female employment in the service sector leads to 31% rise in income inequality in the countries in ECOWAS sub region. Also, female secondary school enrolment and income inequality has a significant and inverse relationship. This shows that female educational enrolment is a decreasing function of income inequality in ECOWAS sub region.

By and large, it is worth of note that out of the three (3) variables employed in this study to proxy female labour participation, two (2) of them - labour participation rate and female employment in service showed a positive and significant relationship with income inequality. Therefore, this study concludes that female labour participation has a positive and significant relationship with income inequality in ECOWAS sub region. This implies that the participation of women in labour market has no capacity to bridge the gap of wide income inequality in ECOWAS sub region. The reason for this finding might be as a result of huge number of women who engage in economic activities that domiciled in informal sector in this economic bloc. The finding in this study is in tandem with the submissions of Idowu and Owoeye (2019) in related a study focusing on 20 selected African economies. However, the finding in this study contradicts the theoretical proposition that inequality leads to a reduction in employment by distorting the economy in such a way that the available opportunities for the female folks are restricted. Hence, female labour participation is restricted (Klasen & Lamanna, 2009; Esteve-Volart, 2004). The following extant literature Iheonu et al. (2020), Asongu and Odhiambo (2019) and Kuhn and Ravazinni (2017) contradict the finding in this study. The reasons(s) for this contradiction might be the application of different techniques of estimation, measurement of variables and scope of the previous studies.
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Table 6

Pairwise Panel Causality Tests between Female Labour Participation and Income
Inequality in ECOWAS Sub-Region

<table>
<thead>
<tr>
<th>Null hypothesis</th>
<th>F-Stat</th>
<th>Prob.</th>
<th>Decision</th>
<th>Causality</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICQ does not Granger Cause FES</td>
<td>2.31613</td>
<td>0.0999</td>
<td>Accept</td>
<td></td>
</tr>
<tr>
<td>FES does not Granger Cause ICQ</td>
<td>0.20637</td>
<td>0.8136</td>
<td>Accept</td>
<td></td>
</tr>
<tr>
<td>ENDOR does not Granger Cause FESS</td>
<td>4.14092</td>
<td>0.0165</td>
<td>Reject</td>
<td>Bidirectional</td>
</tr>
<tr>
<td>FESS does not Granger Cause ENDOR</td>
<td>7.68147</td>
<td>0.0005</td>
<td>Reject</td>
<td>Bidirectional</td>
</tr>
<tr>
<td>FLP does not Granger Cause ICQ</td>
<td>1.34588</td>
<td>0.2614</td>
<td>Accept</td>
<td></td>
</tr>
<tr>
<td>ICQ does not Granger Cause FLP</td>
<td>0.16579</td>
<td>0.8473</td>
<td>Accept</td>
<td></td>
</tr>
<tr>
<td>FLPP does not Granger Cause ICQ</td>
<td>1.40831</td>
<td>0.2457</td>
<td>Accept</td>
<td></td>
</tr>
<tr>
<td>ICQ does not Granger Cause FLPP</td>
<td>0.17778</td>
<td>0.8372</td>
<td>Accept</td>
<td></td>
</tr>
<tr>
<td>ENDOR does not Granger Cause FLP</td>
<td>2.30252</td>
<td>0.1012</td>
<td>Accept</td>
<td></td>
</tr>
<tr>
<td>FLP does not Granger Cause ENDOR</td>
<td>2.44639</td>
<td>0.0878</td>
<td>Accept</td>
<td></td>
</tr>
<tr>
<td>ENDOR does not Granger Cause FLPP</td>
<td>2.92141</td>
<td>0.0449</td>
<td>Reject</td>
<td>Unidirectional</td>
</tr>
<tr>
<td>FLPP does not Granger Cause ENDOR</td>
<td>2.22836</td>
<td>0.1089</td>
<td>Accept</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ Computation (2022)

Cointegrating relationship had been earlier established among the various
variables of interest in this study. However, further efforts were made to investigate
the existence or otherwise of causal relationship between the various indicators of
female labour participation and income inequality utilizing Pairwise Panel Causality
Tests. The estimated results presented in Table 6 indicated that no feedback
relationship exists between any female labour participation indicator and income
inequality in ECOWAS sub region. This implies that the level of female participation
in ECOWAS labour market does not possess both necessary and sufficient condition
to affect the current level of income inequality in this economic bloc. Meanwhile, a
bidirectional exists between female educational enrolment and female employment
in service sector. Also, female educational enrolment Granger causes female labour
force participation between 15 years and 64 years. This implies that female
education enrolment is a strong motivating factor for the participation of women in
the labour market in ECOWAS sub region.
4. Conclusion and Recommendation

Based on findings that emerged in this work, it could be concluded that the participation of women in labour market has no capacity to bridge the gap of wide income inequality in ECOWAS sub region. In addition, no feedback relationship exists between any indicator of female labour participation and income inequality in ECOWAS sub region. This implies that the level of female participation in ECOWAS labour market does not possess both necessary and sufficient condition to affect the current level of income inequality in this economic bloc. Meanwhile, a bidirectional exists between female educational enrolment and female employment in service sector. Also, female educational enrolment Granger causes female labour force participation between 15 years and 64 years. That shows female education enrolment is a strong motivating factor for the participation of women in the labour market in ECOWAS sub region. In the light of the above findings, this study therefore makes the following recommendations for the policymakers in ECOWAS sub region and by extension to African policymakers, any time the goal of these policymakers is reduction of income inequality, the labour market policy should be structured in such a way that will give preference to women in the recruitment process. Also, the policymakers should prioritize the giving of scholarship to female folks, this will drive a rise in female education enrolment. As such, more educated women will participate in the labour market and consequently earn more income, and thereby leading to the reduction in income inequality.

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Emmanuel Aderinola Adegun, Sunday Festus Olasupo, Ishola James Aransiola, Toluwani Grace Kalejaiye, Timothy Ayomitunde Aderemi. Role of Female Labour Participation in Reducing Income Inequality in ECOWAS Sub-Region


SOME ASPECTS OF ECONOMIC ANALYSIS OF OUT-OF-COURT SETTLEMENT IN THE DISPUTE OF NEGATIVE EXPECTED VALUE – CASE OF REPUBLIC OF SERBIA

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JEL: K00, M210, M420

Abstract

The main goal of a potential plaintiff who initiates a negative expected value dispute is to try to reach an agreement on an out-of-court settlement. The paper analyzes the behavior of parties in negative value disputes in the Republic of Serbia. The objective of this paper is to show economic analysis of out of court settlement; 1) in condition of symmetrical information and 2) in condition of asymmetrical information. First of all, we will present the literature regarding this topic using the historical analysis and synthesis method, after that, by using the methods of deduction and induction, descriptive, comparative and other scientific methods, on a case of Republic of Serbia we will show research problem. At the end we will give the results in conclusion.

Keywords:
Economic analysis, out of court settlement, Republic of Serbia.
Cedomir Gligoric, Milos Pavlovic, Jana Cvijic Rodic, Sanja Doncic, Nikola Vujanovic. Some Aspects of Economic Analysis of Out-Of-Court Settlement in the Dispute of Negative Expected Value – Case of Republic of Serbia


DOI: 10.56065/IJUEV2023.67.1.80
1. Introduction

Litigation is a less efficient means of resolving civil disputes than settlement. Namely, the settlement creates savings in litigation and opportunity costs of opposing parties, lawyers, judges and other participants in the litigation. The specificity of the legal system of the Republic of Serbia is the long duration of litigation and the reluctant acceptance of settlement as a way of resolving disputes, which leads to an increase in social costs.

Resolving disputes from a position of authority is accepted as a normal way of behaving. Also, the model of violent communication, the pattern of either-or behaviour, the unwillingness of people to accept responsibility for the resulting dispute, the inevitable "looking for the culprit", all this promotes the "litigation spirit" of citizens and their willingness to settle. (Petrušić. 2004: 42).

One of the reasons for the ineffectiveness of initiating litigation lies in the large number of pending cases from previous years, which represent a heavy burden for judges in civil cases. The number of old unsolved cases in civil matters increased from 2012 to 2016, and the growth trend of old unsolved cases was stopped in 2019. However, in 2020, there was an increase in the number of pending old cases to 27,733 (Supreme Court of Cassation, 2021: 35).

Namely, litigation in the Republic of Serbia shows a certain inflexibility, inefficiency and slowness. Article 11 of the Law on Civil Procedure of the Republic of Serbia ("Official Gazette of the RS", no. 72/2011, 49/2013 - decision US, 74/2013 - decision US, 55/2014, 87/2018 and 18/2020) proclaims the principle of peaceful settlement of disputes, by referring the parties to mediation or to the settlement of disputes by other peaceful means. Bearing in mind the ineffectiveness of litigation and the litigious mentality of the people of our country, it seems that there is a lack of stronger motivation for the application of alternative dispute resolution methods. Mediation also creates costs for the parties to the dispute, since it involves hiring a mediator (Article 20 of the Law on Mediation in Dispute Resolution, Official Gazette of RS, No. 55/2014), but these costs are lower compared to litigation costs. Peaceful settlement of disputes is proposed to the disputing parties at the preliminary hearing. This means that the parties to the dispute had to pay the costs of filing the lawsuit and the costs of responding to the lawsuit so that, after that, it was presented to them that the parties to the dispute could settle in the ways already mentioned.

Out-of-court settlement represents the most efficient method of dispute resolution since it creates minimal costs, significantly lower than mediation and litigation. However, in the Republic of Serbia, there is no separate legal act that deals
with this issue, but it is regulated by the Law on Obligations ("Official Gazette of SFRJ", no. 29/78, 39/85, 45/89 - decision of the Supreme Court of Justice and 57/89, "Official Gazette of the FRY", No. 31/93, "Official Gazette of the SCG", No. 1/2003 - Constitutional Charter and "Official Gazette of the RS", No. 18/2020), which, by Article 19, suggests to parties in an obligation relationship that they try to resolve disputes peacefully: through conciliation, mediation or in another way. An out-of-court settlement is a two-sided declaration of the will of the parties to the dispute, the conclusion of which, with minimal costs, ends the dispute. However, what creates uncertainty for the parties to the dispute is the fact that this contract has no enforceable effect, which means that, in the event of a violation of the out-of-court settlement agreement, enforcement can only be achieved in civil proceedings.

The reason for the large number of lawsuits, their long duration and the reluctant acceptance of out-of-court settlements lies in the already mentioned litigious mentality of citizens, but also in the fact that a number of lawsuits (usually with negative expected values) are initiated out of spite as an essential element of mentality; citizens of the Republic of Serbia often strive to satisfy non-economic goals in litigation.

All the previous data point to the fact that Serbian citizens prefer litigation rather than out-of-court settlement, that is, they resolve their disputes in the least efficient way. Bearing in mind the aforementioned litigation mentality, the method of distribution of litigation costs, the asymmetry of information between the parties to the dispute, the divisibility of the costs of the dispute, the initiation of litigation out of spite, it can be concluded that a number of disputes that are resolved before the court of first instance through litigation or court settlement or through an out-of-court settlement can have a negative expected value. Since such litigation brings no net benefit to the plaintiff (except in rare situations such as mistakes by judges, corrupt witnesses, etc.), the main goal of initiating such litigation is the plaintiff's attempt to extract an out-of-court settlement.

Since the economic analysis of law represents, still, an insufficiently developed scientific discipline in the Republic of Serbia, and there are no empirical data on the number of disputes or litigation of negative expected value, the main goal of the work is to determine, based on the existing literature and economic models, the conditions under which it is possible to achieve an out-of-court settlement in disputes with a negative expected value in the Republic of Serbia and to analyze the incentives for out-of-court settlement or litigation of the parties to the dispute that arise due to changes in the relevant variables of the economic model of out-of-court settlement.
The economic model of different expectations in the RS is modified by the assumption that the difference in expectations may be a consequence of information asymmetry, pessimism or the personal belief of the potential defendant about the plaintiff's litigation costs and the value of the damage suffered.

2. Literature Review

The largest number of authors dealing with the economic analysis of litigation, for many years, avoided the problems, issues and circumstances of disputes of negative expected value, focusing on settlement decisions or initiating litigations that have a net benefit. In the mid-1990s, authors began to deal with the causes and consequences of initiating such lawsuits (Bebchuk, 1996: 2). In a certain number of cases, the injured party will initiate a dispute, although the expected costs of the dispute are higher than the expected value of the dispute, to try to negotiate a settlement. The potential plaintiff is therefore aware of the high probability of defeat in the litigation but initiates the litigation. Negative expected value lawsuits are initiated by "aggressive" plaintiffs, to obtain a settlement offer from the defendant (Shavell, Kaplow, 1999: 43).

According to Spier (2007: 306), negative expected value litigation is characterized by the fact that the value of the expected verdict is low compared to the costs of initiating a lawsuit, the costs of disclosing information and other litigation costs. According to this author, the dispute of negative expected value exists in two cases: first, if the damage suffered by the injured party is significant but the probability of winning the lawsuit is low, that is, it tends to zero, and second, if the probability of winning the lawsuit of the injured party is high but the damage suffered is small and approaches zero.

A significant factor in the initiation of disputes with a negative expected value is the asymmetry of information, that is, the potential defendant's lack of information in relation to the plaintiff. A potential defendant cannot, with certainty, determine whether the plaintiff is ready to continue this type of dispute before the court, but he can, for example, have information about the participation of plaintiffs who end negative expected value disputes with litigation, in the total number of plaintiffs. The higher this participation, the higher the probability of such litigation, but also the probability of reaching an out-of-court settlement. In other words, the actors "ride on the tail" of those prosecutors who are ready to bring the litigation into the stage of presentation of evidence (Shavell, 2004: 420).

According to Miceli (2017: 292), these are pointless lawsuits, since there is a very low probability of a potential plaintiff winning a lawsuit. Namely, if the
potential plaintiff is rational, then the only value of the potential plaintiff's "victory" is to try to achieve an out-of-court settlement, because starting a lawsuit would be, from an economic point of view, completely pointless.

Delvin (2015: 223–225) believes that the "loser pays all" rule for the distribution of litigation costs discourages negative value lawsuits and increases the likelihood of initiating meritorious disputes. However, it should be borne in mind that every dispute with a negative expected value is not a frivolous suit (a dispute characterized by a low probability of a potential plaintiff winning a lawsuit). According to Hughes and Snyder (1995: 230), the "loser pays all" rule will deter a number of plaintiffs from initiating meritorious litigation that has a negative expected value conditioned by low litigation value and high litigation costs and if the probability of success in litigation is high; in the event of a lawsuit being lost (and if the probability of defeat is low), the potential plaintiff would have to bear the litigation costs of both parties. As a result, a number of cases that would have a positive expected value by applying the rule "each party pays their own" become disputes of negative value, when applying the rule "he who loses pays all".

According to Bebchuk and Chang (1996: 377-379), if a potential plaintiff can predict the value of the verdict, under the "loser pays all" rule, he will not initiate disputes of negative expected value, because he is aware that, in litigation, he would have to pay the total litigation costs. However, if there is uncertainty about the likelihood of the plaintiff winning or the assessment of the value of the dispute, a few such disputes will end up in court.

Loos (2005: 36) agrees with the fact that the application of the "loser pays all" rule shows superiority in deterring negative expected value litigation, compared to the "each party pays its own" rule. However, this finding applies in the case of neutrality at the risk of the parties to the dispute. The results change if we introduce the assumption that the plaintiff is risk averse. According to this author, the problem is not deterring such lawsuits, because a plaintiff who fears losing a lawsuit will, in case of risk aversion, be even more motivated not to take risks, since, in case of defeat, he has to pay the total litigation costs. The problem is that risk aversion can discourage plaintiffs from suing even in positive expected value disputes, because of the risk of paying the total litigation costs.

Bebchuk and Klement (2009: 2) established a set of assumptions under which a potential plaintiff will never be able to settle in a negative expected value dispute:

- Absence of information asymmetry.
- The plaintiff's litigation costs are indivisible.
• The defendant does not pay any costs in advance before the plaintiff.
• The plaintiff does not have a specific contract with the lawyer.
• The defendant does not have the reputation to continue with the litigation if no settlement is reached.
• The expected value of the judgment remains below the expected litigation costs throughout the duration of the litigation.

Violation of any of the mentioned assumptions opens the possibility of an out-of-court settlement in case of disputes with a negative expected value.

Rhee, J.R (2006: 632) considers that out-of-court settlement is functionally dependent on transaction (litigation) costs. High transaction costs in relation to the expected value of the dispute create conditions for settlement. An extreme case is reaching a settlement in disputes with a negative expected value. Also, small changes in the assessment of the probability of success in the litigation of the opposing parties can lead to a change in the incentives of the disputing parties in favor of settlement or litigation.

Cooter, Rubinfeld (1989: 1076), based on their model of economic analysis of the dispute, concluded that the scope for settlement increases with the increase in litigation costs, the decrease in the transaction costs of the settlement and the increase in the pessimism of the parties to the dispute. Also, the risk aversion of the litigants increases the value of the cooperative surplus, increasing the difference between the subjective values of the gain of the potential plaintiff and the loss of the potential defendant in the litigation.

Cross (2000: 19) believes that plaintiffs are, in general, economically rational beings, but that there are certain psychological and emotional factors in which they become irrational, i.e., they strive to achieve other goals in disputes of negative expected value, so they start litigation sacrificing economic interest. In that case, the plaintiff's goal is not to agree on a settlement, but to satisfy non-economic goals.

3. Economic analysis of out-of-court settlement in the dispute of negative expected value under conditions of symmetrical information in the Republic of Serbia

The possibility of a potential plaintiff to negotiate an out-of-court settlement in a negative expected value dispute in the Republic of Serbia is strongly influenced by several relevant factors, among which stand out: the rule for calculating litigation costs "he who loses, pays all" (Republic of Serbia), versus the rule "each party pays his own", subjective probabilities of success of the plaintiff and the defendant in the litigation, asymmetry of information about the essential elements of the dispute,
divisibility of the costs of the dispute, psychological and emotional factors, legal solutions and others. A rational potential plaintiff initiates a negative expected value dispute to try to extract a settlement, and if no settlement agreement is reached, he stops the dispute. Nevertheless, in certain situations, a few disputes with a negative expected value may end up in the courts of first instance.

The theory of economic analysis of litigation has given rise to many models that help to understand the mechanisms of action of the aforementioned factors on the behaviour of the parties to the dispute. Changes in the determinants of a dispute create negative expected value incentives for disputing parties to change their behaviour in terms of dispute resolution.

As one of the main motives of the plaintiff in negative expected value disputes is to try to agree on a settlement, a reasonable question can be raised as to whether a settlement is possible if the parties in the dispute have symmetrical information about all the essential elements of the dispute. The answer to this question can be given by the model of symmetric information (see Rosenberg, Shavell (1985), Cooter, Ulen, (2016: 430)). The initial assumptions of the model are as follows:

- Both sides in the dispute agree on the subjective probability of the plaintiff's victory in the lawsuit of negative value, so that the condition applies: $Op = Od = 0$, where: $Op$ - the subjective probability of the plaintiff's victory in the lawsuit, and $Od$ - the subjective probability of the plaintiff's victory in the lawsuit from the aspect the defendant;
- Both parties to the dispute agree on the expected value of the judgment – $P$;
- The parties to the dispute have different litigation costs ($Fp \neq Fd$), so the condition applies that the defendant's litigation costs ($Fd$) are significantly higher than the plaintiff's litigation costs ($Fp$);
- Settlement negotiation costs ($t$) are equal to 0;
- The parties to the dispute are risk neutral.

The decisions of the parties to the dispute can be analyzed using the following example: The injured party did not use the sneakers according to the manufacturer's instructions, so they became unusable after a few days of use. The store rejected the complaint as unfounded. The question arises whether a rational potential plaintiff will try to initiate a consumer dispute, that is, to seek protection in court. Let the plaintiff's total litigation costs be $Fp = 8000$, and the defendant's total litigation costs $Fd = 16000$ (the assumption is that the seller is obliged to perform expensive tests, in order to confirm for sure that the shoes were not used according to the instructions, regardless of the outcome of the possible litigation). The cost of negotiating a
settlement is zero. The parties to the dispute agree on the probability of the plaintiff’s victory so that the condition \( Op = Od = 0 \) holds and on the expected value of the verdict \( P \) (the price of the sneakers 7,000), so that the expected value of the verdict \( OpP = 0 \).

In the Republic of Serbia, the calculation of litigation costs is carried out according to the rule "he who loses pays everything". Now it can be analyzed what the incentives for settlement or litigation are of negative expected value, when the existing rule is applied, under conditions of disproportion in the amount of litigation costs of the disputing parties.

Using the initial assumptions of the example, the net litigation loss for the plaintiff can be calculated:

\[
OpP - (1 - Op) (Fp + Fd) = 0 - 1(8000 + 16000) = -24000 \quad (1),
\]

while, under the given conditions of the model, the litigation does not create losses for the defendant, i.e.:

\[
OpP = 0 \quad (2).
\]

Condition (2) is valid for every value of \( Fp \) and \( Fd \), which means that the disproportion in the amount of litigation costs of the parties to the dispute, under the rule "he who loses pays everything", does not create incentives for litigation or settlement. Namely, on the basis of conditions (1) and (2), under the given conditions of the model in the Republic of Serbia, it can be concluded that the rule "the loser pays all" will never create a cooperative surplus, so none of the parties to the dispute will be motivated to negotiate about the settlement. However, not only that, under the given conditions of the model, a rational potential plaintiff in the Republic of Serbia will never initiate a lawsuit of negative expected value, since, with probability 1, the potential defendant transfers all litigation costs to the potential plaintiff. The plaintiff’s threat of litigation, in this case, is never credible.

However, if the rule for the distribution of litigation costs "each party pays its own" was applied in the Republic of Serbia, the incentives of the "injured" in connection with the negative expected value dispute would change, under the given conditions of the model. Namely, a potential plaintiff in a negative expected value dispute could settle if the defendant would not be able to pay its own litigation costs (the costs of responding to the lawsuit or the costs of expert testimony are, for example, high). The disproportion in the amount of litigation costs (\( Fd \) significantly higher compared to \( Fp \)) would create conditions for an out-of-court settlement, since litigation would create significantly greater losses for the defendant than a settlement. However, a necessary condition for an out-
of-court settlement is the credibility of the plaintiff's threat of litigation. If the defendant's cumulative litigation costs significantly exceed the plaintiff's cumulative litigation costs, the plaintiff can credibly threaten litigation, and thereby effect an out-of-court settlement. A credible threat of litigation, in this case, would imply that the plaintiff is willing to pay his litigation costs and initiate litigation with a negative expected value (see: Bebchuk, 1988 and Bebchuk, 1996).

From the plaintiff's point of view, the net loss from litigation, in this example, would be:

\[ \text{OpJ} - \text{Fp} = 0 - 8000 = -8000 \] (3),

and from the aspect of the defendant:

\[ \text{OdJ} + \text{Fd} = 0 - 16000 = -16000 \] (4).

Since initiating a negative expected value lawsuit would create a significantly greater loss for the defendant compared to the plaintiff, and since the costs of negotiating a settlement are zero, a rational potential defendant would be motivated to accept an out-of-court settlement, as this would minimize his losses. A potential rational plaintiff, aware of the fact that this is a negative expected value dispute, would accept the settlement since the litigation would create a loss for him.

Namely, in this model, the dispute would be ended by an out-of-court settlement, because such a solution would create a cooperative surplus (Cooter, Rubinfeld, 1989: 1075) which would be equal to savings in litigation costs (CS = 8000 + 16000 = 24000). If both parties in the dispute have equal bargaining power, a potential plaintiff would be willing to settle for any value equal to or greater than the sum of his threatened value with litigation (-8000) and half the value of the cooperative surplus, that is:

\[ \text{N} = -8000 + \frac{1}{2}(8000+16000) = 4000 \] (5).

At the same time, a rational potential defendant would offer the same amount, a value that would satisfy the potential plaintiff, minimizing his losses in a negative expected value dispute, since he would pay less than the amount he would pay in litigation.

However, an out-of-court settlement would only be agreed upon if the potential defendant judged the plaintiff's threat of litigation to be credible, that is, if the potential plaintiff paid the filing fee. Croson and Mnookin (1996) start from the assumption that part of the plaintiff's litigation costs, which are considered sunk costs, is predetermined. If the remainder of the litigation costs is less than the expected value of the verdict, the plaintiff credibly threatens litigation and, in this
way, creates the conditions for an out-of-court settlement.

The main disadvantage of the previous model is that it starts from symmetric information. The reality is that the parties to the dispute may have completely different beliefs about the value of the actual damage, as well as about the probability of victory and defeat in the eventual litigation. Also, negotiating a settlement can have its own costs (although negotiation costs are significantly lower than litigation costs, which would only lead to a reduction, but not to the disappearance of the cooperative surplus, under the rule "each party pays its own"). Likewise, the parties to the dispute are usually unequally informed about all the essential elements of the dispute, so they make decisions under conditions of information asymmetry. However, the previous model pointed to two very important facts:

1. The rule for calculating litigation costs in the Republic of Serbia "he who loses pays everything", under conditions of symmetrical information, under the given conditions of the model, favours the potential defendant, which represents the optimal solution, since the damage caused was not caused by the person who treats the injured person as a pest;

2. The application of the rule for the distribution of litigation costs "each party pays its own, in this model, creates incentives for settlement in disputes of negative value, with a disproportion in the amount of litigation costs (Fp < Fd) and leads to a redistribution of wealth in favour of the potential plaintiff.

4. Economic analysis of the dispute of negative expected value in the model of different expectations in the Republic of Serbia

The assumptions of the symmetric information model can be relaxed to allow disputing parties to have different perceptions of the outcome of the dispute, which is certainly more in line with reality. Based on the model of different beliefs (see: Landes (1971), Posner (1973), Gould (1973)) it is possible to analyze the incentives for out-of-court settlement or litigation in the Republic of Serbia.

The assumptions of the model are as follows:

- Disputing parties have different perceptions of winning and losing in litigation (Op ≠ Od)
- Litigation costs of the parties to the dispute may be different (Fp ≠ Fd)
- The cost of negotiating a settlement (t) is equal to 0.
- Both parties to the dispute are risk neutral.
- Parties to the dispute do not hire lawyers (the calculation of the costs of legal services can change the incentives to start litigation with a negative expected value,
Regarding the rule of distribution of litigation costs in the Republic of Serbia, the condition for initiating litigation can be presented as follows:

\[ \text{OpP} - (1 - \text{Op}) (F_p + F_d) > 0, \text{ that is: (6)}, \]

\[ \text{OpP} > (1 - \text{Op}) (F_p + F_d) \]  
(7).

According to the rule for the distribution of litigation costs "each party pays its own", the condition for initiating litigation is as follows:

\[ \text{OpP} - F_p > 0, \text{ that is: (8)}, \]

\[ \text{OpP} > F_p \]  
(9).

Therefore, a rational plaintiff initiates litigation only if it creates a net benefit for him, regardless of the rules for calculating litigation costs.

By analyzing condition (7) and condition (9), the condition under which the rule "each side pays its own" creates a higher net benefit from litigation compared to the rule "he who loses pays all" can be derived by manipulating their inequalities: (according to: Delvin, 2015: 224):

\[ F_p < (1 - \text{Op}) (F_p + F_d) \]  
(10).

By arranging the expression (10), one can derive the probability of a plaintiff's victory in which the application of the "each party pays his own" rule creates greater incentives for the plaintiff to litigate compared to the "loser pays all" rule:

\[ \text{Op} < F_d / (F_p + F_d) \]  
(11).

The inequality from condition (10), under the assumption that litigation costs remain constant, show that the lower the probability of winning a lawsuit, the higher the probability that the inequality from condition (10) will be satisfied, i.e. that the plaintiff will start a lawsuit under the rule "each party pays his own", in relation to the rule "he who loses pays all".

If it is assumed that the negative expected value dispute is a consequence of the low probability of the plaintiff’s victory in the lawsuit, then it is clear that at lower probabilities of the plaintiff’s victory than the critical value \( \text{Op}^* \) (where: \( \text{Op}^* = F_d / (F_p + F_d) \)), the rule "each party pays its own" motivates the initiation of litigation of negative expected value to a greater extent compared to the rule in the Republic of Serbia "he who loses pays all". This is a consequence of the fact that, the lower the subjective probability of the plaintiff's victory in the lawsuit is than the probability \( \text{Op}^* \), the higher the probability \( 1 - \text{Op} \) is that, according to the rule for calculating litigation costs in the Republic of Serbia, the plaintiff will have to pay both his costs and the litigation costs of the defendant. From the previous findings, a logical conclusion can be drawn that the application of the rule "who loses pays everything"
in the Republic of Serbia demotivates the initiation of litigation of negative expected value to a greater extent compared to the application of the rule "each party pays its own", if the negative value of the dispute is conditioned by a low subjective probability of the plaintiff’s victory in the lawsuit.

With regard to the above, in order to deter potential plaintiffs from initiating such lawsuits, the American legal system, for example, introduced Federal Rule of Civil Procedure 11, which provides for sanctions for both litigants and attorneys if the lawsuit lacks sufficient legal basis, is not based on real facts or is submitted for improper purposes. According to Ward (1991, 1206), and if deterrence is the primary goal of the mentioned Rule, its real goal is to avoid costs, especially considering that the application of the rule itself produces additional costs, so litigation studies should analyze each case with special attention, in order to minimize social costs.

Analyzing expression (7), another important conclusion can be drawn: a number of meritorious disputes (high probability of victory Op) will not be ended by litigation in the Republic of Serbia, if the value of the verdict (damage) P tends to zero, with high litigation costs (Fp + Fd ), that is, it will have a negative expected value. In that case, a rational potential plaintiff will not seek protection in court, unless, given the expected costs (Fp + Fd), the threshold of the expected verdict (P), the probability of victory (Op), or both values at the same time, increases, as potential litigation would lead to the creation of a net benefit for the injured party.

5. Final considerations

1. Litigation is the dominant way of resolving disputes in the Republic of Serbia. A number of initiated lawsuits are lawsuits with a negative expected value. The primary motive for initiating negative value litigation is the potential plaintiff's attempt to extract an out-of-court settlement. If the potential defendant is less well-informed than the potential plaintiff, the threat of litigation can become credible, when the room for a settlement opens.

2. In the model of completely symmetrical information about all the essential elements of the dispute, with a disproportion of litigation costs in favor of the potential defendant, an agreement on an out-of-court settlement will never be reached in the Republic of Serbia. The threat of litigation can never become credible, since the "loser pays all" rule for the distribution of litigation costs applies. If the "each party pays their own" rule is applied, the disparity in costs, in this model, can lead to an out-of-court settlement when there is a redistribution of wealth in favor of the potential plaintiff.

3. In the model of different expectations, assuming that the negative value
dispute is a consequence of the low probability of the plaintiff winning the lawsuit, at lower probabilities of the plaintiff winning the lawsuit than the critical value \( Op^* \) (where: \( Op^* = \frac{Fd}{(Fp + Fd)} \)), the number of initiated pointless litigation is lower in the Republic of Serbia than in countries that apply the rule for the distribution of litigation costs "each party pays its own". The lower the probability of winning, the higher the probability that the plaintiff will have to reimburse the opposing party's litigation costs.

**References**


Cedomir Gligoric, Milos Pavlovic, Jana Cvijic Rodic, Sanja Doncic, Nikola Vujanovic. Some Aspects of Economic Analysis of Out-Of-Court Settlement in the Dispute of Negative Expected Value – Case of Republic of Serbia

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